China-Programm

China-Programme/Stiftung Asienhaus, chinadialogue (Eds.)

Silk road bottom-up: Regional perspectives on the 'Belt and Road Initiative'

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chinadialogue

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Asienhaus

Impressum

Titel: Silk road bottom-up: Regional perspectives on the 'Belt and Road Initiative'

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50672 Cologne, Germany

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Supported by MISEREOR

The authors are responsible for the content.

Concept and Design: Chanika Ronczka
Typesetting, lithography and printing: Klartext Medienwerkstatt GmbH, Essen (www.k-mw.de)
Coverphoto: Free Seide in der Seuk 5 (FreeImages.com/Cecilia Reifschneider)

Price: 5,00 Euro
Orders: Stiftung Asienhaus, Vertrieb, Hohenzollernring 52, 50672 Cologne
E-Mail: vertrieb@asienhaus.de | *Tel.:* 0221-7116121-13 | *Fax:* 0221-716121-10

ISBN 978-3-933341-76-0

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Foreword

Asia and, above all, China is playing a major role in implementing development and sustainability goals, as well as working towards global climate protection. And thanks to China's efforts to carve out a more active international role, thousands of scholars, practitioners and NGOs, as well as politicians and think tanks, are now engaged in research on the Belt and Road Initiative (BRI), also known as 一带一路 (Yídài Yílù) or One Belt, One Road (OBOR).

Of course, the BRI is still in the making and also difficult to understand given its breadth, ambition and bundling of bilateral and regional treaties and agreements. Nonetheless, it is clear that the initiative is challenging existing regional dynamics by tying Europe, the Middle East and Africa closer to Asia, and especially to China.

Through the initiative, China is expanding its existing alliances with emerging countries, for example through the BRICS and Shanghai Organization, and also connecting Asia, Africa and Europe more closely to its vision of a land "belt" and sea "road". The complex network of infrastructure projects and new economic zones that is emerging is designed to open up market access and investment opportunities in South East Asia, South Asia and Central Asia, and to promote trade and cooperation with the EU.

The purpose of the BRI project of the Stiftung Asienhaus is to examine the effects of this initiative on the development perspectives of participating countries. Our first report was in German and offered an initial analysis of important sections of the "new Silk Road", focusing in particular on the economic corridors. It also considered the financial architecture of the BRI and its possible impacts on Europe.

This second report takes a different approach, moving the focus on to regional voices and the effect of the new Silk road on particular regions, peoples, and the environment. We look at the social, political, and ecological impacts of the enormous investments being made under BRI. Where possible, the voices of local communities that are being affected by investments have been privileged.

Together with partner *chinadialogue*, we want to elaborate the opportunities and challenges of the initiative, and the impact it is having on the environment, social stability and international relations. Thereby we hope to feed into the discourse on development policy, including China's development strategy, which is seeing China expand its role as a global development partner and also donor. The effects of this are varied and require critical monitoring and

commentary by Chinese, Asian, and European civil society.

It is also worth noting that we faced enormous difficulties "collecting" regional voices for inclusion in this publication, especially in the core BRI countries. It is of great concern to us that in many places, civil society were often too frightened to engage. Therefore, some important voices are missing here, but we hope their concerns will be voiced in other ways.

In 2008, the Chinese government popularised the slogan "One world, one dream" – which could also be understood as a vision to fight climate change and other global problems together. In 2013, the slogan changed to the "China dream". Silk Road bottom-up speaks to the regional "dreams" of China's neighbours, with infrastructure again a new magic term for believing in a particular development paradigm. After China started its BRI, the World Bank funded the Global Infrastructure Facility (GIF). Many others followed.

The infrastructure investments of the BRI carry two main risks. The first is environmental and social harms. The second is that developing countries will be loaded with debts. Rules-based interactions are needed to guide investments. In February 2017, the French Parliament passed a law on due diligence of companies. It requires major French companies to identify and manage risks to human rights, and not just to their own companies but within subsidiaries and supply chains. For the first time, due diligence obligations are fully anchored in a binding national law.

Such milestones are hugely encouraging. We can build on them to demand similar initiatives in Germany and the EU. If BRI investments could happen under such a framework, sustainable and fair development would be more likely. Participation, the environment, and human rights are important cross-cutting issues, and a key question going forward is whether the BRI will allow opportunities for a self-determined sustainable development model for participating countries.

Finally, we would like to thank all the authors that contributed to this publication, and to our interns Frederik Schmitz and Vivien Markert for their efforts to coordinate it. Without their support, the publication would not have come together so quickly and to such a high standard.

Cologne, October 13th, 2017
Dr. Nora Sausmikat (Stiftung Asienhaus)

Content

Introduction

Sam Geall

More than 2,000 years of trade along the Silk Route through Central Asia have "proved that countries with differences in race, belief and cultural background can absolutely share peace and development as long as they persist in unity and mutual trust, equality and mutual benefit, mutual tolerance and learning from each other, as well as cooperation and win-win outcomes."

So said Chinese President Xi Jinping in Kazakhstan in late 2013, when for the first time he promoted the *Belt and Road Initiative* (BRI) to open new land and maritime trade routes and infrastructure corridors across Central Asia, the Indian Ocean, and beyond.

Like the Silk Road of old, the BRI is less a single corridor than a number of routes, including the *China-Indian Ocean-Africa-Mediterranean Sea Blue Economic Passage*, *China-Indochina Peninsula Economic Corridor*, *China-Pakistan Economic Corridor* (CPEC) and the *Bangladesh-China-India-Myanmar Economic Corridor* (BCIM-EC).

It is driven by China's central government, and backed by significant investment, powerful provincial governments and state-owned companies, but it also aligns with other regional ambitions, such as in the Master Plan on ASEAN Connectivity and President Jokowi's vision of expanded maritime power in Indonesia.

From a Chinese government perspective, it sits with a more assertive foreign policy, which challenges US maritime and naval hegemony in the western Pacific and Indian Ocean, and the traditional Russian sphere of influence in Eurasia. With the abandonment of the *Trans Pacific Partnership* (TPP) by the United States, and uncertainty around US security guarantees in the region, many countries are more likely to see opportunities for cooperation with China.

In particular, countries are seeking Chinese support for infrastructure financing and construction that the Bretton Woods institutions or commercial lenders have not provided.

In Thailand, for example, China has not only provided the technology for a 5.2 billion US Dollar high-speed railway linking the two countries, but also a group of retired Thai generals, businessmen and others with close links to China have revived plans to construct a 28 billion US Dollar, 135 kilometre canal across southern Thailand, linking the Indian and Pacific oceans. Another plan by Thai authorities enlists Chinese support to blast rocks and islets along a 1.6 kilometre stretch of the Mekong border with Laos, to enable larger cargo boats to travel from Yunnan province.

In Myanmar, Chinese companies and banks have built and funded oil and gas pipelines from Yunnan province, in Southwest China, to Kyaukphyu on the Bay of Bengal, where there are now plans to develop a strategic deep sea port and a special economic zone. In Cambodia, China is funding a 9.6 billion US Dollar railway and port – the country's largest ever infrastructure project to date.

In Sri Lanka, China is reclaiming land from the ocean to build a major port in Colombo and is also investing heavily in the transformation of the once-sleepy town of Hambantota into a major port and investment zone: Sri Lanka's biggest ever foreign direct investment project, which has drawn protests from environmentalists and fishermen.

And, as Arif Cem Gündoğan and Ethemcan Turhan explain later in this report, Turkey is keen to see increased Chinese investment in its energy sector, with Hattat Holding and China's AVIC International having signed a 1.5 billion US Dollar deal to build a coal plant, and the government-linked Ağaoğlu construction group agreeing to build power stations worth around one billion US Dollar with China's Sinovel.

China claims that green concerns are high on the agenda in its regional investment plans. Chinese Vice Minister of Environmental Protection, Zhao Yingmin, for example, has said that China and ASEAN should "work together to build the green 'Belt and Road'", and to promote "open-ended 'South-South environmental cooperation'". The *Green Silk Road Fund*, founded with 30 billion RMB of capital, seeks to invest in environmentally friendly projects.

President Xi Jinping has also pledged 3.1 billion US Dollar for the country's *South-South Climate Cooperation Fund*. This currently includes ten low-carbon development demonstration projects, 1,000 climate mitigation and adaptation projects, and climate training programmes for 1,000 representatives from developing countries.

However, the implementation plans for China's climate finance are still being finalised, and there are few clear guidelines or safeguards for Chinese enterprises or investors on the BRI. A number of large infrastructure projects pursued by Chinese companies abroad have attracted significant civil society opposition over weak environmental safeguards, limited local consultation, and disruption to land-use and livelihoods.

From an environmental perspective, many of China's investments illustrate the risks that arise when mega-projects do not incorporate adequate safeguards – such as habitat and fisheries destruction and population displacement, all well-documented consequences of Chinese dam-building in Southeast Asia – but also the likelihood that these investments create inroads for energy-intensive industries from China, like coal, steel and cement, finding an "escape valve" for overcapacity by exporting capital and technology along the BRI, even as pollution regulations and an economic transition promote decarbonisation at home.

According to a Boston University study, 66 percent of power sector lending from Chinese banks went into coal projects in 2016. Countries like Vietnam, Malaysia and Indonesia, for example, may build significantly more coal-fired power in the coming years, often using Chinese technology and finance. China Development Bank is the biggest funder of coal power in Southeast Asia, where planned coal projects could lead to 70,000 premature pollution related deaths per year by 2030, according to research from Harvard University and Greenpeace International.

Beyond energy and infrastructure, the potential impacts of expanded Chinese influence and investment in Southeast Asia also include risks associated with trade in natural resources and exploitation of the region's fisheries. The "vision" document from China's central government on the *Belt and Road Initiative* sees a "blue engine" for sustainable development, through greater cooperation between countries in Asia, and the *Maritime Silk Road* "setting up the all-dimensional, multi-tiered and broad-scoped Blue Partnership".

But the reality sees ever-rising demand in China, where fisheries are already depleted – China has lost half of its coastal wetlands, 57 percent of mangroves and 80 percent of coral reefs, all of which are critical breeding, nursing and feeding grounds for fish – pushing the world's largest fishing fleet into ever more distant waters.

Recent years have seen a number of Chinese fishing vessels shot at for fishing in other nations' exclusive economic zones. Chinese-flagged boats are known frequently to attack Vietnamese fishermen. Illegal, unreported and unregulated fishing is linked to organised crime and human rights abuses in the seafood sector, including forced, bonded and slave labour, as well as to dangerously depleted fisheries in the Andaman Sea, Bay of Bengal, and South China Sea.

Despite the need therefore for public oversight of environmental risks along the BRI, green groups in the region (as elsewhere) face growing pressure from hostile governments, in the form of direct attacks, stigmatisation and restrictive laws and policies, including on NGO registration, permitted activities, and freedom of speech.

In Vietnam in 2016, when toxic discharge from a factory led to 70 tonnes of dead fish washing up along more than 200 kilometres of coastline, the government responded with a heavy crackdown on dissidents: the blogger known as "Mother Mushroom" and the human rights activist Tran Thi Nga were charged with "conducting propaganda against the Socialist Republic of Vietnam."

In Cambodia, environmentalists have been targeted amid wider crackdown on dissent, which has included a crackdown on the media and an NGO law that will criminalise sections of civil society. In 2012, the forest defender Chut Wutty was murdered. In 2016, four environmental activists were detained in Koh Kong, three of whom were arrested for their opposition to sand dredging. The Areng Valley conservationist Ven Vorn arrested for alleged "forest crimes."

In Turkey, the state of emergency that followed the 2016 coup attempt has badly affected civic space for environmentalists, who this year mourned the unexplained murder of a retired couple battling the construction of stone quarries in Antalya province.

This makes efforts to develop and protect truthful, international sources of information, in contexts where environmentalists are routinely stigmatised and media increasingly constrained, all the more important.

This publication is one such attempt: to document, analyse, and explore the effects China's new investments and trade routes as well as the possible consequences for development and the environment, with a particular focus on regional voices from civil society.

Infobox

What is the *Belt and Road Initiative*?

The BRI consists of the Silk Road Economic Belt and the 21st Century Maritime Silk Road. It has become the key pillar of current Chinese President Xi Jinping's foreign policy. First mentioned in 2013, concrete plans for BRI were released by the China's National Development and Reform Commission in March 2015.

While BRI is not China's first regional policy initiative – China launched the Shanghai Cooperation Organization with Russia in the 1990s – it is the most ambitious. Broadly speaking, the policy is designed to connect Africa, Asia and Europe along six economic corridors, namely, the China-Mongolia-Russia Economic Corridor, the New Eurasia Land Bridge, the China-Central Asia-West Asia Economic Corridor, the China-Indochina Peninsula Economic Corridor, the China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor. According to the Chinese government, cooperation among the countries along these corridors, of which there are around 60, would be pursued in the areas of policy, infrastructure, trade, finance and people-to-people ties.

The initiative seeks to build on existing bilateral and multilateral relationships, as well as new and existing institutions. The Silk Road Fund and the Asian Infrastructure Investment Bank (AIIB), with a starting capital of 40 billion and 100 billion US Dollar respectively, both provide funding for BRI projects. Existing banks, like the China Export Import Bank are also involved. China envisions these banks as contributing to what could one day be trillions of dollars of investments in BRI countries. As of 2016, close to 900 billion US Dollar of projects had been announced, though many of these predate BRI and were simply rebranded.

For China, BRI is a vehicle for achieving a number of goals, of which the most ambitious is reestablishing China as a global power, in line with Communist Party rhetoric on national revival. On the ground, this will involve Chinese companies building ports, roads, railroads, power plants and dams both at home, where provinces vie to take advantage of increased trade with BRI countries, and abroad.

Rather than a single clearly defined policy, BRI is an attempt to give new focus to China's interaction with the outside world and to reshape international economic structures to more closely reflect Chinese interests.

Gregor Grossman

Excerpt from: Gregor Grossman, One Belt, One Road and the Sino-Mongolian Relationship, Stiftung Asienhaus Blickwechsel, April 2017

The *New Silk Road* in Pakistan — a Mercedes Benz for a Stone Age Man?

Opportunities and challenges for the people of Gilgit-Baltistan

Carmen Brandt

The *China-Pakistan Economic Corridor* (CPEC) is currently under construction and supposed to modernise Pakistans infrastructure and strenghthen its economy. However, the project is highly controversial as it might increase tensions with India and among the different ethnic groups, and raises concerns about environmental impacts.

"Giving Pakistan the *New Silk Road* is like giving a Mercedes Benz to a Stone Age man", Iqbal[1], a native of Gilgit, laughs and explains why the *New Silk Road* will ultimately fail: when the route enters his home region from China it will be exposed to uncontrollable landslides and flash floods. If they are not stuck in the north due to natural disasters, the thousands of Chinese trucks that are supposed to pass daily through Pakistan are prone to face the impacts of the persistent Shia-Sunni conflict, blazing skirmishes with Taliban militants or the violent struggle of Balochi separatists on their way to Gwadar Port in the south. Apart from these supposedly uncontrollable perils, it seems Iqbal himself would like to stop the *New Silk Road* due to the negative impacts he fears for his home region.

The *China-Pakistan Economic Corridor* (CPEC) and the investment for its necessary infrastructure (power plants, roads, railways, pipelines, etc.) by the Chinese government – now worth 62 billion US Dollar – are one of the most controversially discussed topics in present-day Pakistan. While some hope for an economic boom, others fear that their country might become solely a playground for China's global politics. One of the regions that will be most heavily affected is Gilgit-Baltistan (formerly known as the "Northern Areas"), Pakistan's northernmost region with a population of around two million people spread in the few habitable areas of the Himalaya, Karakoram and Hindukush mountains.

The disputed region Gilgit-Baltistan

Already the various names for the highway that connects China and Pakistan – *National Highway* 35, *Karakoram Highway* (KKH), *China-Pakistan Friendship Highway*, and *New Silk Road* – reflect the multiple expectations among the various stakeholders. But one stakeholder that is hardly mentioned in this context is India – China and Pakistan's 'traditional enemy'. The indispensability of the KKH stretch that passes through Gilgit-Baltistan for CPEC raises fears among Indian politicians that this region disputed between the two antagonistic neighbours will become a part of Pakistan

The Karakoram Highway between Gilgit and Hunza (Image: Carmen Brandt)

Skardu Valley, the economic and political centre of Baltistan (Image: Carmen Brandt)

for good. In August this year, the Indian external affairs minister Sushma Swaraj warned the Pakistani government that India has not given up "Pakistan-occupied Kashmir" (PoK) – the self-explaining official Indian term for the regions known *in Pakistan* as "Azad (i. e. 'free') Kashmir" and "Gilgit-Baltistan" *in Pakistan*. Although both regions are administered by Pakistan, they are not an integral part of the state due to their disputed status. CPEC, China's substantial investment and the expected commitment by Pakistan, might indeed accelerate the final integration of at least Gilgit-Baltistan as the fifth province of Pakistan. Potential steps in this direction are regularly discussed by Pakistani politicians. Unfortunately, the population of Gilgit-Baltistan is not included in these discussions.

Becoming second-class citizens of Pakistan

While the Indian government considers Gilgit-Baltistan as part of the Indian state of Jammu and Kashmir, local people generally distance themselves explicitly from this latter geopolitical entity, lamenting the violent occupation of their region by the Maharaja of Jammu and Kashmir only around the middle of the 19th century. The population of Gilgit-Baltistan is highly heterogeneous, consisting of various ethnolinguistic groups – mainly Balti, Burushaski, Khowar, Shina and Wakhi speakers. Nevertheless, the perceived constitutional and economic negligence by the Pakistani government has fostered a common feeling of belonging that seems to be at risk due to the unbalanced CPEC investments. Especially educated Baltis, the main ethnic group in the east, look today at a distinctive history and are proud of their ethnic identity. The very fact that the *New Silk Road* does not even touch their region raises legitimate fears that it will be further economically neglected, while Gilgit experiences increasing investments and hopes for economic prosperity. If Gilgit-Baltisan were indeed to be integrated into Pakistan in near future, CPEC might contribute to the strengthening of Balti identity and their alienation from the rest of the region and Pakistan due to the felt degradation of Baltis to second-class citizens. But according to many people living in Gilgit, the envy of Baltis is not justified.

Hopes and fears in Gilgit

While among people from the lower social strata hopes for economic prosperity and new job opportunities seem to prevail, better off inhabitants of Gilgit – like Iqbal – are overwhelmingly more pessimistic. Already the construction of the KKH between 1959 and 1979 demonstrated that the jobs the KKH brought to the region were either underpaid or went to Chinese citizens or people from other parts of Pakistan. Even today,

Street signs at Gilgit's exit (Image: Carmen Brandt)

most of the businesses in Gilgit-Baltistan seem to be in the hand of Pashtuns and Punjabis. Iqbal is convinced that also the new hotels, petrol stations, shops, etc. along the *New Silk Road* will be run by non-locals, among whom the Chinese are feared most. According to him, a high influx of Chinese will not only harm the already sensitive population composition of diverse ethnic and Muslim groups, but also bring a completely new lifestyle that could change the face of this region for good. Ultimately, the land along the *New Silk Road* might be nothing more than an extension of the Chinese state. Other concerns pertain to the agricultural products that are appreciated all over Pakistan – nuts and fruits. What will happen to these trees when the pollution of the Chinese trucks hits them?

However, one Chinese investment all the people I have met highly appreciated was the one for the *China-Pakistan Friendship Tunnels*. After landslides dammed the Hunza River in 2010, destroyed parts of the KKH and created today's Attabad Lake, the missing stretch of the KKH had to be crossed by time-consuming ferries. The inauguration of the new bridges and tunnels in 2015 brought a huge relief for the people living in the north and south of Attabad Lake. While an unrestricted access to the rest of Pakistan is vital for the inhabitants of the north, mainly people like Iqbal appreciate once in a while an uncomplicated trip to China, where they can buy, for instance, more varieties of alcohol than in Pakistan.

Attabad Lake (Image: Carmen Brandt)

Annotations

1 The name has been changed as CPEC is a highly sensitive topic in Pakistan.

China's Land Deals in Cambodia and the Impact of the *New Silk Road*

Vivien Markert

Ever since its conception in 2013, Cambodia has been a supporter of the *Belt and Road Initiative*, hoping to benefit from more Chinese investment, especially in infrastructure projects. However, there are many environmental and human rights concerns given the numerous land investments that China has made in the past, which might increase in the course of the new BRI and intensify already existing issues.

Land-based investments often cause land grab – an increasing issue in many Southeast Asian countries. They refer to large acquisitions of land resources by foreign investors for the purpose of securing food products and other natural resources, often without establishing sustainable structures in the target countries. According to the Tirana Declaration (2011) of the *International Land Coalition,* large-scale land grabbing is defined as "acquisitions or concessions that are (...) (1) in violation of human rights, (2) not based on free, prior and informed consent of the affected land-users; (3) not based on a thorough assessment, or are in disregard of social, economic and environmental impacts (...), (4) not based on transparent contracts that specify clear and binding commitments about activities, employment and benefits sharing, and (5) not based on effective democratic planning, independent oversight and meaningful participation."[1]

The target countries – just like Cambodia – are usually poor developing countries with weak land administration structures. Civil society actors see such land deals as a threat to local communities and an endangerment to food security in the target countries and therefore regard it as a neocolonialist approach.

However, many involved actors emphasise the benefits of land deals. The *Food and Agriculture Organization* (FAO) of the United States regards land investments as great opportunities especially for poor countries to strengthen their economy and ensure food security.

China's land investments

Ever since China's *Going Out Strategy* was released in 2000, the government has encouraged foreign investments and thereby land deals. According to the *Land Matrix,* most land deals in Laos (26) and Cambodia (24) are for rubber, sugar cane and palm-oil. Rubber is mainly used for China's automobile industry; sugar cane and palm oil is used for green fuel as well as food products.

Regulation of land deals and titling processes in Cambodia

Only a few land deals consider the impact on local communities. More than half of the land purchased is already being cultivated by local families, however, investors and governments alike argue the land is not officially owned by anyone. This is due to the fact that Cambodia has a rather poor land administration system. It was not until the 2001 Land Law that families could receive land titles, if they were able to prove that they had lived there for more than five years. Under the law, land is divided into state public land, state private land, private land, indigenous community land and monastery property. However, the demarcation of these categories remains unclear and receiving land titles is still difficult for many. Hundreds of thousands of rural people living on unregistered state public land were affected by the law that declared possession of state public property as illegal. Despite the *Indigenous Communal Land Titling Program* (2001), less than ten communities were able to receive communal land titles by 2013.

So even though the right of indigenous communities is explicitly stressed in the law, it has been implemented in only a few cases. Thus, indigenous communities remain among the most vulnerable ones when it comes to land grabs. Also, the land titling program was limited to provinces where mainly indigenous populations live and where the Cambodian government has a strong interest in the exploitation of natural resources. The Cambodian *Land Administration, Management and Distribution Program* (LAMDP) which started in 2002 further formalizes two different kinds of land concessions: The *Economic Land Concessions* (ELCs) and the *Social Land Concessions* (SLCs). The ELCs have often been allocated to domestic and foreign investors without any public knowledge and without transparency of the contract.

The rampant allocation of ELCs led to a concentration of 20–30 percent of Cambodia's land resources to only one percent of the population. The program was supposed to run until 2017, but the 'fast track' land titling program under Order 01 that started in 2012 superseded it after the moratorium on the new granting of ELCs. In 2008, the *Land Allocation for Social and Economic Development* (LASED) project was additionally initiated, supported by the World Bank and the German Development Assistance (GIZ). But the project turned out to actually support opportunistic settlers and small-scale land grabs, so in 2009 the World Bank withdrew from supporting it and the program eventually ceased in 2015. The World Bank is currently planning a new LASED project in which GIZ might get involved with, too.

The FAO Guidelines

Up to 80 percent of Cambodia's population lives in rural areas and is thus dependent on agriculture. About 23 percent of the land is arable. This means that land investment that does not consider local communities and marginalised groups often has severe consequences. Land deals are usually governed by *Bilateral Investment Treaties* (BIT), thus international investors enjoy a high degree of protection and privileges, such as security provided by military forces, stabilisation clauses to protect them from new social and environmental standards and ensure non-interference by the state. The FAO, in favour of responsible and sustainable land deals, launched its FAO *Voluntary Guidelines on the Responsible Governance of Tenure* (VGGT) in 2012 in order to ensure the interests and rights of the respective population. However, these guidelines are voluntary and there is no authority actually enforcing the guidelines. Thus, investors only commit to the rather favourable BITs.

Deforestation in Cambodia (Wikimedia CC BY-SA 3.0)

The BRI – infrastructure in exchange for land deals?

The *Belt and Road Initiative* promises Cambodia many things: More Chinese investments in infrastructure projects such as roads, rail, ports and also hydropower plants. The initiative further promises access to resources, expertise and finances, linking Cambodia closer to its neighbors, but also to countries outside of the region. However, as a country with an extremely high rate of deforestation, there are concerns that the development of infrastructure might have negative environmental effects. For example, the new expressway (which is currently under construction) connecting Cambodia and Vietnam will pass through and probably severely damage the Virachey National Park. The forests in the Mekong region might face destruction due to the planned construction of dams in the area that may cause flooding and as a result require the relocation of local communities and endanger certain species in the river.

In addition, the BRI will impact China's land investments. In the past, land deals often came in exchange for supporting Cambodia's infrastructure, mining and oil extraction projects. Thus, with the promise of devel-

Infobox

Cambodia and the New Silk Road

If one observes the figures of Cambodia's economic growth, it could be deemed as a major success in the last two decades. The Southeast Asian country on the southern portion of the Indochina peninsula enjoyed an average growth rate of about 7.5 percent per year, the per capita income increased from 417 US Dollar in 2004 to 1215 US Dollar in 2005.

The high growth rates, however, can't hide the economic suffering in the country. Cambodia is labelled as a least developed country (LDC) and one of the poorest countries in the world. In order to stay competitive and to sustain its high economic growth, it will need major investments, first and foremost in its infrastructure. There is deficiency in access to water sanitation in many places, rural roads for transportation are poorly constructed, the energy supply is insufficient or not available at all, and a lack of telecommunications and warehousing. Moreover, the sources of growth in the country are limited. The main economic sectors are agriculture, tourism as well as the textile industry – the latter being the backbone of the Cambodian export industry.

With the help of BRI, much needed funds for the development of infrastructure could be allocated. Cambodia is one of the most enthusiastic countries towards BRI. It was among the first countries to show strong support for the initiative and it is also a co-founder of the AIIB.

The Chinese economic agenda is positively perceived not only due to Cambodia's financial needs for its economic development, but also due to the good relations between the two countries. China is the most important strategic and economic partner of Cambodia. The government in Phnom Penh is confident that BRI will be advantageous due to its infrastructure and socio-economic developments and for strengthening its sources of growth. For this purpose, BRI could affiliate with the national development strategies of Cambodia.

But the process is not without controversy. Critics have argued that Chinese development cooperation and investment often do not primarily serve the strengthening of the local economy, but rather facilitate China's access to the country's natural resources or open the market for Chinese cheap products. Beyond that, China has also been criticized for increasing local corruption and thus counteracting the implementation of good governance and human rights. On the other hand, the lack of willingness from the Cambodian government to implement fair social and environmental standards for Chinese investments led to major negative implications for local residents and the environment. Furthermore, Cambodia is getting more and more vulnerable to bilateral influence from China due to increasing debt and economic dependency. Critics are afraid that Cambodia might lose its autonomy – which could result in the weakening of ASEAN as well.

Dominik Hofzumahaus

oping Cambodia's infrastructure it seems likely that BRI will further increase Chinese land investments and strengthen Cambodia's dependence on China.

Impact on local communities and the environment

Over the last several years, we have read many reports on land deals leading to land conflicts and forced resettlements. From 2004 to 2011, an estimated number of 300,000 Cambodians have been victims of land grabs; from 1990 to 2008, 26,000 families were resettled and currently about 150,000 Cambodians are at risk of forced resettlement.[2]

Cultivating rubber or sugar cane and illegal logging have caused the biggest environmental and social problems so far. In March 2017, *The Cambodia Daily* reported the killing of thousands of fish in Preah Vihear. Locals blame the sugar plantation owned by the Chinese company Rui Feng, which had already been accused of dumping chemicals into the waterway in 2013. Currently, they are again involved in an investigation about allegations that some of the Chinese managers have beaten three workers for stealing, resulting in one death.[3]

In 2011, the Chinese company *Lan Feng (Cambodia) International* acquired the concession rights for over 9,000 hectares of land in the Preach Vihear province in northern Cambodia. Since 2014, the project has been in operation, cultivating acacia, rubber and sugar cane. According to *The Phnom Penh Post*, in 2011, about 135

Ressettlement Andong, more than 1300 families live here 20 km away from Phnom Penh (Image: Manfred Hornung, Heinrich-Böll Stiftung, Flickr, CC BY-SA 2.0)

families protested the land deal, complaining that they had lost the land they had cultivated for generations without receiving any compensation.[4]

Under the Law on Associations and NGOs, the space for civil society actors has been further diminished, aggravating their work against dubious land investments. Even though SLCs and the LASED project were supposed to support the interests of local communities and marginalised groups, so far there has not been a successful sustainable implementation. In fact, defending livelihoods is a global problem: *The Guardian* named 2017 to be the deadliest year for land defenders.[5] More than 150 people have died trying to protect their community's land, natural resources and wildlife.

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Annotations

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Nepal Dreams of Railway linking China to India

Ramesh Bhushal

Kathmandu is at the centre of China and India's dispute over the New Silk Road. China is planning an extension of its railway in Tibet to the Nepal border, raising the prospect of a connection through Nepal and into India.

At the border town of Rasuwa Ghadhi in Nepal, hundreds of trucks are waiting for the call to enter Tibet. The truck drivers are carrying goods between Kerung in Tibet and Nepal's capital Kathmandu but have no idea when that call will arrive.

"We let them cross the bridge if the Chinese ask us to do so, otherwise we stop them," says Dhruba Shrestha, an assistant officer with the Nepal Armed Police Force who is deployed on the border.

Rasuwa Ghadhi is currently the only route into Tibet from Nepal. After the earthquake in 2015, China decided to close the Kodari route into Nepal and replace it with the mountain crossing at Rasuwa Ghadhi, but the infrastructure on the Nepal side is poor. No one except truck drivers with citizenship cards from Rasuwa, a district on the Nepal-China border, can enter Chinese territory through this point unless they have a special visa from the Chinese Embassy, which is no easy task. Nepal's immigration office used to provide a one-day pass to Nepalis but this was halted a few months ago.

Rana Bahadur Lamichhane has been waiting at Rasuwa Ghadhi to enter Tibet for two weeks (Image: Nabin Baral)

Less than 100 metres from the small security post, with its zinc roof and sheet fence, Rasuwa Fort lies silent. It was built by Jung Bahadur Rana, the former Prime Minister of Nepal who invaded Tibet in 1855. Just next to the fort, which was severely damaged by the earthquake, Nepal's revenue office also lies in ruins. This place has become an important exit for the Chinese government's ambitious *Belt and Road Initiative* (BRI).

This particular stretch will connect Nepal with all of South Asia as well as Central Asia via the Qinghai-Tibet railway, which is just 500 kilometres away in Shigatse. China is working to bring trains to Kerung (also known as Gyirong/Kyirong) by 2020, just 24 kilometres away.

Gridlock

"It's been two weeks and I have been waiting to enter and hoping to get through today, if not tomorrow," says Rana Prasad Lamichhane, who owns a truck. The wait has become a regular part of the journey since the Kodari border closed, leaving dissatisfied drivers with little to do but sit around and drink tea.

The local authorities are seriously frustrated by the Nepali government's lackadaisical attitude to managing the only exit to Tibet. One security officer curse

in Nepali at the poor management of his government. "Look, those Chinese across the border, how well managed they are, we don't even have a toilet, let alone other facilities," he says, speaking under the condition of anonymity.

Another security officer recently sustained a serious leg injury after a boulder rolled down from an earthquake-weakened cliff. Remains of the landslide are visible all around. There are even rumours that dead bodies remain trapped in the rubble. Tension here is building.

Nepal's rail dream

When Britain ruled India it established the first rail service in Nepal in 1927 on its south-eastern border to transport timber to India. After supplies diminished the railway began carrying passengers instead. This operation was shut down in 2014 though because of poor maintenance and profitability.

Following the end of British rule there has been limited rail development beyond Nepal signing the Trans Asian Railway Network agreement in 2006, to build a railway between Europe and China's Pacific ports. Currently the country has no functioning rail service. But on paper at least, there are big plans.

Nepal's new 20-year R*ailway Development Plan* aims to build 4,000 kilometres of rail service, including tracks from the northern Tibetan plateau to the flood plains of the Ganga in India. It includes plans for a new seven-storey building in Kathmandu where the government has recently set up a Railways Department.

According to Prakash Upadhyay, the department's spokesperson, "We are doing a detailed study of [an] east-west railway. Out of six rail linkage tracks provided by India, two will be in operation in southern Nepal probably next year. We have written to the Chinese government to select an appropriate company to study a Kathmandu to Kerung railway, which we are hoping to start soon."

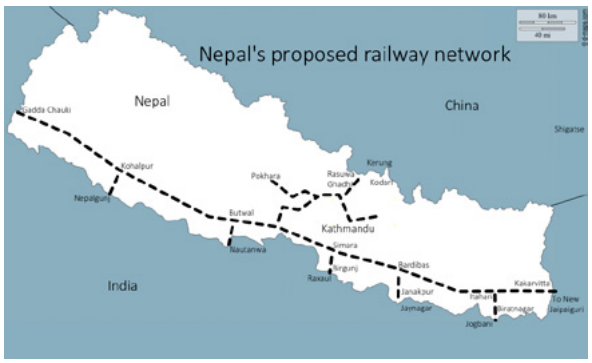
In a small, landlocked and mountainous country sandwiched between two giant economies, railways were never a government priority. But this changed when China extended its rail network through the

Trucks queue up in Timure, three kilometres from the Nepal-Tibet border to get clearance from Nepal's security force (Image: Nabin Baral)

tough terrains of Tibet to Shigatse, later announcing an extension to the railway to the Nepal-China border by 2020.

"If the Chinese say they'll do it, they do it. They will bring the rail to Kerung," says Santosh Nepal, a local truck driver in Rasuwa Ghadhi who frequently drives to Kerung. He has seen the work that the Chinese are doing and is impressed.

Nepali officials are also hopeful it'll happen. "We were too focused on roads in the past but linking northern mountains with the southern plains via rail is not an impossible task and we are confident that this will become reality soon," says Upadhyay, who adds that a service across the southern border is expected to open next year.



Nepal's proposed railway network (Image: chinadialogue)

Nepal

A truck prepares to enter into China at Nepal's border to Tibet in Rasuwa Ghadhi (Image: Nabin Baral)

While railways on the northern border are on the horizon, lines on the southern border are scheduled to operate by next year. "We have been constructing new rail tracks in southern bordering area and it is very likely that the country will have [an] effective rail service by early next year," says Upadhyay with confidence. When finished the new track will link Kerung to Kathmandu.

Broken diplomacy, can trains fix it?

"If Nepal is connected by Chinese railway network, it can be linked with Europe by land route," tweeted Leela Mani Paudyal, Nepal's ambassador to China, following the signing of a Memorandum of Understanding between the countries.

But working with the Chinese authorities to make good on the plans will be a challenge. Nepal wants the backing of India, its southern neighbour, and its political support to help it implement its new 2015 constitution. However, relations between the two countries have been complicated since the constitution's promulgation. India has reiterated that dissenting voices from the southern plains on issues such as citizenship need to be included in the document.

A blockade of goods entering Nepal was linked to these protests and led then Nepali Prime Minister K P Oli to draw closer to China, inking deals on issues such as a historic transit trade treaty.[1] Agreed in principle during that time, the BRI was officially endorsed by the Nepal government in May 2017. "China may have hidden interest behind *One Belt, One Road* but we shouldn't hesitate to take advantage of this initiative for that reason alone," said Rabindra Adhikari, chair of the Parliamentary Committee on Development.

India is already concerned about the BRI, viewing the *China-Pakistan Economic Corridor* (CPEC) as a violation of its sovereignty because the project operates in the disputed territory of Pakistan administered Kashmir. India attempted to convince Nepal and Bangladesh not to join the initiative, but to no avail.

Indeed, some argue that India's efforts are futile. "There is no point in India's sniping and nit-picking at the Chinese OBOR project and pressuring neighbours like Nepal not to sign up to it. It only makes India look mean, spiteful and backward-looking," wrote Dipak Gyawali, Nepal's former water minister.[2]

Nepali proponents have another reason to be hopeful that India will eventually join the mission. "Technocrats in India know the value of linking Kerung in China to the Indian rail network, as this is the most appropriate route to connect to the *Trans Asian Railways*," said Upadhyay.

Among three rail networks under the *Trans-Asian Railways* scheme from Asia to Europe, Nepal falls to the southernmost. The country is also a major link between Shanghai and Moscow. The southern network links Hong Kong and Singapore to Spain via India and Iran. "We are strategically in a very important geo-location and can act as a bridge between two major trans-Asian railway networks," added Upadhyay.

Though India and China are at loggerheads over the BRI, politicians in Nepal remain optimistic. "Once a rail connection with China is established, Nepali goods can be transited to international markets through the Eurasian transport network, which is vital if we are to overcome our geopolitical constraints. All of South Asia can benefit from this network," said Adhikari.

Challenges emerge

Although rail and roads have already crossed the lofty mountains on paper, many challenges lie ahead. Land-

slides are not uncommon on the geologically fragile and earthquake prone route from Kerung.

Thanks to the promise of Chinese investment, financial constraints are less of a concern than technical ones, according to officials. The railways department says that about 90 percent of the Kathmandu-Kerung railway is likely to be formed of bridges or tunnels. "We have technical challenges on our side but it is not impossible to connect Kathmandu with Kerung, However, it is not as easy as linking Kathmandu with Birgunj on the southern border," Upadhyay said.

Nepal's inadequate expertise and experience in rail construction has already become a major issue. It has been seeking support from its neighbours and nurturing talent to work in this sector. "I am also a highway engineer but have been assigned now to work on railways," Upadhyay said. "We don't have expertise on railways. So, for us, it is learning by doing. As the department has been just set up, human resources is the priority now," he added.

The line to China will pass through one of Nepal's most popular tourist destinations – the Langtang National Park. Nepal is often cited as an illegal trade corridor of wildlife parts from South Asia to China and vice-versa. Park officials are concerned about the railway plans, facilitating the trafficking of protected species.

"We are aware and a bit worried. This year we are planning to establish a separate wildlife check point at the border as an effort to curb the problem as mobility has already increased through this route," said Yubraj Regmi, chief of Langtang National Park.

Due to political turmoil, Nepal has not held local elections for two decades. Since the country abolished its 239-year old monarchy and declared itself a republic, it has been run by appointed bureaucrats. Until this year, when local elections are being held in three phases, with the final phase taking place on 18 September. Previously, there have been some serious communication gaps between the government and local residents. Newly elected politicians are hoping to remedy this and are excited to cooperate with the national government on agendas such as BRI.

Infobox

Key dates in Nepal's railway history

1927: Construction begins on the Raxaul Amlekh gunj Railway. Operated until 1970.
1937: The 51-kilometre Jaynagar-Janakpur-Bijalpura (NJJR) stretch began operation but in 2000 was limited to Janakpur after the Bighi Bridge was washed away.
2006: Nepal signed Trans Asian Railways (TAR) agreement.
2008: East West Electrified Railway Project office established.
2009: Feasibility study of East-West (945 km), Kathmandu-Pokhara (187 km), Anbukhaireni-Bharatpur link (72 km) completed.
2010: MoU between Nepal and India signed for cross border railway connectivity at five different locations.
2011: Department of Railways established.
2012: Feasibility study of Kathmandu valley metro rail completed.
2013: Detailed Project Report of Simara-Bardibas and Birgunj link completed (136 km).
2014: Construction starts on the Bardibas-Lalbandi section
2017: Nepal becomes a member of the China-led Belt & Road Initiative

"There has been very little information or discussion with the local communities regarding [BRI], says Kaisang Tamang, the mayor of Gosainkunda Gaunpalika, which adjoins the Chinese border. "But we have come through [with a] people's mandate recently; we are all set to play our role."

Annotations

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Tibet's Role in China's 'Belt and Road'

Tshering Chonzom Bhutia

Will Tibet become China's bridge to South Asia under the *Belt and Road Initiative?* How integral are China's western provinces to the success of the BRI?

After the earthquake in Nepal in 2015, another corridor was added to BRI, the *India-Nepal-China Corridor*, consisting of new roads and rail links between the three states. Nepal is one of several South Asian countries in which India and China compete for influence. Under the government of the Nepalese Prime Minister Khadga Prasad Oli, Nepal and China signed a deal that allowed the extension of China's Tibet railway line to Kathmandu in Nepal. The most spectacular idea is the construction of a railway tunnel through Mount Everest.

For its part, the leadership of the Tibet Autonomous Region (TAR) has consistently underscored the importance of the region to the initiative. In January 2015, the third plenary session of the 10th Tibet People's Congress announced the launch of the so-called *Himalayan Economic Rim* project. The report adds that the "Economic Rim will be directed towards markets in the three neighboring countries of Nepal, India and Bhutan... to develop border trade, boost international tourism, and [cooperate] on strengthening industries such as Tibetan medicine and animal husbandry."[1] The report announcing the project noted that Tibet aimed to connect to BRI and the *Bangladesh-China-India-Myanmar Economic Corridor* (BCIM).

At the fifth Tibet Development Forum Liu Yongfeng, deputy director general of the Department of External Security Affairs at the Ministry of Foreign Affairs (MFA), called upon the TAR to "fully integrate into the 'B&R.'" *China Daily*, went further to envision Tibet as playing a "significant role in connecting" the SREB and the MSR, given its unique location.[2]

Given this vision, it's fair to ask about the capacity of the TAR to integrate with BRI. In this context, would the region continue to act as a "bridge" to South Asia? In other words, would the BRI merely pass through the region to trade with neighboring countries?

This has been particularly true of Nepal-China trade. The TAR has accounted for over 90 percent of China's foreign trade with Nepal since the opening of the Golmud-Lhasa railway in 2006, implying that the railway facilitated the transportation of goods from coastal China to the TAR and on to Nepal. Moreover, as validated by the *BRI Vision Plan*, much of China's connection with South Asia through the TAR has been primarily with Nepal, both in terms of trade and connectivity. Plans to further improve connectivity are at an advanced stage. On August 5, *China Daily* reported that *China CAMC Engineering Co*. and *China Railway Construction Corp*. have already applied to Nepal's Railway Department for the construction of the Kathmandu-Rasuwagadhi railway.

Given TAR's status as a transit route, not an actual economic hub, it's fair to ask how the bordering provinces or states in all countries involved would benefit. Increased development and enhanced economic opportunities in the region could result in the migration of more ethnic Chinese into the TAR, accelerating a process already of concern to Tibetans. Meanwhile, if these non-Tibetan migrants settle in the Indo-Tibetan border region, it could aggravate India's security concerns.

As if by design to preempt some of these concerns, there is a new narrative emerging – that Tibet is not necessarily integral to the BRI. Yang Minghong, dean and professor of Social Development and Western China Development Studies at Sichuan University, clarified during a meeting at the Institute of Chinese

Studies (ICS) on June 9 2016 that the central leadership has not said anything about Tibet's importance to the initiative. Instead, it is the regional leaders who have been connecting Tibet to the BRI in order to get more funds.

From an Indian perspective, things do not add up. If Tibet and other western Chinese provinces bordering India are not seen as an important part of the BRI by the central leadership, does that mean the constant harping on Tibet as a "bridge to South Asia" is also irrelevant? The *BRI Vision Plan* seems to follow the new narrative. It views the TAR as connecting mainly to Nepal, while the role of "a pivot of China's opening-up to South and Southeast Asia" has been assigned to Yunnan province.[3]

In contrast to Yang's analysis, David Monyae, co-director of the University of Johannesburg Confucius Institute in South Africa, while in Lhasa for the Development Forum, was quoted in the media as arguing that "the success of the initiative [BRI] largely depends on how China manages its underdeveloped western regions such as Tibet."[4] The reports do not go into more detail, but generally the economic narrative for China's west is as follows: The current slowdown (or the "new normal") is leading to an excess in China's manufacturing capacity, while rising labor costs are putting a dent in the profits of Chinese enterprises and multinational companies. Companies may consider moving their manufacturing units either inland, into China's western regions, or overseas. In this light, China's western provinces may assume an important place in the adjustment of China's economy, and thereby the BRI.

Questions remain about the role of the TAR in the BRI. What sort of cross-border trade will take place through all the infrastructure construction underway in the TAR? Will the road and rail network inside the TAR merely facilitate the transportation of commodities from coastal China to India, thereby accentuating the trade imbalance, or will goods flow both ways?

Further, in order to ensure the free flow of goods, services, and people across the Himalayas and between India and China, a modicum of stability on the plateau is a prerequisite. As long as India remains skeptical of the BRI, and instability inside Tibet continues, the TAR's role in connecting China to South Asia would remain limited. China is not likely to allow the free passage of Tibetan people in and out of Tibet into South Asia, primarily India. Given this, people on both sides of the Himalayan border are likely to ask what the rails and roads are good for.

Lhasa Tibet (Image: So_P, flickr, CC BY 2.0)

Originally published: Tshering Chonzom Bhutia, *Tibet and China's 'Belt and Road'*, The Diplomat, 30.08.2016, https://thediplomat.com/2016/08/tibet-and-chinas-belt-and-road/

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Sri Lanka's New Hong Kong Project Risky for All Sides

Chinese firms are racing to build a vast port city to rival Dubai and Singapore

Liu Qin

Colombo Port City **is Sri Lanka's biggest foreign direct investment project ever. It is also China's biggest investment yet in the Indian Ocean island nation, and a flagship part of its *Belt and Road Initiative* – a new port along the *Maritime Silk Road*.**

Although the monsoon makes the work risky, two dredgers are digging and ferrying sand 24 hours a day for the new Colombo Port City construction site. On land, tight security and vehicle checks are in force at site gates near the capital city's bustling central business district. Work started here three years ago, watched over by China's Xi Jinping and Sri Lanka's then-leader Mahinda Rajapaksa. Since then, the project has weathered a change of government that halted work for a year and protests from environmentalists and fishermen. Official estimates of total direct investment are 1.4 billion US Dollar, which is expected to spur a further 13 billion US Dollar in secondary investment. The port city is a joint project between *China Communications Construction* (CCC) and government-owned Sri Lanka Port Authority.

Built on sand

But the project is also controversial because the land that will host this international financial centre with its malls, hotels, high-rise homes, schools and hospitals will all be reclaimed from the Indian Ocean. The new port and city is a megaproject that will expand Sri Lanka's current biggest city and commercial hub by 269 hectares, roughly the size of central London. Officials say it will create more than 83,000 jobs and house 270,000 people. Sri Lanka's government has high hopes for this new city. It calls it "Sri Lanka's Hong Kong", signalling its desire for a regional and global financial centre located midway between Dubai and Singapore.

A computer rendering of Port City Colombo showing skyscrapers rising above land reclaimed from the sea (Image: CHEC Port City Colombo (Pvt) Ltd)

Ranil Wickremesinghe, Sri Lanka's prime minister, has told Chinese media that the project will be a special commercial and financial zone, with its own financial and judicial systems to ensure it runs efficiently.

Electoral politics

But Wickremesinghe was not always so positive. He campaigned for election on a promise to tear up the project agreement – echoing the concerns of environmentalists and fishermen over the impact of large-scale dredging on fish stocks and coastal erosion. His government ordered work halted in March 2015, only six months into construction. Development strategies and international trade minister Malik Samarawickrama said the project lacked a full *Environmental Impact Assessment* (EIA): "In opposition we did request the government of the time publish the relevant environmental reports, but got no response," Chinese website *Caixin* cited him as saying.

Unlike in China, land in Sri Lanka is privately owned so forced relocations, such as those to clear land for the Beijing Olympics venues, are harder and meant building over parts of the existing city of Colombo was not an option. Instead, land is being reclaimed from the ocean. Halting the work caused daily losses of 380,000 US Dollars. The Chinese side requested compensation, which the Sri Lankan side offered to pay with an extra 36 hectares of reclaimed land, bringing the total area of land created to 269 hectares. The result is even more dredging. Land reclamation and construction are expected to swallow 650 million cubic metres of sand in total.

According to Sri Lankan newspaper the *Daily Mirror*, Sajeewa Chamikara, spokesperson for the Sri Lankan environmental group Environment Conservation Trust, predicts dredging will damage Sri Lanka's marine ecosystems and coastline. Sri Lanka has already lost 85 square kilometres of land to coastal erosion. Dr Ravindra Kariyawasam, of the Centre for Environment and Nature Studies campaign group says the port city will exacerbate coastal erosion. Dredging along the rim of the famous Negombo Lagoon may damage the rocks that form its foundations, says Aruna Roshantha of the All-Ceylon Fisheries Union.

China Communications Construction has responded by saying it undertook four years of preparatory work before signing the agreement with the previous administration and that all of it was carried out according to Sri Lankan regulations. It added that a third-party body had conducted the EIA.

Colombo Port City under construction (Image: Liu Qin)

On March 9, 2016, Sri Lanka's cabinet approved a supplementary EIA report on the project, submitted by the Central Environmental Authority.[1] The report rebutted various complaints about the port city's environmental impact and cleared the way for work to restart. But according to Chamikara, Sri Lankan law does not allow for any such "supplementary" report. A local catholic priest and staunch opponent of the project Rev Fr Sarath Iddamalgoda says people will continue to protest until construction is halted for good.

Missing money

While the government aspires to create a global financial centre, local fishermen are angry about the project's impact on their livelihoods. In Uswetakeiyawa, a nearby fishing village, questions quickly drew a crowd. Fishermen who had been mending their boats pointed to the dredging ships. "Do you see, the Chinese company's dredgers are working 24 hours a day? There's no way for us to fish, we can't make a living," said one.

Fish are scared off and nets are often damaged by dredgers. Over 1,000 households here rely on fishing, and the incomes of around 10,000 fishermen on the Negombo coast have been affected by the dredging there, according to the fishermen. "Originally, they said

Residents of fishing village Uswetakeiyawa complain dredging has ruined their catches and compensation hasn't arrived (Image: Liu Qin)

they'd only work 10 kilometres offshore, now they're only 7.5 kilometres away," said one fisherman who declined to be named.

An official with the Chinese partner told a *Caixin* reporter the Sri Lankan government had agreed to reduce the dredging limit because sand was scarce further out to sea. Fishermen were consulted, the official said. Those that *chinadialogue* spoke to complained furiously of being cheated for votes: "We supported the new government because they said they'd cancel the project, but once they'd got our votes they just let it start up again." They say none of the 100 million rupees in compensation that CCC has already paid via the Sri Lankan fisheries authorities has come to them. One 50-year-old fisherman complained, "All we've got is hunger and anger. Those politicians pocketed all the compensation."

The Chinese firm has pledged the overall compensation package will eventually be worth 500 million rupees (3.2 million US Dollar), channelled through the Sri Lankan fisheries authorities, as cash subsidies, insurance and a new fish processing plant.

Chinese firms face risks

Since the cabinet approved the supplementary EIA report and construction resumed, the Sri Lankan authorities are once again keen to attract Chinese investment. Surath Wickramasinghe, an architect and chair of the Sri Lankan Chamber of Construction Industry, says any firm that can help Sri Lanka develop – whether Chinese, American, Japanese or Indian – will be welcome. He enthused that China's *Belt and Road Initiative* is prompting many more Chinese firms to look for opportunities in Sri Lanka; one recent delegation was made up of 50 companies. But for Chinese firms, Sri Lankan politics are a real risk. The year-long suspension on the port city was not the only one. The new government's arrival meant similar stoppages for other Chinese-funded projects that year.

One project official with CCC, who did not wish to give his name, said, "Changes of government are very frequent and there'll be another election in 2019. It's a race against time for us now, doing everything we can to get the project finished as soon as possible."

"A change of government is a real risk," Jin Jiaman, executive director of the Global Environmental Institute, told *chinadialogue*. "US politicians like to turn on China during an election, but now we're finding China is a visible target during elections in many other nations too – it's a trend we need to be wary of."

Annotations

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Struggling Port Forces Sri Lanka Closer to China

New deal with Chinese investor will see more money poured into Hambantota port

Uditha Jayasinghe

China's ambitious plan to transform Hambantota, a sleepy southern town in Sri Lanka, into a major port and investment zone has been beset by problems, including sluggish activity at the port, Sri Lanka's worsening debt problem, and protests from people living nearby against a proposal to expand an existing investment zone.

The *Magampura Mahinda Rajapaksa Port*, as it's officially known, involved turning the town's harbour into a deep-sea port. It became operational in 2011 and was named after former strongman President Mahinda Rajapaksa, who for nine years steered Sri Lanka closer to China before losing power in 2015.

China has provided loans worth 1.2 billion US Dollar to build the port and a 2,000-hectare investment zone. In total, it has invested more than 6 billion US Dollar into Sri Lankan infrastructure projects.

Like investments in the ports of Gwadar in Pakistan, Chittagong in Bangladesh, and the Port City project in Colombo, Hambantota is a key part of China's *Belt and Road initiative* (BRI) that is building infrastructure and boosting regional connectivity and trade across strategic maritime and land routes. China plans to invest 750 billion US Dollar in BRI countries over the next five years alone.

Dealing with the debt

But there are concerns that many of the China-backed infrastructure projects in Hambantota are bad investments that could prove costly for the government.

During the latter part of his term, President Rajapaksa was increasingly censured for funnelling money into white elephant projects in Hambantota, which is his home state. The area now includes an expanded port as well as a new airport, convention centre and cricket stadium, all of which are little used.

This flow of cash to questionable infrastructure projects contributed to Rajapaksa's shock defeat in January 2015. But the new president, Maithripala Sirisena faced a serious problem: Sri Lanka's debt was almost 80 percent of gross domestic product in 2016.

The rating agency Moody's warned in August that Sri Lanka will have to repay loans worth 13.8 billion US Dollars between 2019 and 2022. To help Sri Lanka manage its debt, the *International Monetary Fund* (IMF) agreed to a 1.5 billion US Dollar bailout in May 2016.

The government also reached out to the Chinese government, asking Beijing to convert its outstanding debt into equity. In 2017, after five months of discussions,

On the road to the airport, a sign wishes former President Rajapaksa a long life (Image: Chathuri Dissanayake)

Sri Lanka

Local tourists pose for photographs at Hambantota's empty convention centre (Image: Chathuri Dissanayake)

China Merchant Port Holdings (CMP) signed an agreement to take over Hambantota port for 1.12 billion US Dollar. The company also agreed to invest a further 600 million US Dollar into port operations.

But the proposed deal was heavily criticised by opposition politicians and port workers concerned about ceding control over land to CMP and the handling of security. Under pressure, the government agreed to set up two companies that would be owned by the Sri Lanka Port Authority (SLPA) and CMP.

This approach would ensure that no land would be leased directly to CMP. And after ten years, CMP will divest 20 percent of its shares to government-owned SLPA, thereby increasing the state's share in the port to 50 percent, according to SLPA chairman Dr Parakrama Dissanayake.

The final agreement was signed at the end of July but criticism of the deal rumbled on, leading the President to sack Justice Minister Wijedasa Rajapakshe in August.

Turning a failing port around

CMP could begin work at Hambantota as early as November. And given the port's poor performance, additional investment cannot come soon enough, according to Dissanayake.

"In 2015 the port got 19 ships, in 2016 it was 14 and this year till June it got only 10 ships. It is not enough to have a port or be close to key shipping lines, we need to have a global player directing ships, services and investment. That is what CM Port can do," he said.

The Chinese investor is confident it can turn things around by galvanising investment to its linked investment zone of 2,000 hectares and capitalising on the port's strategic importance to the regional vision of China's BRI.

"We are targeting to turn the Hambantota port into a major hub connecting the neighbouring countries as well as the rest of the world. That is the national vision of Sri Lanka and it is also our mission as an operator," said CMP deputy general manager Hang Tian.

CMP is currently developing a business plan that will include port services, a business incubator, integrated logistics and vessel supply service to attract more international companies, Hang said. The company is also considering bunkering services by tying up with Sinopec or China Petroleum.

The port's strategic location makes it ideal to be a hub for shipment growth in the region, said Hang. "Our expectation is that South Asia and Africa, especially east Africa is set to become another global factory. Sri Lanka happens to cover these two economic hinterlands, encompassing a population of 2.5 billion people seeking economic transformation."

Mangala Yapa, a director at the state-run Board of Investment, notes that two Chinese companies have put forward a joint venture proposal for a petroleum refinery, with an investment between 2.5 and 3 billion US Dollar although he did not name the firms.

And local conglomerate *Laugfs Gas* in August signed the first ever private sector financing facility in Sri Lanka supported *by China Export & Credit Insurance Corporation* (Sinosure) to the tune of 80 million US Dollar for a 30,000-metric tonne liquid petroleum gas import and export terminal in Hambantota. The aim is to make the terminal the largest in South Asia.

"From a development angle the port and the investment zone have to be integrated," Yapa said. "To create demand we need the investment zone," although he admitted that planning had been "haphazard".

"This has to happen in a planned manner and depending on expansion we will create new investment zones nearby."

But expanding a project that is already struggling is exactly what some residents of Hambantota fear.

Local concerns over expansion

Malathi Wickramage's family lives in the close-knit village of Beragama, which is part of the Hambantota district. Most of her relatives are within walking distance and farm rice on nearby land. Like many in the area, her ancestors settled here over a century ago, attracted by verdant plains that are ideal for paddy farming and the abundant water resources that are rare in this otherwise arid area.

Earlier this year Malathi watched her neighbours clash with police as Prime Minister Ranil Wickremesinghe and Chinese Ambassador Yi Xianliang laid the foundation stone for a 15,000-acre investment zone that would swallow her village.

The proposed venture would be managed by *China Harbour Engineering Company* and is separate to the 2,000-hectare zone currently managed by CMP.

Malathi is genial, greeting people stepping into her home with a hot cup of sugar-laden tea. But mention this new investment zone and her amiableness is replaced with anger. "No government or company has

Children play in a village earmarked for a 15,000 hectare Chinese investment zone (Image: Chathuri Dissanayake)

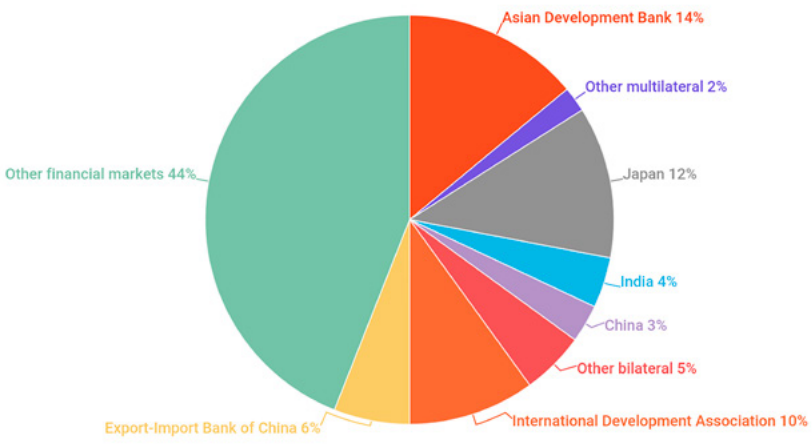
the right to take away our land. Where will we go? Let them come. We will not go," she says.

About 2,000 families in the area have banded together around their temple and have pledged to fight the new investment zone, setting the stage for a standoff with the government. For now, the venture is limited to the foundation stone and since the protests, the government has not announced plans to proceed. But it may not remain that way for long.

Balancing great power interests

Sri Lanka is a major beneficiary of Chinese foreign investment under the BRI. However, the country's experience illustrates not just the economic risks of

Ownership of Sri Lanka's foreign debt in 2016



Sources: Verité Research; Central Bank of Sri Lanka, Annual Reports

borrowing to fund large projects, but the potential environmental risks of ploughing resources into infrastructure that is largely unused.

Nonetheless, Sri Lanka's efforts to renegotiate the Hambantota port deal, and another port project in Colombo, suggest that the country's relationship with China is moving in a positive direction, said Dr Nishan de Mel, economist and head of thinktank Verite Research.

"Many people think that somehow Chinese finance is the be-all and end-all for Sri Lanka. It is not."

He said that in 2010, China's share of the country's loan portfolio was three percent and in 2016 it was the same. What has grown is the portfolio of China's *Export-Import Bank*, which basically had invested almost nothing in 2010 but now has six percent of the loan portfolio. The biggest share of 44 percet is held by international financial markets.

Dr Nishan de Mel also points to the 1.4 billion US Dollar China-financed Port City project in capital Colombo as an example of an evolving bilateral relationship.

This project was suspended by the new government in 2015 but later renegotiated in August 2016 to deal with some of the social and environmental criticisms against it. The port operator, China Harbour, agreed to allocate 3.2 million US Dollar to a livelihoods programme for fishermen and waive compensation payments on construction delays caused by the suspension.

However, for small countries like Sri Lanka that have debt and other forms of dependence with China and India, de Mel argues that improved governance and sustainability standards are essential to navigating their competing interests.

This requires Sri Lanka "to anchor its decisions on explicit values and principles so that the country can remain consistent and responsible in its decisions, without being seen as picking sides" he said.

"Sri Lanka needs to do more to get itself into that position."

Infobox

Sri Lanka – two ports, one lighthouse – one elephant

The maritime Silk Road will circumnavigate the Indian subcontinent on its way to Africa and Europe. Sri Lanka holds a major position on the maritime Silk Road. At Alyat in Azerbaijan, the next major Silk Road station down the line from Khorgos, a new seaport/special economic zone combo is being built on a 400 hectare expanse of barren shrub land 70 kilometers south of Baku.

Next to the strategically important Colombo International Container Terminals is Colombo Port City being constructed, which is estimated to cost a total of 1.4 billion US Dollar. It's considered to be a lighthouse project by BRI and is Sri Lanka's largest foreign investment to date, as well as China's largest investment on the island. Halfway between Dubai and Singapore, Colombo Port City has the contingency to become a regional and global trade and financial center and compete with both. The construction work was halted between March 2015 and March 2016, on the grounds that the newly elected government did not want to continue the project due to protests and concerns. Eventually the constructions were continued with the new goal to advance the port city into an international financial centre as well.

Another important port in Sri Lanka is located on the south coast of the island. The 1.4 billion US Dollar worth container port in Hambantota was launched in 2010, long before the Belt Road Initiative was announced. Despite great expectations, the port has not yet been able to attract container ships and turned into an superfluous financial liability for the country. Now, the Chinese state-owned China Merchants Port Holdings Co. announced on July 25, 2017 that it will take up 80 percent of the port for 1.2 billion US Dollar. For Sri Lanka it means that it will be able to pay back debts,but the port itself is clearly a "white elephant", an unprofitable investment.

Although Sri Lanka does not plan to offer military benefits for China, the Chinese presence at the port of Hambantota provokes diplomatic resentments in its relationship to India. Indian security experts see the ports being built by China in South Asia within BRI as potential military bases, which could also serve to hem India in.

Dominik Hofzumahaus

Maritime Silk Road: What's in it for Vietnam?

Perceptions by Vietnam's Civil Society

Tam Nguyen

Vietnam might have high hopes, first and foremost, of financial resources to fund its obsolete and sparse infrastructure system, but the country also has serious concerns with regard to China's increasing dominance in the economy, the ineffectiveness of its investment projects and its aggressive military actions.

As the core of the *21st Century Maritime Silk Road Economic Belt* (MSR), infrastructure development encompasses the construction of roads, railroads, ports and power stations such as hydro and thermal power plants. Moreover, the plan will promote the presence of Chinese companies in industrial parks and special trade zones along such infrastructure network. Sharing geographical borders, being politically and historically close to China, and being one of the gateways of the Silk Road, Vietnam is in a position that allows it to see opportunities, but also challenges in MSR.

Maritime Silk Road and infrastructure demand in Vietnam

For Vietnam, the MSR initiative is the continuation, expansion and materialization of China's previous cooperation and commitments both at bilateral level, including the *Beibu Gulf Economic Rim* and *Two Corridors and One Economic Belt* initiatives, and at regional level, including the *Greater Mekong Subregion Economic Cooperation Program* and the *ASEAN Master Plan in Connectivity*, which Vietnam has been eager to join and from which it has expected enormous potential benefits. In particular, the MSR could support infrastructure development in Vietnam by building transportation networks within the country (especially in the Northern region, which includes three economic centers: Ha Noi, Hai Phong and Quang Ninh), between Vietnam and other countries of the Mekong region and two Chinese provinces, Yunnan and Guangxi.

Apart from that, constructing energy infrastructure is also another key element of cooperation in MSR, accelerating Chinese investment in different fields that interweave closely with MSR.

The amount which is to be invested by the MSR initiative is expected to solve the problem of Vietnam's lack of capital for financing its infrastructure development plan. Domestic sources for development investment in Vietnam have become very limited recently due to low savings ratios, slow economic growth, the decrease in the world oil price, the vulnerable financial system, and high public debt, which are rapidly growing. At the same time, external supports have become more difficult to get.

Most recently, the Trump administration's decision to withdraw from *Trans-Pacific Partnership* (TPP) obviously has negative impacts on Vietnam's attractiveness as for FDI flows, which increased surprisingly in several industries in anticipation of the trade pact. On the other hand, Vietnam's effectiveness in absorbing and managing capital from big creditors in the previous years has been put in question. In this context, Chinese aid, investment and loans for infrastructure through the MSR initiative will help Vietnam to reach its development targets.

Moreover, the enactment of the initiative would lead to the increase of regional linkages, including not only physical and financial integration, but also personnel and cultural exchange. Being an active member of the regional connectivity plan, Vietnam will definitely enjoy fruitful results from both, direct connections with its adjacent nations, and better connection of the region as a whole. However, there are numerous concerns about risks triggered by MSR.

Vietnam

Hidden civil society: Vietnamese concerns on Maritime Silkroad

Concerns regarding the implications of the implementation of the MSR initiative stem mostly from Vietnam's unpleasant experiences with respect to Chinese investment and historical lessons about bilateral relations. Such concerns lie in a wide range of fields (economic, environment, defense and international relations) and are shared by many different actors in society.

Given the political space substantially narrowed down by the single-party Communist regime in Vietnam, civil society, which normally plays an important role in raising the voice of the people, becomes weak and isolated in political debates. Thus, Vietnam's perceptions on MSR can only be seen in fragmented pictures, mostly through their responses to China's involvement in separate situations.

Common concerns on Chinese investors

First, the bad performance of Chinese investors in current projects in Vietnam has indirectly caused negative perceptions of MSR. Low quality, high number of accidents due to a lack of safety measures, slow implementation, huge environmental damages, and soaring investment costs beyond the initially planned are characteristics common to almost all transport and energy projects implemented by Chinese companies. Initiating MSR, China will offer capital at low cost, but the attached conditions for loans could force the recipient countries to accept lower standards of safety for workers and to use Chinese material of lower quality.

Nguyen Van Thu, chairman of the Vietnam Association of Mechanical Industry, has concluded that Chinese contractors often have a delay that ranges from 3 months to 3 years, that they change the project components and suppliers, and that the quality of the equipment is poor. Recently, four big Chinese contractors, which participate in important construction projects in Vietnam, have been listed as incompetent according to an assessment of the Ministry of Communication and Transport.

Bad experiences from Bauxite

Most of the major pollution crises in Vietnam are related to Chinese investment projects, most recently, Tan Rai and Nhan Co bauxite-alumina projects. Morris-Jung, from University of California, Berkeley, observes that the severe opposition to these China-cooperated projects mainly come from ten social groups: Scientists and technocrats, reporters and the domestic press, non-governmental organizations (NGOs), artist-intellectuals, retired high-level officials, activist bloggers, government officials and the National Assembly, religious leaders, political activists and organizations, and lastly, overseas Vietnamese communities. These groups are said to create the strongest confrontation with the One-Party state. Being probably the only NGO in Vietnam that has a strong voice against the project, *Consultancy on Development* provides a rare forum for discussion on environmental consequences of the backward technology used by Chinese investors in the project. Due to bad experiences with infrastructure and energy projects implemented by Chinese contractors, the Vietnam's perceptions of potential benefits from the MSR and AIIB initiatives will definitely be deteriorated.

Increasing dependency on China

Moreover, the continuing expansion and acceleration of MSR could risk more serious economic dependence through the three main channels. Firstly, financial supports from MSR would increase the presence of Chinese investors in projects in Vietnam. Considering that Chinese contractors have won numerous construction contracts, more involvement of Chinese investors will be followed by the use of Chinese technology, materials and labor. According to an estimation of Nga Dao, from the Center for Water Recourses Conservation and Development, Chinese enterprises provide about 90 percent of the equipment for hydropower throughout Vietnam.

Secondly, facilitating the flow of goods and services could intensify Vietnam's trade relation with China, a source of Vietnam's trade deficit, which now reaches an all-time high of 43.8 billion US Dollar, almost half of Vietnam's GDP. Thirdly, loans from China for large infrastructure projects could make the public debt situation more serious. According to the World Bank, public debt-GDP ratio in Vietnam was estimated at around 65 percent in 2016, the highest level in many years. Due

to its lower interests and loose conditions, Chinese loans are considered one of the most feasible means to finance public projects, but they can gradually lead to economic subordination situation.

Incomplete domestic legal framework

Another concern is related to stronger and illegal competition if the promotion of MSR comes with more Chinese investors. In construction projects, Chinese contractors bring their own equipment, technology and unskilled labor forces and do not use the available supply sources in Vietnam, even though Vietnamese companies are able to satisfy such requirements. Tran Huu Nam, General Director of the Hai Phong Thermopower JSC, has claimed that Chinese investors often use many tricks to avoid giving sub-contracts to Vietnamese companies, such as requiring unfeasible prices from sub-contractors or late payment. Nguyen Chi Sang, Head of the Mechanical Engineering Institute, confirms that the localization ratios in the power and cement projects in which Chinese investors are involved, such as the Engineering-Procurement-Construction contracts are nearly zero. Moreover, the rigid and incomplete domestic legal framework, especially the Bidding Act, which only focuses on price and financial capacity of contractors, but not on service quality, limits the participation of domestic companies in large projects, while favoring Chinese ones

Influx of Chinese migrants: danger of racism

Regarding social issues, the promotion of the MSR initiative might lead to a stark increase of illegal immigration of unskilled labors from China. According to a research by Nguyen Van Chinh, sociologist from National University of Hanoi, the number of Chinese workers in Vietnam has increased by more than three times, from 21.217 in 2005 to 75.000 in 2010.

This figure does not cover a high number of unregistered workers, which in many projects may be more than 10 times the number of registered workers. One example is the Haiphong Thermo-Power Plant, where out of the 4000 Chinese workers only 300 are legally registered. Many of them move from one project to another, leading to uncontrolled flows of Chinese labors in Vietnamese territory. Such free movements are not reported to local authorities, which causes social disorders.

Vietnamese protests against China (2011, Khánh Hmoong, flickr CC BY-SA 2.0)

Similarly, in a field research conducted by Morris-Jung in 2015, anti-Chinese sentiments are apparent in local communities where Chinese mining companies are in operation. According to the Ministry of Labor, Invalids and Social Affairs, in 2013 Vietnam has a total of 77.359 foreign workers, of which 40.529 are registered and 31.330 unregistered, most of which are Chinese workers. Chinese projects also establish "Chinese villages", such as in Dong Giang, where two hydropower projects implemented by Chinese contractors, lead to high resentment in the surrounding villages. According to Vietnamese regulation, investors may only use foreign skillful labor force when none is available in Vietnam. However, Chinese contractors go around this requirement by setting high standards to reject applications from Vietnamese workers.

Old technology exports and energy security

Additionally, MSR might raise concerns with respect to security and defense. Pham Thi Loan, member of the Committee on Financial and Budget Affairs of the National Assembly, has said that "if Chinese companies continue to control major energy contracts, the nation's energy security will remain very disconcerting".[1]

Energy security is threatened by the low quality and slow implementation progress of Chinese projects. This

leads to unstable sources of energy, high maintenance costs and environmental damages. China is blamed for using obsolete technology and MSR could be a channel to export such technology to Vietnam.

Concerns on national security

Infrastructure connectivity with adjacent Chinese provinces will facilitate investment flows in exploiting natural resources in the mountainous region, where the involvement of press is limited and public governance at local level is weak. It also raises concern regarding defense, because bordering provinces give Chinese investors the right to use land with long tenure. Chinese investors have leased nearly 300 hectares in bordering provinces including Lao Cai, Quang Ninh, Cao Bang, and defense-sensitive provinces such as Ha Tinh, Nghe An and Quang Binh. Some high-ranking military officers worry that China might attempt to construct a road from North to South of Vietnam, connecting provinces in Laos and Cambodia, where China leased land for 55 years, aiming to dominate the whole mountainous Indochina region.

Moreover, MSR is seen as a signal of Chinese hegemony, which is attached with Chinese claims on South China Sea. Anti-China demonstrations in main cities in Vietnam against China's increasing assertiveness in recent years are considered as "phenomenal" and "the very first public protest with a nationalistic character",[2] argued Bui Hai Thiem, an expert on Vietnamese politics. The PEW Research Centre released a report showing that 60 percent of the Vietnamese people consider territorial disputes with China as the biggest threat around the world, the highest level out of 40 surveyed countries.

Strategic geopolitical interests

In geopolitical regards, MSR could reduce the political and economic relative clout of Vietnam vis-à-vis their neighbors, including Laos and Cambodia. The MSR initiative will connect Laos, Cambodia, Myanmar and Thailand with the economic hubs in China. This may reduce Vietnam's relative dominance over its neighbors, which will more easily reach China than Vietnam through the vertical (South-North) connection with Yunnan and Guangxi as the target points. The hub-spokes structure (Chinese provinces correspond to Vietnam and other peripheral countries) will threaten Vietnamese geo-economic position in the region.

Uncertain benefits?

Finally, MSR might not open economic opportunities as expected when Vietnam is connected to Chinese economic hubs. Yunnan and Guangxi are among the poorest provinces in China. Moreover, the economic structure of these provinces is similar to that of Vietnam. Thus, the deeper connectivity to these underdeveloped regions may not boost Vietnamese economy as expected. Even because of development level similarity, Vietnam might face fiercer competition. In short, Vietnam's perceptions related to MSR have been negatively influenced by current Chinese investment performance and potential repercussions caused by substantial Chinese investment volume.

Policy implications

Regarding the impacts of MSR and current infrastructure demand, Vietnam is on the horns of a dilemma. In comparison with ASEAN counterparts, the impact of Chinese investment, both positive and negative, is more accentuated in Vietnam because of its close geographical distance and cultural- political affinity with China. The main question confronting Vietnam now is not whether it should join the initiative but how it can mitigate risks of higher Chinese engagement in the economy on the one hand and maximize the benefits of Chinese investment and loans flows on the other. This situation puts the legitimacy of Vietnamese Communist party's leadership, which is backed by its alliance with the Chinese Communist party, on challenges.

To mitigate the negative impacts of Chinese engagement in the Vietnam economy, Vietnam necessitates improving the regulation and over-sighting system. This would address the main concerns, such as bad performance of Chinese investments, migration management, and the pressure of unfair competition.

Annotations

1 ThanhnienNews, 2010. Most of Vietnam's major projects in Chinese hands. www.thanhniennews.com/business/most-of-vietnams-major-projects-in-chinese-hands-15404.html

2 Bui, Hai Thiem (2013). The development of civil society and dynamics of governance in Vietnam's one party rule. Global Change, Peace & Security: formerly Pacifica Review: Peace, Security & Global Change. 25:1, 77–93.

How to Exchange a Port for a Dam

Myanmar Shows the Way to Bargain within BRI

Nora Sausmikat

Since the late 1980s, China has been an important supporter for the former military regime and remains the largest investor and trading partner of Myanmar. Myanmar's appeal to China: It has valuable resources such as petroleum and gas, precious stones, copper and nickel – and it is strategically located in the Indian Ocean. But: The protests against Chinese investments have increased massively. Myanmar borders Bangladesh, one of the poorer "partners" of the planned *Bangladesh-China-India-Myanmar Economic Corridor (BCIM EC)*, one of the six BRI economic corridors. Chinese infrastructure investments (pipelines, railways, ports, highways) along this corridor could contribute to further violent conflicts.

Myanmar is of high strategic importance not only for the planned *Maritime Silk Route* as binding element between China and the Indian Ocean, but also for the envisioned *Bangladesh-China-India-Myanmar Economic Corridor* (BCIM EC) of the BRI. For quite some years, Chinese strategic planners have been looking for an alternative gas and oil supply route to the Malakka route, which passes through the conflict zones around the South China sea. The oil and gas pipeline from Kyaukpyu, Myanmar, to Chinas Western provinces as well as the deep water sea port in Kyaukpyu are crucial to this plan.

The BCIM corridor follows more or less the course of the legendary "Old Burma Road", a 1000 km route through the mountainous region of Yunnan, China to Mandalay in Myanmar. During the Second World War, this route was used to supply Chinese resistance fighters with weapons for the anti-Japanese resistance. Today, a four-lane highway connects China with its border to Myanmar at Ruili and Muse.

China became Myanmar's largest trading partner in 2011 and invested primarily in oil, gas, and hydroelectric power. The Chinese have been the beneficiaries of the West's 20 year-long boycott of Myanmar, which isolated the country ruled by a military regime. But since the formal end of the military rule in 2010, anti-Chinese resentments have been voiced openly and an increasingly critical discussion of the relations between China and Myanmar has developed.

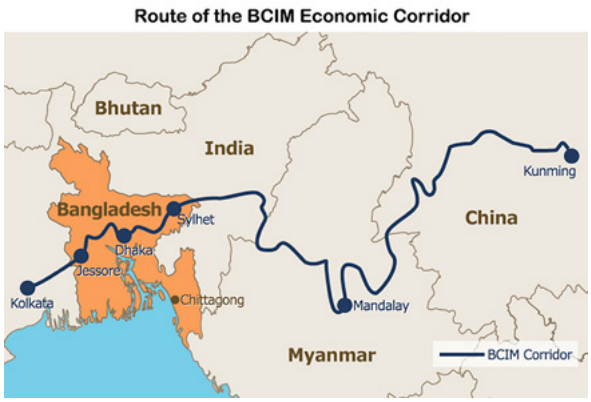
China under pressure

In 2014, China declared relations with Myanmar the top priority of its Asia policy. China tries to ally with the current government under President U Htin Kyaw and State Counsellor Aung San Suu Kyi whenever they can – last time in September 2017 when China backed Myanmar government on their Rohingya policy.

Although China remains the largest source of Foreign Direct Investment for Myanmar, the scale of new investment has begun to shrink back. Shocked by the protests and the 2011 postponement of the Myitsone dam by President Thein Sein, Chinese companies have been reluctant to commit more funding in a political climate that could be averse to their interests. The reputation of Chinese businesses has also been tarnished by exploitative trade in timber, jade, and other natural resources in the ethnic borderlands.[1]

The two major investments in the BRI framework are the pipeline and the deep water port. The controversy about the West-East oil/gas pipeline is not new, it is rooted in a comprehensive China Myanmar infrastructure project with railway construction (Myanmar-Kunming), construction of airports, ports, and highways.

Myanmar



BCIM Corridor, Possible route of the economic corridor from Kunming/China to Myanmar, northern India, Bangladesh to Indian Bengal (The daily Star, Bangladesh, 8.3.2015)

Now, these plans have been integrated into the *BRI Bangladesh-China-India-Myanmar Economic Corridor* (BCIM EC).

In 2009, the Ministry of Energy of Myanmar and the state-owned *China National Petroleum Corporation* (CNPC) signed an agreement to construct pipelines to transport crude oil and natural gas from the Middle East via Kyaukpyu on the west coast of Rakhine State to Ruili on the border with China. CNPC has a majority share in the joint project between CNPC, the state-owned Myanmar oil and gas enterprise (MOGE), and other investors from Asia.

The 3.000-kilometer-long natural gas pipeline that continues into the Chinese provinces of Guizhou and Guangxi has been in operation since 2013. Its importance is demonstrated by the fact that it can transport almost 13 percent of the volume that Russia wants to pump to China from 2018 onwards, with a capacity of 13 billion cubic meters.

In addition, a parallel oil pipeline, completed in 2015, will eventually deliver 22 million tons of crude oil annually to Kunming, which is about 800 kilometers away. Resistance against the construction of this pipeline was extremely fierce and violent, especially in the Shan state next to the Chinese border.

With these projects in Myanmar, China has secured a further strategic energy supply route alongside the supply from Russia and Central Asia, and the shipping route through the Malakka Strait. The *Kyaukpyu Special Economic Zone* with an industrial and technology park and a deep sea port, where most companies in the SEZ are Chinese, fits very well into the *Silk Road Initiative* strategy. Myanmar's government promises billions in revenues, a development thrust, and a control of the trade routes between China, India and ASEAN.

The major conflict on the Myitsone dam could be solved by a simple bargain on bigger, more relevant projects like the Kyaukpyu port. Chinas CITIC Group (*China International Trust and Investment Corporation*) already signaled their wish to buy the majority share of the harbor, and the Chinese state supported that proposal by offering to cancel the Myitsone dam project. State Counsellor Aung San Suu Kyi bargains by inviting investors in for fostering economic development, but risks possible ethnic clashes.

A state stricken by violent ethnic clashes like Myanmar can easily lose the fragile frame of its system when land-intensive major investments foster a path towards civil war. In the words of Pierre Rousset, Myanmar "is the focus of intense geopolitical competition. India has financed and built, for example, the port of Sittwe (the capital of Rakhine!), to connect the (Indian) state of Mizoram to the Bay of Bengal. The Chinese government has many investments in ethnic minority areas and is continuing the construction of a pipeline between Sittwe and Kunming in China. [...] The nature of the Burmese regime, the policy of land grabbing and the geopolitical stakes are largely responsible for the paroxysmal nature of this humanitarian crisis."

Further readings

China's Engagement in Myanmar: From Malacca Dilemma to Transition Dilemma MyanMar Policy Briefing, 19, July 2016, TNI.

Pierre Rousset, The Rohingya, the Burmese regime and the geopolitical stakes, ESSF, 20.9.2017.

Christina Grein, Das Projekt Kyaukpyu-Pipeline (Infobox), in *Wohin führen die neuen Seidenstraßen?* Stiftung Asienhaus 2017, p. 32.

Annotations

1 China's Engagement in Myanmar: From Malacca Dilemma to Transition Dilemma MyanMar, Policy Briefing 19, July 2016, TNI.

Victims of Land Grab and Pollution Can Help Each Other

People-to-people Exchange China-Myanmar

Nora Sausmikat

Chinese investors are not always welcomed by Myanmar citizens and ethnic minorities. Protests against Chinese investments in Myanmar have increased heavily. Chinese citizens and NGOs understand the problems of their Myanmar neighbours very well. Over 20 years, environmental NGOs have fought against pollution and irregular *Environmental Impact Assessments (EIA)*. Therefore, exchange between citizens of Myanmar and Chinese NGOs could help to build peace processes.

China's civil society looks to Myanmar

Chinese activists and civil society groups are active in three main areas in Myanmar:

- as critical observers and commentators in the monitoring of infrastructure projects and Chinese investments in Myanmar;
- as a service providers (capacity building); and
- as conflict mediators.

Critical observer

The conflicts in China-Myanmar relations mainly focus on environmental and social impacts of large Chinese investment projects including the Myitsone dam in the Kachin state, the Letpadaung copper mine in Monywa in the Sagaing region, and the oil and gas pipeline from the southwestern coast of Myanmar to Kunming in the Chinese province of Yunnan.

Resettlements, uneven share of benefits, land grabbing, lack of compensation or insufficient compensation, contaminated water through mines, impoverishment of the displaced population: all of these are problems which are familiar to China's citizens and environmental associations.

Most activities of Chinese NGOs and activists with a focus on Myanmar take place in the Myanmar-Chinese border region, mainly in the province of Yunnan. Recently, scientists, public intellectuals, and NGOs from China met with groups from Myanmar to deal with the smoldering conflicts and share their experiences. Founded in 2002, Chinese NGO *Green Watershed* is one

Toxics Free Future Skillshare, Kunming 2015 (© International POP's Elimination Network-IPEN)

Myanmar

Scarce living space in Yangon, Myanmar (Image: Christina Grein)

of the most, who has been campaigning for the rights of the displaced population of dams. From June 23 to 30 2011, Green Watershed traveled to Myanmar for the first time, together with other NGOs and representatives of the Chinese Academy of Social Sciences (CASS). They conducted interviews with the local population, visited Chinese investment projects, met local NGOs, village representatives, industry associations, journalists, representatives of ethnic groups, as well as Chinese workers.

Following this trip, they published a short report on Chinese investment in Myanmar, including a list of recommendations. Among other things, they argued that going forward all projects should have to carry out an *Environmental Impact Assessment* (EIA) and a *Conflict Risk Assessment* (CRA). By doing so, the interests of the local population would be placed at the center. In China, the *Green Credit Guideline* for outward Chinese investments was ratified in 2008. Nevertheless, there is still a very big implementation gap for these regulations.

One of the public intellectuals,who saw the Myitsone protests in the Kachin-region, was the historian Qin Hui. He commented as follows: "The Kachin had to watch how a military government, known for their despotism and corruption, take their land, drive them out of their homes with minimal compensation, and then sell their land to a foreign dam company that manages the power plant for 50 years and exports 90 percent of the energy produced. Of course, this company will give the government significant assistance, but what does this have to do with the Kachin? Their experience with the government is based on massacres and exploitation, not on welfare.[1]

Service providers

Services are provided by "academic" NGOs such as *EcoWatch*/Yunnan, which, in cooperation with the *Global Environmental Institute* (GEI) and the *Pesticide Eco Alternative Center* (PEAC), provide advice to farmers, NGOs, and government officials in Myanmar on the topics of management of pesticides, sustainable agriculture, and renewable energies. The aim is also to obtain legal changes.

GEI is an example of a very typical service-oriented NGO exchange model for the China-Myanmar relationship. They help to mobilize advocacy/support for low-carbon technologies and provide fact finding missions or mediation. For example, they offer services to governments and companies alike, such as the facilitation and preparation of bilateral trade agreements on "sustainable timber trade". Their analysis states that "The technical know-how, along with strong leadership, holds the key to addressing Myanmar's challenges of illegal logging, unsustainable management of natural forest resources and lack of domestic value-added processing."[2] In 2015, the Myanmar Ministry of Forestry and GEI jointly held the "Seminar on Governance of Timber Trade and Legality System in Myanmar and China" in Naypyidaw, Myanmar's capital. One purpose of the seminar was to explore the feasibility of establishing a bilateral timber legality verification system.

Very similar activities are ongoing for the bamboo processing industry. From May 8 to 15, 2017, the GEI pro-

ject team traveled to Myanmar to conduct surveys of the bamboo industry. In their report on the 2017 fact finding mission GEI writes: "We've been engaged with Myanmar bamboo industry development this year because bamboo is a renewable and versatile material that can spur economic development. [...] The survey conducted by GEI in May 2017 enabled greater understanding of bamboo-related enterprises, communities, NGOs, associations and governments. Based on the forestry cooperation MOU reached by China and Myanmar last month, GEI will continue its efforts in the Government-to-Government (G2G) and Business-to-Business (B2B) cooperation between the two countries, especially for bamboo industry.[3]

Networking

Chinese NGOs regularly participate as observers and commentators at the meetings of the *Mekong River Ecological and Energy Networks* (MEE Net). Networking between Chinese NGOs and NGOs from Myanmar takes place at these meetings, as long as governments allow them to leave their countries for these meetings. Chinese journalists are also increasingly devoted to the topic of Chinese investment in Myanmar. For example, the famous "water activist", journalist and founder of *Green Earth Volunteers*, Wang Yongchen, traveled to Myanmar with the China Branch of the *International Rivers Networks* (IRN) to discuss the situation of rivers and NGOs dealing with water and dams.

Who is learning from whom?

The NGO exchange between countries such as China and Myanmar fits perfectly into the BRI regional strategy. The BRI does not only aim for expansion of the regional infrastructure, but also wants to foster peoples-to-peoples exchanges. At the same time, Chinese NGOs and larger umbrella organizations are urged to "go global" and develop their own BRI strategy. It remains to be seen how these exchanges really help Myanmar citizens.

This is an updated version of *Soziale und ökologische Auswirkungen chinesischer Aktivitäten in Myanmar* (2015), written by Nora Sausmikat, ed. by Burma-Initiative, Burma Briefing Papier No. 3.

Infobox

"Belt and Road" Green Development Partnership

In September 2016, Belt and Road Green Development Partnership was launched to provide policy recommendations for sustainable development under the Belt and Road Initiative (BRI) by bringing together over 16 Chinese and international think-tanks, environmental NGOs, and foundations. The Partnership aims to fulfill the goals set by the 2030 Agenda for Sustainable Development and the Paris Agreement, focusing on issues of ecological protection, climate change, energy transition, green finance, and private sector-cooperation. By working with the international community to promote sustainable development under BRI, this Partnership hopes to help China leverage and improve its leadership in global green governance.

The Partnership plays a role in:

- Providing an enabling environment for participating institutions to facilitate extensive exchanges in B&R green development issues and fields;
- Facilitating experts to provide professional guidance on the topics under the initiative;
- Submitting research results and policy recommendations to relevant departments and agencies to maximize the usability and impact of the initiative outcomes;
- Expanding cooperative partnerships with institutions at home and abroad to enhance China's international influence in environmental and climate change governance
- producing bi-monthly newsletter in Chinese (since 2016 organized by Greenovation Hub) to introduce the updates of BRI green development progress.

www.chinagoinggreen.org

Annotations

1 Qin Hui, Konflikt um den Myitsone-Staudamm und Chinas Rolle in Myanmar Asienhaus Online-Materialien No 9/2012, p. 9.

2 http://new.geichina.org/en/china-myanmar-cooperation-on-sustainable-timber-development/

3 http://new.geichina.org/en/bamboo-visionaries-improving-myanmars-bamboo-sector/

The AIIB / *World Bank* Indonesian *National Slum Upgrading Project*

Indonesian Legal Resource Center, WALHI, Institute for Policy Research and Advocacy (ELSAM), Ecological Justice, TuK, INDIES, Ulu Foundation

The Chinese government's launch of the *Asian Infrastructure Investment Bank (AIIB)* in 2016 has led other international financial institutions, including the *World Bank* and the *Asian Development Bank*, to support a range of new infrastructure mega-projects, some of which are co-financed with the AIIB. There are growing concerns about the often-significant environmental and social impacts associated with such large-scale infrastructure development.

Germany, as the AIIB's fourth largest shareholder after China, India, and Russia, plays a crucial role in ensuring transparency and adherence to important environmental and social safeguard requirements. Germany's role is especially important given ongoing efforts to eliminate civil society space within China, as demonstrated by recent detentions, disappearances, arrests, and imprisonments of hundreds of human rights defenders, environmentalists, public interest lawyers, and women's rights advocates.

At this early stage of operations, many of the AIIB' projects are co-financed by other international financial institutions. With a relatively small number of staff, the AIIB relies heavily on the safeguards, monitoring, and evaluations provided by other institutions. Despite a determined push to achieve substantial lending targets, the AIIB appears to conduct little of its own due diligence or oversight, and does not appear to respond to civil society concerns about its investments projects in a meaningful manner.

In this paper, we examine one of the AIIB's first projects, the Indonesian *National Slum Upgrading Project* (NSUP), the first AIIB project co-financed with the *World Bank* and the first AIIB project in Indonesia. Indonesia is the AIIB's eighth largest shareholder and aspires to become the bank's largest borrower. The impacts of this project, and the AIIB's responsiveness to civil society input may set a benchmark for future high-impact AIIB projects.

AIIB – *World Bank* Indonesia *National Slum Upgrading Project*

In July 2016, as part of Indonesia's ambitious program to provide "100 percent access" to potable water and sanitation, and "0 percent slums" in urban areas, the AIIB and *World Bank* each approved loans of 216.5 million US Dollar to finance for a joint five year *National Slum Upgrading Project* (NSUP) in 154 of Indonesia's *Cities Without Slums* areas, using *World Bank Safeguards* for implementation.

In Indonesia, however, "slum"-related projects are often plagued with violence, land-grabbing, forced evictions, and the impoverishment of the evicted communities. Thus, the official designation of an urban village as a "slum" is feared and often understood by residents as a preliminary step to violent forced evictions.[1]

Resettlement poses economic and social risks to vulnerable urban populations, often with extraordinary impacts on women. In Indonesia's urban villages, women have a diverse array of multiple income streams and economic strategies including food stalls, kiosks, heavy labor, or shellfish harvesting (in coastal cities). Many women use their homes for a key portion of their income-generating activities and face particularly adverse consequences from evictions, including significant interruptions of home-based economic activities as well as heightened risk of gender-based violence during evictions.

According to civil society reports, the NSUP has been plagued with problems including:

Example of typical eviction, Jakarta, Indonesia-Bukit Duri Eviction (Image: ZUMA Press, Inc. / Alamy Stock Photo)

- **A failure to carry out meaningful public consultations** required by the AIIB and *World Bank*.
- **Landgrabbing, Threats, and Intimidation**. Local communities and Indonesian NGOs raising concerns about NSUP have received death threats and other forms of intimidation, with no response from AIIB or WB.
- **"Voluntary Land Donation".** Project documents claim that involuntary resettlement will not occur because the NSUP utilizes so-called "voluntary land donation", i. e. people living in areas designated as slums are expected to "voluntarily" give up their land and homes. This is not credible given the widespread use of armed forces including military, police, and armed thugs ("preman") for evictions in Indonesia's urban villages, the threats already reported against those raising concerns, and the insecurity of land tenure because the majority of the population (and the vast majority of the poor) does not have land certificates proving ownership.
- **Lack of use of gender-disaggregated data.** "Heads of households" (usually men) are commonly referenced in data collection, failing to account for the economic livelihoods of women, leading to their impoverishment if impacted or evicted. Loss of assets or livelihoods that are not documented will certainly not be compensated.
- **Miscategorization of Risk**: The NSUP project was initially rated as a high-risk, high-impact (Category A) project, i. e. likely to involve significant environmental and social impacts, significant resettlement impacts, and impacts on Indigenous Peoples. In 2016, prior to AIIB approval, the project was unexpectedly "downgraded" to a moderate impact (Category B) project, requiring far less environmental and social due diligence. Claims were made that involuntary resettlement would be avoided and so-called "voluntary land donations" by slum dwellers would occur instead.
- **Default to Indonesia's *Borrower System* without mandatory *Borrower System Assessment*.** It is well documented that Indonesia's "Borrower System" of laws and regulations as well as their implementation are significantly weaker than the requirements of the AIIB's *Environmental and Social Framework* and the safeguard requirements of other IFI's, including the *World Bank*. Indonesia does not require livelihood restoration for project-affected people, the *Environmental Impact Assessment* (EIA) does not require meaningful consultation and participation. Since 2015, objections to the land seizures for a development project must be made to the Governor, who has a maximum of **three working days** to respond to any objections. No response equates that the objection to landgrabbing is rejected. Obviously, a period

of three days is grotesquely inadequate to meaningfully assess an objection to a seizure of land.

Conclusion

It appears that the AIIB has failed to conduct the most basic due diligence in its decision to support this project. Given the violations of the AIIB Environmental and Social Framework as well as *World Bank Safeguards*, the NSUP must be **completely reviewed by the AIIB prior to any further disbursement or implementation**. Substantial new environmental and social due diligence is required, including re-categorization of the project back to the original Category A status, requiring full environmental and social assessment.

Civil society groups monitoring the project have made a number of demands including:

- **No evictions.** The dubious ***Voluntary Land Donation*** program calling for "slum"-dwellers to "donate" their lands and houses is not credible and must be discontinued. If the goal is to "upgrade" urban villages, forced resettlement, including that disguised as *Voluntary Land Donation*, must be eliminated from this project.
- **Meaningful public consultation** with full access to information.
- A **gender-differentiated baseline census of project-affected people, a gender-disaggregated analysis of the data and a gender-sensitive approach** to ensuring full participation and recognition of rights, including land rights, of women. Otherwise, this project is likely to lead to substantial impoverishment of women, as well as men, in 154 cities.
- ***Security Force Risk Assessment*** is needed to assess the risk of violence from armed parties including the military (TNI), police, satpol, and armed thugs (preman) and other security forces linked to the project. This is an **AIIB requirement**.
- There must be an explicit **legally-binding ban on the use of armed security forces and threats and violence against communities** with a legally binding clause that any such threats or use of violence against communities or civil society organizations will result in the **cancellation of the project**. This is particularly important given the threats made against civil society and affected communities to date in connection with this project.
- Attention to **corruption**.

This analysis is largely a summary of a report by ILRC, WALHI, ELSAM, Ecological Justice, TuK, INDIES, and Ulu Foundation, "The WB-AIIB Indonesia National 'Slum Upgrading' Project: Safeguard Violations and Weak Country Systems Analysis," 2017, as well as updates by the groups.

Article was edited by Stephanie G. Fried

Further readings

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Jakarta Post, Forced evictions getting harsher, March 17, 2016. http://www.thejakartapost.com/news/2016/03/17/forced-evictions-getting-harsher.html

Annotations

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The Effects of the New Silk Road on Xinjiang and its Citizens

Ramona Hägele, Linda Kramer

In recent years, the world has increasingly learned about environmental degradation in the People's Republic of China. These environmental issues, though partially a result of climate change, are mainly caused by China's growing economy. This environmental crisis, unmatched in its scope, caused Beijing to shift its domestic developmental policies into a "greener" direction.

The Chinese government aims to reduce CO_2 emissions by as much as 18 percent by 2020, compared to a joint 8 percent reduction of greenhouse gas emissions between 1990 and 2012 promised by the 15 members of the EU who signed the Kyoto Protocol. This is one of China's many bold strategies towards a greener future, alongside for example a new ban on deforesting natural woodlands in China's north-eastern provinces, and an updated *Chinese Environmental Protection Act*. Beijing further tried to underscore the importance of environmental protection in its pursuit of the *Belt and Road Initiative* (BRI) by using slogans such as, "lean, clean and green" (Jin Liqun, president of the *Asian Infrastructure Investment Bank,* AIIB).

Khunjerab_Pass is the highest paved border crossing in the world and the highest point on the Karakoram Highway-connecting Xinjiang and Pakistan (Image: Keith Tan, CC BY-NC-ND 2.0)

Xinjiang / China

Xinjiang becomes one of the core provinces for BRI

Xinjiang's city Khorgos at the border to Kazakhstan is of special relevance to the *Belt Road Initiative*. It is the most important transit hub for the economic corridor and consequently underwent great infrastructural changes in recent years. At the time of the historic Silk Road, a flourishing trade already existed here, as well as during the first years of the Mao era. Today, the border town reopens China's gate into the West. A few years ago, Khorgos gained the status of a municipal city and invested more than three billion US Dollar to boost tourism and expand the city as an international financial services, commercial, and logistics hub. Kazakhstan and China signed contracts to open the first inland harbour, "Khorgos – East Gate", which is the largest cargo-handling centre of the BRI. It covers 5,740 hectares, an industrial as well as an innovation park, several warehouses, a business centre, and China's first free trade zone.

Outsourcing pollution?

However, many environmentalists fear that Beijing's ambitions may only reach as far as its own national borders, and that China's new green policies will not travel along the *New Silk Road*. In fact, it is probable that polluting industries will be outsourced in a Western direction and towards the Eurasian continent. A group of international environmentalists analysed several official Chinese documents including the updated *Environmental Protection Law* and guidelines released by the Ministry of Environmental Protection, as well as statements from China's National Congress regarding the *Belt and Road Initiative*. They concluded that "a careful analysis of the existing documents and statements associated with this ambitious infrastructure development initiative shows very little consideration for *Strategic Environmental Assessment* (SEA), or *Environmental Impact Assessment* (EIA)."[1]

Xinjiang as core region of the New Silk Road

The Xinjiang Uyghur Autonomous Region in Northwest China is an example for an area directly affected by the BRI. The BRI and its proposed *China-Pakistan Economic Corridor* (CPEC) will include the construction of new roads, highways, a 1,800-km railway line, and a network of oil pipelines to connect Kashgar in Xinjiang to the port of Gwadar in southwest of Pakistan.

Xinjiang has experienced extensive environmental degradation in forms of deforestation, water shortages, desertification, degradation of grasslands, and the dwindling of many species of wildlife and vegetation. Furthermore, the lives of the people inhabiting those regions are dramatically affected by some of these environmental changes. Most of the people belong to the poorer social stratum of minorities, such as pastoralists and farmers whose daily livelihood depends entirely on their natural environment. Pressure on the ecosystem grows with an increased demand of resources for agricultural or industrial land use. Although China's air quality has improved overall, it is still deteriorating in Xinjiang. Especially in the capital Urumqi, people suffer from bad air pollution on over 50 percent of the days in a year.[2] A Greenpeace source found that six of China's ten most polluted cities are located in Xinjiang, possibly a result of polluting factories moving west, profiting from comparatively lax environmental policies.

This trend is likely not temporary. Due to increased investments in coal-fire plants in Xinjiang the air quality is likely to decline further.

Harmony or ongoing conflicts between Beijing and Xinjiang?

Such rapid transformations not only lead to environmental degradation but also reinforce the tensions between Beijing and the Uyghurs. It is important to note that Xinjiang is rich in natural resources, such as petroleum, natural gas, coal, uranium, and platinum. On the one hand, China attempts to appease potential conflict by introducing economic incentives in Xinjiang, which are supposed to also benefit local ethnic minorities. On the other hand, critics argue that Beijing exploits their resources for its own interest and that the Uyghurs will not benefit from the new income the BRI generates.

Beyond environmental pollution and exploitation, the BRI has led to severe changes in the Uyghurs' daily

Petro-Pump outside the Ghost City (Image: randomix, flickr CC BY-NC-ND 2.0)

and cultural life. This has further deepened the long standing conflict that is deeply rooted in history and that had intensified over time, culminating in the July 2009 Urumqi riots. Urbanization and modernization pose a danger to the culture, language, and traditional residential areas of the Uyghurs. There have even been attempts to sinicize the ethnic minority by prohibiting headscarves, beards, Ramadan, and the muezzin for prayer. These attempts led to unrest, riots, and attacks with numerous victims on both sides.

However, reports from Uyghur sources and the Chinese state media about the incidents and their victim counts are severely divergent. The Uyghurs are skeptical about the New Silk Road and the associated economic benefits. According to Ümit Hamit, Exile-Uyghur and Vice President of the *World Uyghur Congress*, about 70 percent of the Uyghurs in China are unemployed, 90 percent of whom are living below the subsistence level. The targeted settlement of Han Chinese in Xinjiang is also problematic. Over time the population of Han Chinese in Xinjiang has risen from 210,000 in 1949 to 20 million in 2009. Thus, the Uighurs have become a minority in their own land.[3]

Beijing's inclusive development policy for Xinjiang

In 2010, the Chinese government published its new development strategies, which included bilingual schooling in the region in order to prevent the discriminating against the Turk-speaking Uyghurs. Connor Malloy, an expert on the region, also sees other potential benefits for the Uyghurs: BRI and the increased transportation infrastructure into Xinjiang are aimed to increase the overall economic development in the region. Furthermore, BRI will give the people of Xinjiang an opportunity to build closer social and economic ties with neighbouring Central Asian countries.[4] If China implements BRI development strategies to ensure the Uyghurs' education, jobs, social security systems, and environmental livelihood, the conflict between Beijing and Xinjiang could calm down. China has shown that it can achieve remarkable progress when it comes to combatting climate change and tackling air pollution. More engagement is needed to ensure that the China's citizens in Xinjiang can also enjoy this progress.

Annotations

1 Tracy, Elena F.; Shvarts, Evgen; Simonov, Eugene; Babenko, Mikhail, 2017. China's new Eurasian ambitions: the environmental risks of the Silk Road Economic Belt. Eurasian Geography and Economics, Vol 58, p. 58

2 China Daily. 2016. Xinjiang city tops China's Q1 smog list. 19.4.2016. http://www.chinadaily.com.cn/china/2016–04/19/content_24646280.htm

3 Interview with Ümit Hamit, vice president of the World Uyghur Congress. 15.9.2016

4 Interview with Connor Malloy, expert of the region. 10.9.2016

China-Backed Hydropower Project Could Disturb a Sensitive Siberian Ecosystem

By Eugene Simonov[1]

Every Chinese person knows about one place in Siberia: Lake Baikal. It is not necessarily famous for its unique biodiversity or for being the deepest lake in the world. Rather, every winter, radio broadcasts warn Chinese listeners about "cold air masses moving in from Lake Baikal ...".

Lake Baikal contains 20 percent of the world's freshwater resources and affects the regional climate of North Asia and the Arctic Basin. The lake is home to 2.500 aquatic species and local communities in Mongolia and Russia revere the lake as the "Sacred Sea."

Chinese people are beginning to value Lake Baikal and are increasingly visiting as tourists. Some visitors are even investing in risky tourism business around the lake. However, the emerging interest of Chinese tourists in the Lake Baikal area may soon be severely damaged: *China Export-Import Bank* (China EXIM Bank) has pledged a soft loan to Mongolia for a project that may tip the fragile ecological balance of the ancient lake.

On November 11, 2015, Mongolia and China issued a joint statement that calls for the development of large industrial projects including major coal and hydropower plants. Mongolia already secured a one billion US Dollar loan from China EXIM Bank *for construction of the* Egiin Gol Hydro. A separate 100 million US Dollar concession for building access roads and bridges was awarded by the GoM to *China Gezhouba* and construction activities began during the harsh winter months of 2015.

These energy schemes are essential parts of China's *Belt and Road Initiative* (BRI) aimed at integrating the China with its neighbors. But in the spring of 2016, Chinese authorities intervened to suspend financing of the Egiin Gol hydropower dam project until due diligence of across country borders impact would conclude. This case highlights the lack of environmental

Dr.Shapkhaev hearings on dams near Baikal (Image: by BROB)

safeguards and green development guidelines under the BRI, which provides polluting state-owned companies that are no longer welcome at home in China with opportunities to invest in infrastructure, energy, and heavy industry in neighboring countries.

Dam damage

The hydropower dam project discussed in this article is located on the Eg River near its confluence with the Selenge River, the main source of Lake Baikal. Feasibility studies for the hydropower dam were completed ten years ago under the auspices of the *Asian Development Bank* (ADB) in an ill-directed attempt to help Mongolia utilize renewable energy. Although it is obvious that the electricity generation potential of the rapidly drying rivers of Mongolia is at least two thousand times smaller than that of its wind and sun power potential (hydropower potential is around 1 GW, while wind and sun economic potential exceeds 2500 GW), the *World Bank* followed the Chinese script. It conducted feasibility studies for several coal power projects and two

additional large dams in the Baikal Basin. One of them – the Shuren Hydro dam – is planned on the Selenge River itself.

Mongolian government agencies are looking at ten more hydropower dam locations on the Baikal Basin, justified by Mongolia's need to "de-carbonize" the energy sector and achieve energy independence from Russia.

Climate-stricken lake

The *International Union for Conservation of Nature* (IUCN) reported that the combined effects of the projects on Lake Baikal are not fully known and could potentially seriously damage its UNESCO World Heritage site status. The *World Heritage Committee* discussed the dams that could damage Lake Baikal at a meeting in Bonn, Germany, in July 2015. The committee set forth requirements for impact assessment of Egiin Gol and two more projects, as well as for cumulative impacts assessment of all three dams. The committee requested that Mongolia (and, by default, China) not approve any of the projects until all assessments for the three dams have been completed and reviewed by the *World Heritage Center*.

The ecosystem of the lake has already been severely damaged by the construction of the Irkutsk hydropower plant built upstream in Russia in 1960. This hydropower plant operation, along with prolonged drought in Mongolia, has led to a decline in the lake's water levels. Climate change and pollution together have created an ecological and socio-economic crisis on the shores of Lake Baikal with immense invasive algae blooms, a decline in fisheries, and an increase in severe peat fires in the Selenge River delta.

Weak standards

So how is it that China, a country that prioritizes a cleaner environment at home and that as a G20 leader is promoting "green development" globally, is making such a dangerous mistake and starting work on Egin Gol?

This mistake is a consequence of policy (or legal?) gaps present in the design of China's BRI, an initiative aimed at integrating the country with its neighbors and

Egiin gol (Image: Paul Robinson)

with global markets. The BRI lacks clear environmental safeguards and specific green development guidelines. There is no mechanism for consultation with stakeholders living along the Silk Road. Without guidelines and consultation mechanisms, Chinese investors lack information on the actual environmental and social risks to their investment projects – or they get it too late, as in above example when *Gezhouba* had to stop construction in spring 2016. Now Chinese side is likely to conduct due diligence on Egin Gol.

Most likely, Chinese agencies pursuing energy cooperation with Mongolia had not previously assessed the environmental effects of various investment options and therefore had not paid attention to trans-border water issues. In the spring of 2016, EXIM Bank received a letter from the people of Russia's Kabansk District in the Selenge River Delta and learned that the project it is supporting may harm Lake Baikal, the source of cold winter air in China (see info box).

An Avaaz petition gathered 64,000 signatures and proposed an alternate way forward by asking Mongolia, Russia, and China to support solar and wind instead of hydropower and coal. China, with its ambitions to develop a large-scale renewable energies industry, should listen to these voices.

Russian President asks for sustainable alternatives

A year after the Avaaz appeal to the three presidents of China, Mongolia, and Russia, we learned that at least one of them took to heart the message of the public petition. On June 23rd 2016, the three presidents gath-

Infobox

Baikal Lake: Hydro power project stopped by Chinese investors

Buryat Regional Union for Lake Baikal/Russian Social Ecological Union

In November 2015, the Egiin-Gol Hydropower Plant was named among the five largest projects of the Sino-Mongolian cooperation within the framework of the BRI. China allocated a 1 billion US Dollar soft loan to support its construction. Mongolia and China refused to implement the decisions of the UNESCO World Heritage Committee to undertake their assessments of the impacts on the Baikal World Heritage Site of all planned Mongolian hydroelectric power stations before approving any of these projects.

River without Boundaries Coalition and several other civil society actors have reminded the Chinese and Mongolian sponsors of the project to comply with international law. In February 2016, residents of the Kabansky district in the Republic of Buryatia have organized hearings on Hydro Power Plant (HPP) projects in the catchment area of the Lake Baikal and wrote to the Government of Mongolia, the China EximBank and a number of Chinese agencies asking them to fulfill obligations under the World Heritage Convention prohibiting damage to world heritage sites in other countries.

The Government of Mongolia ignored the campaign, but Chinese authorities froze the disbursement of the loan in April 2016, until the completion of all necessary assessments for which the participants of the campaign expressed their gratitude.

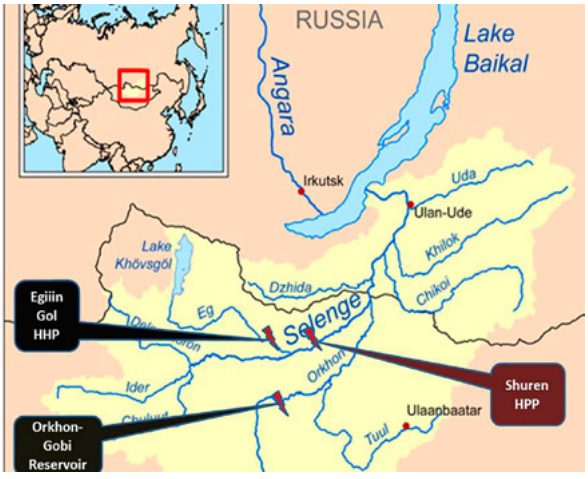
In May 2017, the Mongolia Cabinet of Ministers decided to use funds from the 2015 China Exim Bank loan for the construction of other Sino-Mongolian projects. Thus, the Egiin Gol Hydro is the first and so far the only precedent known to us where a BRI project was stopped by Chinese investors in connection with appeals from the local population about its social and environmental risks, in addition to Lake Baikal's status as a World Heritage site.

Unfortunately, the Mongolian government is still convinced that the project is necessary for achieving energy independence. On May 24, 2017 the Mongolia Foreign Affairs Minister announced that he expects to receive an additional 2 billion US Dollar in aid from China, though the purpose of the aid package has not yet been decided. On April 12, two days after a meeting between the representative of the China Gezhouba Group Ltd. with the director of the project unit Otgonsükh, the Government of Mongolia decided at a cabinet meeting to establish the state-owned Eg River Hydro Power Plant LLC, which is responsible for the preparation, construction, and utilization of the Eg River Hydro Power Plant.

In our estimate, China is unlikely to openly step back into hydropower construction until all impact assessments are submitted to relevant international agencies and committees.

The RwB Coalition believes that the Government of Mongolia should revise its 2015 Energy Policy and focus on the development of abundant renewable energy resources with less negative impacts on nature and local communities. Necessary maneuvering capacity for the national grid can be provided by pumped storage hydro, other storage technologies, or could be imported from existing facilities in Russia or China.

(Image: RwB)



ered at a *Shanghai Cooperation Organization (SCO)* meeting in Tashkent in Uzbekstan to sign on to the *Program to Establish the China-Mongolia-Russia Economic Corridor*, one of six corridors under China's *Belt and Road Initiative*. At the signing ceremony, Russian President Putin shared with his other two colleagues the following concern and proposal:

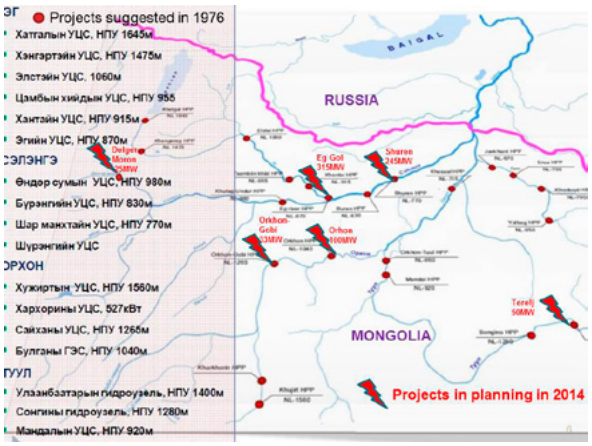
"I know that Mongolia plans to build hydroelectricity facilities in the Selenga River basin. We would like to study these plans very carefully with our friends in Mongolia and China. Russia and international environmental protection organizations have made their position

on these hydropower plans known: this project could create some risks for water supply to Russia's Irkutsk Region and affect the unique ecology of Lake Baikal, as Selenga is the main river flowing into Lake Baikal. We realize that Mongolia's energy shortage is a serious issue. Clearly, this is something we must reflect on and we need to resolve this issue. But there are different ways to resolve this problem, above all by developing the entire region's energy sector. For example, Russian power stations could increase electricity supplies to Mongolia's northern regions."[2]

On June 27th 2016, a delegation of the *World Bank* (WB) and *Mongolian Mining Infrastructure Investment Support* (MINIS) project officials arrived. After four years of unceasing appeals from *Rivers without Boundaries*, the WB MINIS project finally agreed to undertake consultations on *Regional Environmental Assessment* (REA) and *Environmental and Social Impact Assessment* (ESIA) plans for the proposed *Shuren Hydropower Project* on the Selenge River, and for the *Orkhon River Flow Regulation and Reservoir Project* in Russian Federation territory. Now that the *WB MINIS* project has decided to hold comprehensive consultations on terms of reference for REA and ESIA for two other planned dams in the Selenge Basin, Chinese agencies have a good chance to discuss and assess the Egiin Gol Hydro ESIA according to international standards of the *World Bank*.

2017 Postscriptum

In April 2017, the citizens of Kabansk sent a thank you letter to Chinese agencies and companies who stopped Egiin Gol Hydro construction thus have shown wisdom to avoid harm. In May 2017, the Mongolian Prime Minister participated in the *Belt and Road Forum* in Beijing and finalized many Sino-Mongolian cooperation agreements, but none of them related to hydropower. Official reports say that the Mongolia Cabinet of Ministers decided to reallocate funds from the 2015 China EXIM Bank loan for construction of an electricity transmission line from South Gobi to Ulaan Baatar and a bridge in the capital city of Ulaan Baatar.



(Image: RwB)

Selenge basin dams on map of all potential dams MW

Thus, the Egiin Gol Hydro is the first and so far the only precedent known to us when a project, declared within the framework of the BRI, was stopped by Chinese investors in connection with appeals from local population about its social and environmental risks. Of course, the status of Lake Baikal as a World Heritage Site has undoubtedly contributed to the decision not to proceed with dam construction. It is important that major investment projects and schemes of the BRI are subject to early strategic environmental assessments, which allows avoiding incidents similar to those that occurred with the financing of the Egiin Gol hydropower plant. Unfortunately, the government of Mongolia still insists that construction of large hydro power plants is the best path to achieve energy independence, while the development of Chinese-style energy-coal bases is the quickest way to become energy exporters. But that is a different story.

Annotations

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Further readings

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BRI Investment in Arctic Natural Gas is Locking Russia in Hydrocarbon Development Mode

Rivers without Boundaries

The *Yamal LNG* project at the Ob river is the single largest Chinese investment in Russia as part of the *Belt and Road Initiative* that sets the pattern of environmental and social responsibility. The Ob River is one of the largest river ecosystems on Earth. It spans most of Western Siberia in Russia as well as parts of Kazakhstan, China, and Mongolia.

In late of 2016, *Rivers without Boundaries Coalition*, *Ecodelo Alliance*, and *Biodiversity Conservation Center* sent detailed inquiries to the Chinese investors of the *Yamal LNG* project at the mouth of the great Russian Ob River. Over the past three years, massive investments by *China Development Bank*, *China Export Import Bank* and the *Silk Road Fund* saved this project from being frozen in the midst of sanctions. Therefore, these financial institutions share the responsibility for mitigating its impacts on the fragile Arctic nature and indigenous people.

Yamal LNG is an integrated project encompassing natural gas production, liquefaction, and shipping. The project is based on the Yamal Peninsula, above the Arctic Circle, and utilizes the resources of the South Tambey Field. The LNG Plant will be built in three phases which are scheduled for start-up in 2017, 2018, and 2019, respectively. The project will be producing 16.5 million tons per anno liquefied natural gas and up to 1.2 million tons per anno gas condensate, which will be shipped to Asia-Pacific and European markets.

The construction of multifunctional *Port of Sabetta* as part of the scope of the *Yamal LNG* project has been a public-private undertaking built by Russia's federal state unitary enterprise *Rosmoport,* and *Yamal LNG* facilities include jetties for liquefied natural gas and gas condensate offloading, material off-loading facilities, harbor fleet berths, warehousing facilities, administrative buildings and utilities.

After studying the *Environmental and Social Impact Assessment* (ESIA), our experts concluded that the current ESIA does not provide sufficient information, analysis, or a comprehensive management plan for addressing the project's significant impacts on biodiversity, fishing, and indigenous peoples. On November 11, 2016, Russian and international civil society groups sent letters to the *China Development Bank* (CDB), *China EXIM Bank*, and *Silk Road Fund* regarding these concerns. The letters requested Chinese lenders to encourage "strong environmental and social compliance from Yamal LNG" by applying international standards for the project.

The letter states, "We believe that the additional application of international standards for this project will help reduce or mitigate avoidable environmental and social impacts, some of which may cause irreparable harm to the fragile Arctic ecosystem and indigenous communities if left unaddressed." It adds, "We believe this project can demonstrate how Russian and Chinese organizations can positively partner together." Disappointingly, Chinese lenders did not reply, and correspondence notifying the *China Banking Regulatory Commission* of these concerns were returned to sender.

The *Yamal LNG* case demonstrates that the adoption of international standards by China's policy banks does not guarantee compliance. The *Rivers without Boundaries* coalition still hopes to receive a response from Chinese investors.

Originally published: *Chinese Banks keep silence about Unaddressed Environmental and Social Risks of the Yamal LNG project*. Rivers without Boundaries, February 2017, 11. http://www.transrivers.org/2017/1860/

Conservationists advise Hanergy Solar Firm to Stop Threatening Free Flowing Rivers

Eugene Simonov

As the *Hong Kong Stock Exchange Securities and Futures Commission (HKSE SFC)* seeks court orders against the directors of Hanergy Thin Film Solar Power Group Limited, company owners admit their own wrongdoing and negligence, but hint that they were wrongdoing for a just cause: "Green Development" and "Clean Energy". But he Hanergy Holdings recently became the major driving force behind one of the most environmentally destructive projects one can imagine.

Mongolian Family Uses Solar Energy to Power Home (United Nations, CC BY-NC-ND 2.0)

The evidence of bad intentions could be found far away, 3000 kilometers north of Hong Kong, where the Amur River (Heilongjiang in Chinese) catchment area covers 2.1 million km2. Here Russian-Chinese border goes along the rivers for 3,500 km. The Amur River Basin has been identified as one of the world's 200 most valuable wilderness places and has a tremendous freshwater ecosystem biodiversity; according to international classifications it has six different freshwater eco-regions, whereas another nearby system its size, the Yangtze River Basin, has only two. There are at least 6000 species of vascular plants, 130 fish species, at least 600 bird species, about 200 mammal species. Among fish there are at least 10 migratory salmonids, as well as three species of sturgeon. 25 tribes of indigenous people (Hezhe-Nanai, Orochon, Udege, Ulchi, etc.) depend on fisheries for their livelihoods.

A year ago Hanergy Co. approached the Russian Ministry for Development of the Far East with a proposal to build a transboundary dam on Amur Taipinggou site, as "a vital step in implementing the Belt and Road Initiative". With the help of this proposal the Hanergy Holdings, likely, was trying to take advantage of BRI policies and raise its own profile after recent 2015 failure at the HKSE. In conjunction with that the Hegang City of Heilongjiang Province plagued by a crisis in its major coal enterprises, and likely seeking to develop alternative industries, proposed to the adjacent Jewish Autonomous Province in Russia a joint construction of Khingansky-Taipinggou Dam.

The Russian Ministry of Natural resources and Environment and the Jewish Autonomous Province Administration replied back to Hanergy that the project is too controversial to be considered seriously. However the project was supported by the Russian Ministry for Development of the Far East, an agency infamous for lack of public oversight, whose development program was recognized as the least efficient from among all national economic programs in Russia. This Ministry is patronized by influential Russian vice-premier Yury Trutnev, the Plenipotentiary Representative of the President Putin in the Far East and the Chairman of the Board for the RusHydro State Company. On June 24 2016 this statesman visited the headquarters of Hanergy Holding Co., where, after an inescapable ceremonial ride in the solar automobile, he proceeded to

talk business with the hosts. According to Hanergy's website Mr.Trutnev thanked Hanergy for their efforts in environmental protection and then promised to support their proposal of the Amur River dam.

Since hydropower development is one of the most controversial topics in Russia, it is unclear how Mr. Trutnev and Hanergy are going to avoid massive protests. Just recently in 2012 a wave of protests in five provinces led to the cancellation of a comparatively less damaging proposal by China Three Gorges and En+Group to build a dam on the Amur's main source -Shilka River. A subsequent basin-wide assessment of hydropower jointly undertaken by En+ and WWF has shown that Khingansky-Taipinggou Hydro is the champion in terms of negative impacts among 50 potential dam sites considered.

Meanwhile, a "green" reputation is the major asset Hanergy Co still has. At the present is being investigated by HKSE for alleged building of a financial pyramid, it is being sought by many creditors for not being able to pay its debts on time, it loses markets because its solar thin film is less competitive than originally expected. But it is still widely known to the public as the Pioneer of Green Solar Energy and this gives the greatest credibility to the company and its founder and owner Li Hejun.

The biological diversity of Amur river are so well known, globally significant and irreplaceable, that as soon as the company goes public with a doubtful plan to finish off the largest free-flowing river ecosystem of North Asia, its green image may evaporate overnight. And if one considers that since 2010 Hanergy also holds rights to the Kunlong Hydro site in Myanmar on Salween River, which under the name Nujiang became an icon of river conservation in mainland China, the imminent demise of the Hanergy's "green reputation" seems inevitable.

On May 31 2017 the Rivers without Boundaries International Coalition, that unites activists and NGOs protecting rivers in Eurasia, issued an appeal to Hanergy. It expresses hope that the "Hanergy from now on intends to rebuild itself as a company with high standards of social corporate responsibility and pursue sustainable development. Therefore its leaders should publicly dismiss any involvement in destructive dam projects on Amur and Salween rivers. Otherwise, the Hanergy Co. risks losing its image of a "green company"".[1]

The appeal points out that the proposals to build giant dams contribute to a sense of insecurity among local populations, preventing people from actively pursuing sustainable development in river valleys. Besides, in the case of Myanmar the attempts of various companies to dam the Salween River also fuel armed conflicts and military atrocities against the local ethnic population.

The RwB also urges the HKSE regulators to pay attention to the high likelihood of "connected transactions" linking listed company with the hydropower assets of the Hanergy Holdings: "Pursuing unsustainable large hydropower projects on transboundary rivers may present significant economic and reputational risks for the holding company and subsequently to its listed subsidiary".[2] The information on hydropower projects of Hanergy Holdings should be reflected in the disclosure document that the company was required to submit the to the Board of the SFC.

The "green" solar firm Hanergy "going out" with destructive large infrastructure projects is an example of a controversy imbedded in the current design of Beijing's *Belt and Road Initiative* that pushes abroad "excessive industrial capacity" of domestic firms. Various companies and local governments are using new political slogans to legitimise extremely questionable megaprojects with the hope to get funding from finance mechanisms under the new Initiative. We are yet to see whether the new *Guiding Principles of Green Belt and Road* issued a month ago by China Government can help to keep check on such harmful projects.

Annotations

1 Rivers without Boundaries, 31.03.2017, The RwB Appeal to Hanergy Co. to Cancel Hydropower Projects Threatening Free-flowing Rivers of China, Russia and Myanmar!, http://www.transrivers.org/2017/1925/

2 Ibid.

Infobox

NGO OT Watch (Oyu Tolgoi Watch)

Beyond the government level, civil society can also play a role in monitoring Chinese investments. In Mongolia, an initial framework for doing so exists from years of contending with foreign mining companies. The NGO OT Watch, which monitors the compliance of the Oyu Tolgoi mine, is a prominent civil society actor in monitoring International Financial Institutions (IFIs)-funded mining projects. Herders in the Gobi Altai mountains are facing pollution and displacement by Altain Khuder's Tayan Nuur iron ore mine. The company has responded to criticism by dragging community members to court on trumped up charges. Interrogation of every household, with the demand for them to be in court on December 31, 2016, which is located 1,300 km away from their homes are forms of harassment used by AK. Its financier, the European Bank for Reconstruction and Development (EBRD), is not doing enough to protect herders' rights.

The Altain Khuder complaint, which was raised in January 2015, was closed in 2017 by the EBRD Project Complaint Mechanism (PCM). The key issue there was that EBRD could not succeed in making the company fix all of the problems. On their website it reads in the Compliance Review: "First, the project was operational prior to EBRD financing, and hence what was required was a detailed review of the environmental and social impact assessments of the mining operations. Second, owing to a situation beyond the scope of this report, communications between EBRD and the client broke down in mid-2013, which has now led to legal proceedings, thereby making it impossible for EBRD to continue monitoring progress of implementation of the commitments agreed by the Client with EBRD on environmental and social issues associated with the Project. This report considers that EBRD has largely complied with the 2008 Environmental and Social Policy. Non-compliance has been in the areas of effective communication to the affected communities of potential impacts and stakeholder consultation documentation, grievance redress and project monitoring, owing to unforeseen circumstances."

The NGO alliance answered: "[Re: Complainants' response to Management Action Plan in the Case of ALTAIN KHUDER:] In cases where there is a breakdown of communication with the client, it is not sufficient to respond to stakeholder questions only when contacted, as described in Management Action 1. It is incumbent on the EBRD to, at a minimum, communicate with affected communities so that they understand that EBRD can no longer ensure that the PRs will be met. The status on the EBRD website should be changed accordingly. We would also suggest that EBRD commission an exit assessment in the current case to determine whether there are impacts that remain unaddressed. In particular, EBRD should commission a post-resettlement survey, which should have been completed by the client prior to the breakdown in communications. Should the survey find that there are households that are worse off, the EBRD should develop and fund a livelihood restoration programme." A breakdown in relations with the borrower and litigation also suggests that the due diligence, especially impact assessment, was flawed as established at the time by Environmental Resource management and therefore EBRD should be responsible for fixing the problem continuing to date," said Sukhgerel Dugersuren, Executive Director, OT Watch.

The Environmental Resource Management (ERM) review report states: "The EIAs do not meet EBRDs Performance Requirements with respect to:

- Ecological impact assessment;
- Disclosure of project information and consultation is not documented;
- Assessment of the impacts of the project's water use and measures to minimise water use.
- Social impact assessment."

Sukhurel Dugersuren

Further reading

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China's Role in Turkey's Energy Future

Temptation to invest in Turkey's coal sector will test President Xi's commitment to climate leadership

Arif Cem Gündoğan, Dr Ethemcan Turhan

China may be halting construction of coal-fired power at home but abroad it's still investing in coal, even as it pushes aggressively into renewable energy markets. In the years ahead, the kind of investments China makes in Turkey will prove an important test of its emerging leadership on energy and climate.

China has strengthened its bilateral relationship with Turkey in recent years. Chinese wind power companies MingYang and Goldwind were among eight international consortia that took part in a tender for a one gigawatt wind project in July, organised by the Turkish Ministry of Energy and Natural Resources.

Despite Turkey's on-going national state of emergency and political instability following a coup attempt in July 2016, companies, including those from China, have not been put off bidding for a stake in Turkey's future energy infrastructure. Securing overseas energy contracts is now a top priority for President Erdoğan's government, which hopes to mend Turkey's budget deficit by reducing dependence on energy imports. To do this it wants to fully utilise domestic energy resources such as wind and solar, but also coal.

The announcement of the winning tender in Istanbul, by Siemens and the Turkish conglomerates Türkerler and Kalyon, was followed by extreme rainfall. Although the downpour came just ten days after another extreme precipitation event, city officials and residents were caught off-guard. The high wind speeds toppled a crane at the Haydarpaşa port, which crashed into an oil tanker resulting in a fire and explosion.

The accident was a reminder that extreme weather events are expected to become more intense and frequent globally, marking a "new normal" in Turkey. As climate change is caused by burning carbon, China can either adversely contribute to this pattern by investing in coal power or use its energy investments to steer the country in a more sustainable direction.

Actions speak louder than words

In early July, the much-acclaimed Paris Agreement appeared to pass the "Trump stress test" when 19 of the 20 G20 members (including Turkey and China) endorsed the *Hamburg Climate and Energy Action Plan for Growth*, a joint strategy to pursue climate goals set out in the *Paris Agreement*. But away from the high-level meetings, the Turkish government's actions on climate and energy were telling.

During a press meeting following the G20, President Erdoğan made it clear that Turkey would not ratify the Paris Agreement until its demands on technology transfers and access to climate finance were met.

On July 9, the day after the G20 summit closed, Erdoğan addressed the leaders of the global oil industry at the 22nd World Petroleum Congress held in Istanbul. This major event was also accompanied by extreme weather in Turkey, in this case a heatwave. In his speech to the oil industry leaders, Erdoğan stated that demand for global energy is expected to double by 2050 and that Turkey's primary objective is to fully tap into domestic energy sources, including its low quality coal reserves, while continuing to import fossil fuels. Chinese investment is key to making this happen.

Closer ties

Since assuming his position in late 2015, Turkish Minister of Energy and Natural Resources and Erdoğan's son-

in-law, Berat Albayrak, has paid several visits to China to push for greater energy investment in Turkey. In March 2016, Albayrak and the head of China's National Energy Administration, Nur Bekri, met to discuss new cooperation opportunities in energy. During this visit, Albayrak also met with some of China's coal industry giants. The recent newsletter of the Turkish Exporters Assembly suggests that Turkey "aims to establish a proper legal infrastructure, lift all trade barriers, [and] develop an effective cooperation in the field of customs and standards" with China.

The interest is mutual. Chinese firms are keen to participate in the Turkish energy market, particularly following the country's long-awaited *Centres of Attraction Programme*, announced in a state-of-emergency decree in November 2016. The programme seeks to incentivise new investments through interest-free credit and low-interest working capital loans, and covers 23 provinces in the eastern and south-eastern Anatolian regions that face regional economic disparities. So far, 53 Chinese companies – 39 of which are new players in the Turkish market – have applied to the Ministry of Development for permits to take part.

Closer engagement on energy

Despite occasional setbacks, Turkey and China have undoubtedly been developing closer economic ties. Several bilateral agreements were signed between 2010–2012, helping trade to grow, although largely in China's favour. The number of high-level visits and business delegations has increased accordingly.

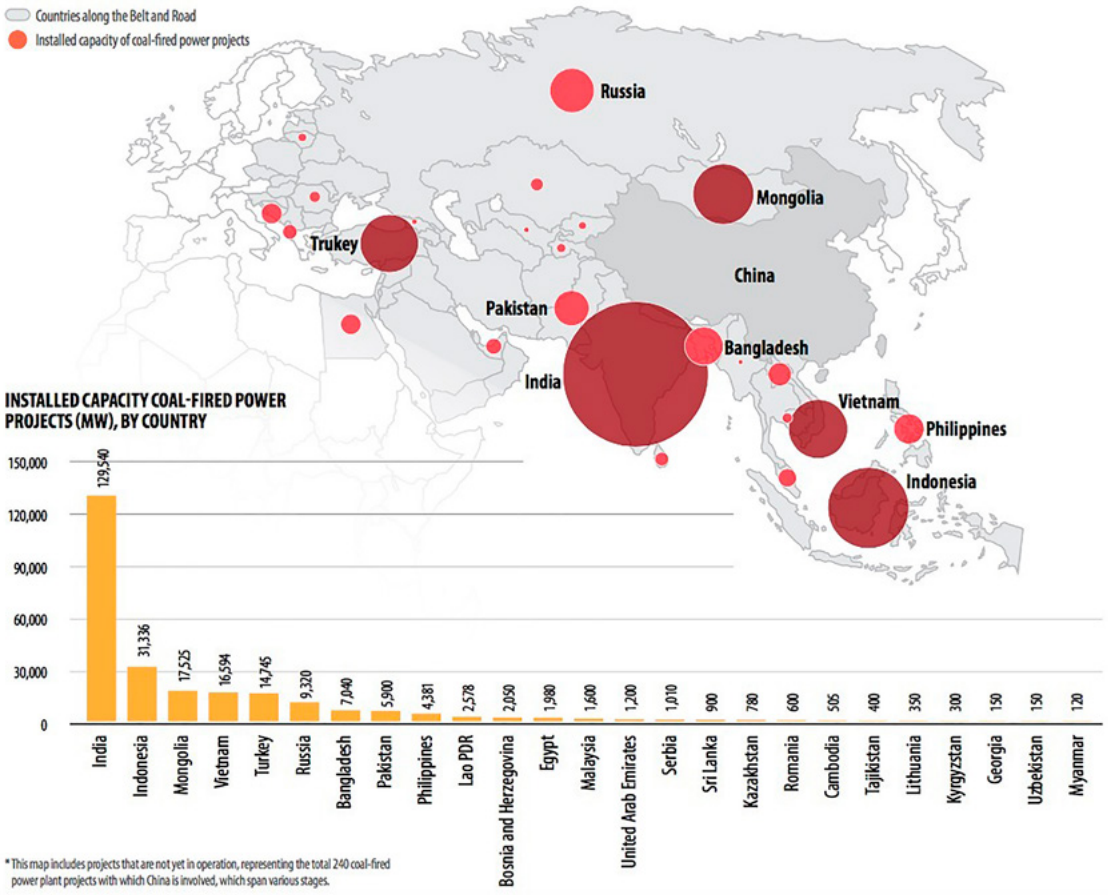
In 2015, Turkey's total exports to China were 2.4 billion US Dollar (15.8 billion yuan) just a tenth of China's exports to Turkey, which totalled 24.9 billion US Dollar (164 billion yuan). Erdoğan has referred to this uneven trade balance, underlining his desire to see further direct Chinese investments. Turkey and China's successive G20 presidencies in 2015 and 2016 also helped redress the balance, and today China is Turkey's second largest trade partner globally after Germany, and principal trade partner in East Asia.

Turkey wants to attract energy investment quickly and China is looking to shift excess capital and production capacity, particularly in the power sector and as part of its *Belt and Road Initiative* (BRI). Erdoğan's personal visits to China in 2015 and 2017 have stimulated action, and followed a number of deals signed in 2012. One of these included Hattat Holding and China's AVIC International signing an agreement worth 1.5 billion US Dollar (10 billion yuan) for the construction of a coal-fired power station in the Amasra region, a key site of popular dissent against coal projects. Another involved Ağaoğlu construction group, which is known for its close ties with the Turkish government, reaching an agreement with China's wind turbine maker Sinovel for a 600-megawatt installation, valued at 1 billion US Dollar (6.6 billion yuan).

Open for business: President Erdoğan addresses the 22nd World Petroleum Congress in Istanbul on July 9, 2017 (Image: Presidency of the Republic of Turkey)

Both the former energy minister Taner Yıldız, and current minister, Berat Albayrak have made deals on energy investment and technical cooperation, particularly in areas of nuclear and thermal power generation. During one of his recent visits, minister Albayrak stated that Turkey needed to expand installed power capacity by at least 50 gigawatts over the next decade, which would require an investment of 100 billion US Dollar (659 billion yuan).

These efforts were crowned by new deals on nuclear cooperation and an agreement of exclusivity with the Chinese State Nuclear Power Technology Corporation (SNPTC) for construction of a third nuclear plant in Turkey with an installed capacity of five gigawatts. Additionally, Turkish and Chinese companies signed new commercial deals on coal mining, hydropower projects and high-speed railway lines, bringing Chinese foreign



Coal fired power plant projects with Chinese involvement in BRI-partner countries. Source: GEI, 2017

direct investment (FDI) in Turkey to 642.3 million US Dollar (4.2 billion yuan) in 2016.

Turkey's push to maximise use of domestic coal undermines its ability to reduce carbon emissions. Furthermore, the country's commitment under the *Paris Climate Agreement* does not include a target to reduce absolute emissions or even to peak them around the 2030s. Indeed, Turkey's emissions may double by 2030 compared with 2012. This has led *Climate Action Tracker*, an independent research group, to rate Turkey's plans as "inadequate".

China's coal investments in Turkey

The early ratification of the *Paris Agreement* has put coal – the single most polluting energy source – firmly on the global energy agenda. Limiting export credits and ceasing public finance for coal-fired power generation are key issues for multilateral and international financing institutions.

One recent study found that China accounted for 40 percent of public financing for coal projects between 2007–2013 and is likely to compensate for international public finance cuts on coal by OECD members. China channels vast amounts of public finance to overseas coal investments, particularly through the *China Development Bank, Export-Import Bank of China*, and SINOSURE. These resources also prop-up China's state-owned thermal power sector giants such as *Harbin Electric*, *Dongfang Electric*, and *Shanghai Electric*.

China's trade surplus, excess production capacity and social-environmental pressures pushed the country to restructure its economy and the energy system. China's "going-out" strategy adopted in 2001 encouraged Chinese FDI to reach 118 billion US Dollar in 2015. According to a recent study, introduction of the BRI in 2013 significantly shifted public finance flows towards BRI-partner countries.

It is striking that in 2015 alone, the amount of new foreign construction project contracts signed between China and BRI countries reached a record high of

92.6 billion US Dollar (610 billion yuan). Energy projects, particularly coal-fired power plants have been the main focus. According to another study, by the end of 2016, China was involved in 240 coal-fired power projects in 25 of the 65 BRI countries, with a total installed capacity of 251 gigawatts.

Foreign direct investment to the Turkish power sector has been rising for more than a decade due to favourable economic conditions and political support. In fact, for many developing countries like Turkey, Chinese coal financing terms offer significant cost advantages over the large multilateral development banks and international financial institutions.

However, tracking Chinese financing in Turkey's coal projects is challenging because most Chinese institutions do not reveal such information openly. Lack of democratic accountability looms large in many energy projects with bilateral financing.

Still, there are exceptions. Hunutlu coal-fired power plant is one such case. Located in the city of Adana, southern Turkey, it received construction permission in 2015. The *funder Emba Elektrik Üretim AŞ* is a Turkish-Chinese joint venture of *Shanghai Electric Power Co Ltd*, *Avic-International Project Engineering Company*, and four undisclosed Turkish investors. While *Shanghai Electric Power* holds 50.01 percent of the shares, *AVIC-International* holds 2.99 percent, with the Turkish investors accounting for the remaining 47 percent.

A key concern is how this bilateral deal is being used to bypass stringent social and environmental assessments, which have proven to be grounds for opposition to other similar projects. The Turkish government has been keen on using intergovernmental agreements (such as in the case of the *Akkuyu Nuclear Power Plant Agreement* with Russia) instead of trade deals that are easily terminable. This casts the deals in stone because Turkey ceases its territorial sovereignty for a certain time period meaning that environmental legislation is not fully and transparently enforceable.

Outlook

Chinese companies have announced intentions to build or operate at least 92 new coal-fired power plants across 27 countries, including three in Turkey at Amasra, Adana Hunutlu and Konya Ilgın. The majority of these power plants (58 percent) use sub-critical technology, meaning they are less efficient.

So while China is halting new coal plant projects at home, envisaging peak emissions and boosting renewable-based power generation, it is continuing to shift environmental costs and maintain the economic benefits of pursuing aggressive overseas coal investment, with Chinese companies in BRI countries backed by state finance.

Although China is leading the world in solar energy deployment, generous Chinese public finance for fossil-fuel driven energy projects may add fuel to the fire of authoritarian developmentalism in countries like Turkey.

Turkey's rapidly changing foreign policy means it is likely to become increasingly reliant on Chinese energy financing, including for additional coal investments. Furthermore, as Turkey faces major roadblocks in the European Union accession process resulting from the deterioration of democracy and rule of law in the country, the pressure on Turkish companies to act in accordance with stringent environmental and social policies is likely to diminish.

Public debate over linkages between climate and energy is returning to the centre of political attention. There is a parallel between the dissent in China caused by poor air quality and the threat to livelihoods and people's health in Turkey arising from polluting energy and mining projects.

There is great potential for China to demonstrate its climate leadership by steering Turkey in the direction of a clean energy system through its investments. The question is whether China will ignore its coal interests and encourage Turkey to pursue options beyond fossil fuels that are needed to secure a just and low carbon future.

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China is Driving a Boom in Brazilian Mining, but at What Cost?

Giant iron ore mine in Brazilian Amazonian state of Pará is having big impacts on local ecology

Milton Leal

Economic ties with China have led to enormous jobs growth in Brazil but overreliance on raw materials has created a trade imbalance between the two countries. Mining is also having serious impacts on the environment and local communities.

In the middle of northern Brazil's Amazon jungle, Chinese-made digging equipment rasps at the bottom of a giant iron ore mine. Here in the municipality of Canaã dos Carajás in the Serra dos Carajás in Brazil's Pará state, some 1,600 miles northwest of Rio de Janeiro, Chinese engineers keep watch over a fleet of stackers, reclaimers, and other large-scale equipment in the adjacent ore processing plant that will eventually produce 90 million tonnes of the metal annually.

A train with 330 cars (mostly made in China) waits to be loaded up before traveling approximately 600 miles to a cargo ship (also made in China) that will sail for 40 days from the port of Ponta da Madeira in São Luís in the neighbouring state of Maranhão, delivering 400,000 tonnes of iron ore to Chinese ports such as Dalian, Caofeidian, Rizhao, and Qingdao. Once there, Chinese factories will transform it into cranes, drilling equipment, and smartphones, many of which will then travel back to Brazil to be used in its construction, energy, and retail sectors.

Economic ties with China have provided Brazil with a surge in jobs, profit for mega-mining companies such as the world's largest iron ore producer, Vale, its shareholders, and service providers, and a positive trade balance with its main trading partner. But as with many countries in Latin America, the overwhelming majority of China's trade with Brazil has focused on raw materials. This is despite Chinese President Xi Jinping promoting a broader "1+3+6" cooperation framework for the region, as outlined at the 2014 BRICS Summit in Fortaleza and Brasilia, Brazil. The "1" relates to China's cooperation agreement with the Community of Latin American and Caribbean States (CELAC), a 33-member Western hemispheric bloc that excludes the US and Canada, which was ratified at the inaugural China-CELAC summit in Beijing in 2015. It identifies three "engines of development" (trade, finance, and financial cooperation) and highlights six priority industrial sectors: energy and resources, infrastructure, agriculture, manufacturing, science and technology, and information technology.

This concentration of trade in raw materials has demonstrated the low resilience in the face of recent commodity price shocks of Latin American partners such as Brazil, but also Venezuela, Argentina, and Ecuador, and the drive to export more iron ore, copper, soybeans, and oil to make up the shortfall that has led these economies to slip down the value chain. China recognises this is a big problem. The most recent policy paper on Latin America from China's Ministry of Foreign Affairs, which President Xi launched at the APEC summit in Lima in November, stressed the need to work on production capacity development, or industrial upgrading, with Latin American partners. However, operations such as the S11D mine in Canaã dos Carajás which serve the Chinese market continue to massively outweigh other new projects in value-added or manufacturing sectors.

Large-scale iron ore mining has drawbacks for the environment and rural communities, too: enormous holes in Amazonian soil that will never fully close, silted and contaminated rivers, destroyed caves and natural ponds, the impending disappearance of *Monogereion carajensis Parapiqueria cavalcantei*, *Ipomoea cavalcantei*, and other endemic fauna from the area, and agrarian conflict. Furthermore, in a bid to increase economic output, the Brazilian government is rolling back

A view of S11D mine surrounded by Carajás National Forest, in Canaã dos Carajás, Brazil, February 2, 2017 (Image: Milton Leal/Diálogo Chino/ChinaFile)

laws protecting biodiversity and indigenous peoples from big extractive and infrastructure projects. Earlier this year, Brazil's federal government cut the size of a conservation unit in Pará by 1.2 million ha in order to allow a railway to be constructed and to open up new possibilities for mining operations. The government's far-reaching but unpopular austerity programme also includes slashing the federal budget for environmental protection by 43 percent. Alfredo Sirkis, the Executive Secretary of the *Brazilian Forum on Climate Change*, recently told think-tank *Observatório do Clima* (Climate Observatory) that cuts would profoundly impact deforestation and, consequently, Brazil's ability to meet climate targets made under the *Paris Agreement* on climate change.

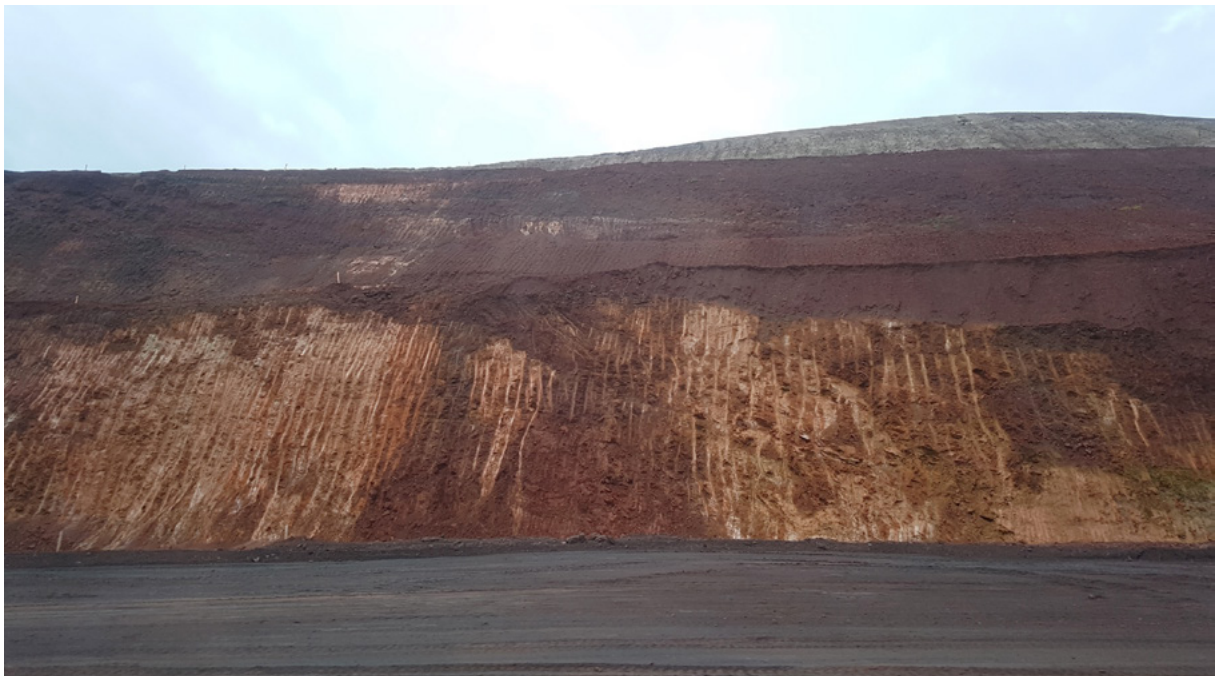
Pará: Feeding China's iron ore demand

At the end of December 2016, Brazilian mining company Vale's 14.3 billion US Dollar S11D project, the largest open-pit iron mine on the planet, began operation. Construction required 244,000 tonnes of concrete, some four times more concrete than Rio's new Maracanã football (soccer) stadium. The giant project was primarily set up to cater to Chinese demand and includes a railway extension and the expansion of Ponta da Madeira port. Chinese equipment accounts for about 80 percent of all machinery used in the project, *Diálogo Chino* learned when visiting the site in January. Vale declined to disclose the names of buyers when asked via email, but the company's main clients are Chinese, according to the company's latest quarterly results. In 2016, 57.6 percent of all sales from Vale went to Chinese customers.

According to Leonardo Neves, Vale's senior leader for the environment, socioeconomics, and land ownership management for the S11D project, Vale representatives travelled to China to seek partners for the project, which was conceived in 2003.

Pará depends on China for around 35 percent of its total exports. Of its exports to China, iron ore extracted from within the state's borders – an area around five times the size of the UK – accounts for 80 percent. The increased production at S11D – Vale expects to export 90 million tonnes by 2020 – will make Pará the biggest iron ore-producing state in Brazil.

The S11D mine is located in an ecosystem called a *canga* or metallophile savannah, tropical forest that sits on a consolidated rock formation consisting mostly



A deforested area near an access road to the S11D mine, in Canaã dos Carajás, Brazil, February 2, 2017 (image: Milton Leal for ChinaFile/Diálogo Chino)

of iron. But these rich metal deposits form the basis of an ecosystem that is also very vulnerable.

"An ecosystem of this type in the middle of the forest creates an evolutionary situation conducive to the emergence of endemic species, caves, and lagoons, which need to be preserved," explains Frederico Martins, head of the Carajás National Forest where the project is located. "At least 40 botanical species are only found in this place. If mining takes place across the savannah, we are going to eliminate an entire ecosystem," adds Martins, who is also an environmental analyst for the Chico Mendes Institute for Biodiversity Conservation (ICMBIO), the federal agency responsible for environmental monitoring of the area.

The establishment of the S11D project has already irreversibly destroyed 44 caves, according to Martins, as well as cleared approximately 2,500 ha of native vegetation, which have been subsumed into the open pit. To compensate for this damage, ICMBIO negotiated with Vale the creation of a new conservation unit called the Campos Ferruginosos National Park on land the company is in the process of acquiring for the park. Within the new park, Vale is obligated to protect twice the number of caves impacted by S11D.

According to Martins, Vale contributes around 4 million US Dollar per year to help ICMBIO employ around 100 forest rangers, who protect against mining incursions into protected areas. Neves says: "Since the creation of these units, Vale has worked on protecting forests against illegal deforestation and gold-mining."

The operating license for S11D, which was granted by the federal agency the Brazilian Institute of the Environment and Renewable Natural Resources (IBAMA) after ICMBIO and Vale reached the agreement on forest protection, also requires the company to stay at least 500 meters away from two perennial high-altitude lakes, Violão and Amendoim, which are located next to the mine. Other projects belonging to the company, such as mines located in the mountains in the north of the Carajás chain known as the N4 and N5, have destroyed similar lakes, says Martins, who adds that ICMBIO is still unclear on how these two lakes will be preserved but will intensely monitor the operational phase of the project.

The establishment of the new Carajás park also requires Vale to negotiate with landowners and settlers who occupy areas that will fall within its boundaries, and these negotiations take place against a backdrop of competing claims over the legality of land tenure,

frequent police evictions, and farmers' resettling on contested land.

Farmer José Raimundo Garcez Anjos has been fighting in court to prove that Vale bought land illegally from farmers who had received land titles from INCRA (the Brazilian agency responsible for agrarian reform) after around 400 families were removed from the area by riot police and national security forces in February 2016.

"There's land ownership chaos in the Amazon, nobody knows who owns what land. That's a big problem that we need to solve," says José Benatti, Director of the Law Department of Federal University of Pará and a specialist in land conflict. "The companies might not be violent themselves, but they create a pressure on the land market that makes the one who owns a land title sell it." Benatti explains that third-party buyers often come with threats in order to acquire titles, which they then sell to big companies.

"We had been growing rice, beans, [and] cassava for at least nine months. Then Vale sent an injunction telling us to leave within 24 hours. We lost everything," Garcez Anjos claims. In other places, like Vila Mozartinópolis, in the same Canaã dos Carajás municipality, Vale successfully negotiated with landowners and rural workers. Approximately 50 families living in small houses in the village received five *alqueires* (a measure of an area of productive land, in this case 13.6 ha) with a home connected to water and electricity in a new settlement.

Social and economic impacts

Tens of thousands of people migrated to the nearby city of Canaã dos Carajás (located in the municipality of the same name) when construction on S11D began in 2013, and the city's population doubled from just over 30,000 to 60,000, according to local government figures. Pressure on public health and education services followed, which, under the terms of the social and environmental licensing process, obligated Vale to build schools and a hospital in the city in partnership with local authorities. When the mine's construction phase ended, many people found themselves out of work and the number of unemployed in Canaã shot up. When work at S11D was in full swing, about 15,000 workers were directly or indirectly involved in the project; during the next operational phase, there will only be around 2,600 employees.

"I've been trying to find a new job for four months," says Joelson de Lima, who worked on S11D. Vale and the local city government's response to the problem consisted mainly of paying travel expenses for unemployed workers brought in for the initial phases of the project to return back to their places of origin.

City dwellers interviewed for this story have also reported an increase in violence in the region that they attribute to a result of intense unemployment and the proliferation of brothels.

"This voracious mining is not just very predatory for the ecosystem, it is economically predatory to the nation. In the long run, it is disastrous," says Martins, adding somewhat rhetorically: "Are we going to destroy everything and sell it to China at a bargain price so we can have Chinese smartphones? Is this what the Brazilian government wants?"

On his most recent trip to Latin America, Chinese president Xi Jinping stressed the need to work with Latin American partners to reduce their economies' dependence on the export of primary products. In support of this, the Chinese and Brazilian governments launched a joint 20 billion US Dollar "productive cooperation fund," which aims to reduce imbalances in the trading relationship whereby Brazil mostly exports raw materials and imports manufactured products with value-added.[1]

Li Jinzhang, China's Ambassador to Brazil, said at the launch of the fund: "With our comprehensive strategic partnership, Brazil is a priority country for China's strategy of expanding productive capacity. The China-Brazil Fund guarantees the financial mechanism to expand cooperation."

This story was produced in partnership with ChinaFile, a not-for-profit online magazine published by the Asia Society's Center on U.S.-China Relations.

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China's "Ecological Civilisation" and the *Belt and Road Initiative*

Two Faces of the Same Coin?

Arianna Americo

With more than 60 countries involved, accounting for over 62 percent of the world's population and a collective GDP equivalent to 31 percent of the world's wealth, the BRI has the potential to create a new geopolitical order as well as playing a crucial role in meeting the 1.5 degree target of the *Paris Agreement*. However, the enormous scale of the plan also presents a series of risks and challenges that need to be addressed by the international community as to avoid locking in the whole region in fossil fuel dependency and energy poverty for the next 50 to 100 years.

Meeting of leaders at the Belt and Road International Forum (Image: President of Russia, CC BY 4.0)

Without any doubt, the efforts made domestically in the last decade by the Chinese government to tackle environmental and climate risks are impressive. China's energy transition is already underway, the country is the world's leading renewable energy manufacturer, and coal consumption has dropped for three consecutive years.

This progress is to be read in the light of the Chinese government efforts to build an "ecological civilisation," first announced in November 2012, and then systematically organised in the document *Integrated Reform Plan for Promoting Ecological Civilisation* published by the State Council in September 2015.

In line with this plan a new Environmental Protection Law came into force in 2015 and one year later the amended Law on the Prevention and Control of Air Pollution followed, signalling a new step forward in Beijing's "war against pollution".[1]

However, notwithstanding the Chinese government pledges regarding its willingness to spread the concept of the "ecological civilisation" among its development partners and implement the *Belt and Road Initiative* in line with the *Paris Agreement* targets, China's behaviour outside its borders has not been as praiseworthy as its domestic policies.

As a matter of fact the internal push towards a green revolution may be one of the causes for China's so far poor records in overseas investments.

Three major issues can be identified: carbon leakage, high carbon investments, and the absences of cohesive standards in infrastructure development implementation.

Carbon Leakage

The BRI has often been presented as a plan to increase Chinese exports. However, BRI is aiming at solving China's excess production capacity not merely through exports but through migrating whole production facility outside the country. With more stringent domestic environmental laws and according to the *Made in China 2025 Strategy*, which aims at modernising Chinese industry and achieving global dominance in a number of high-tech industries, relocating low-value added and

labor-intensive industries outside of the country offers a triple dividend to the government: saving its *State Owned Enterprises* (SOEs) from going bankrupt, preserving jobs and avoiding the now unsustainable costs connected to environmental externalities.[2] The Chinese government is presenting these operations as a way to help its neighboring developing countries in building their industrial and infrastructure base. As a matter of fact, China is replicating its own industrialisation experience: in the 1980s China imported whole second-hand production lines from Germany, Taiwan and Japan.[3]

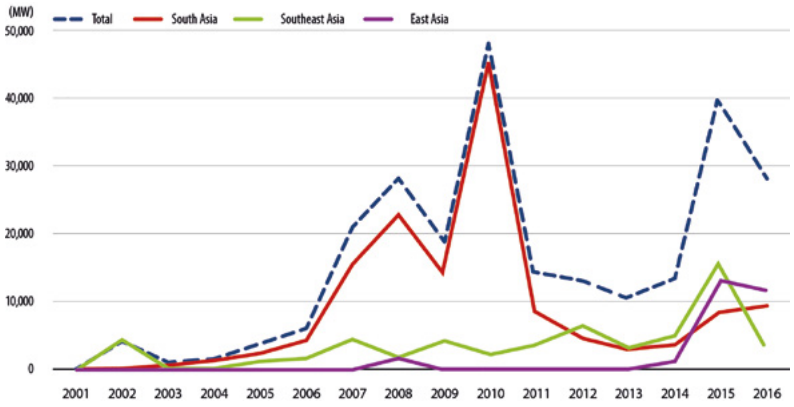
However, we now live in a post *Paris Agreement* world and moving out-dated production processes together with their environmental externalities will maybe help China win its battle against pollution but will result in a global defeat against climate change.

Moreover, the current overcapacity problem is global in nature. The only viable solution is phasing out high carbon industries and managing the transition to clean, low carbon new business models. A transition that should be fostered as much in China as in all the countries on the Belt and Road, EU included.

High carbon investments

China's development finance relies on investments coming from its major policy banks. The *China Development Bank* (CDB) and the *Export-Import Bank of China* (CHEXIM) together boasts international assets roughly equal to the total sum of all the assets of Western-backed multilateral development banks. This means that just over the last decade development finance doubled in the world economy thanks to Chinese investment. However, power generation projects financed by Chinese banks are dominated by coal (65 percent) and hydroelectric power plants (27 percent), with the rest going to oil (five percent), gas (two percent) and wind (one percent).[4] By the end of 2016, China has been involved in financing and co-financing 240 coal-fired power projects in 25 of the 65 BRI countries, with a total installed capacity of 251,054 MW.[5]

Only in 2016, loans and equity investments coming from the "big four" Chinese state-owned banks, together with CDB and CHEXIM amounted to 284 billion US Dollar. In comparison, funding provided last year by the *New Development Bank*, the *Asian Infrastructure Develop-*



Capacity additions in Belt and Road Coal-Fired Power Projects with Chinese Involvement, by Year and Region, source GEI

Infobox

Green Silk Road Fund

Although the *New Silk Road Initiative* itself was launched with a special focus on sustainability, Beijing founded the *Green Silk Road Fund* in March 2015, obviously because they anticipate the *New Silk Road Initiative* won't be as green as it was announced to be. With a seed capital of 30 billion RMB, it exists to invest in photovoltaic plants, reforestation, fishing, and other environmentally-friendly measures.

According to the government's announcement in terms of the *Green Belt and Road's* policies "[the] green 'Belt and Road' Initiative follows the principle of being resource efficient and environment friendly, embed the concept of green into the efforts in policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds (referred to as 'Five Goals'), and incorporates eco- and environmental protection into all aspects and the whole process of the 'Belt and Road' building."

Along with other measures, a separate *Green Ecological Silk Road Investment Fund* was launched by a group of private Chinese companies and is investing 4.8 billion US dollars in ecological projects along the infrastructure and the economic corridors.

It is important wait and see whether a "green simulation" is created here, but whether the investments of the "green" AIIB itself meet its requirements.

Armenui Carstensen

ment Bank and the *Silk Road Fund* combined amount to 8 billion US Dollar.[6]

Even expecting an increasing participation of the AIIB and the NDB in financing development projects, it is likely that the "big four", CDB and CHEXIM will still play a dominant role in the *Belt and Road* in the coming years. It is therefore of paramount importance that these institutions start diversifying their investment portfolio, especially in the energy field.

The absences of cohesive standards

Chinese companies investing overseas, as well as Chinese policy and commercial banks are only bound to apply to the environmental standards of the host country when going abroad. In countries where there is generally a weaker governance, less organised civil society networks, and a huge need for infrastructure, the long term social and climate impacts of the projects tend to be overlooked.

A positive step in the right direction has been made in September 2017 at the first *International Green Finance Forum* held in Beijing. The Forum attracted 200 participants from international institutions around the world and was hosted by the Green Finance Committee of China. Notably, the document on *Environmental Risk Management Initiative for China's Overseas Investment* was adopted.

The document co-signed by the Green Finance Committee of China and Ministry of Environment Protection, together with other five bodies, is structured in twelve articles and call on investors to "fully understand relevant environmental standards both in China and in host countries, as well as the prevailing international standards, and adopt the highest standard where feasible."[7]

It also puts emphasis on the importance of taking full account of ESG (environmental, social and governance) factors and disclose ESG information.

Making these guidelines become legally binding would foster the adoption of social and environmental standards in the early stages of infrastructure development planning, thus helping in mitigating the risks of these projects.

China's ecological civilisation vision and best practices need to be integrated in the *Belt and Road Initiative*. Making high carbon investments overseas, while pursuing the transition to a low carbon economy domestically represents a significant incongruity in China's current aspiration for becoming a leader in the fight against climate change.

International pressure coming from other signatories of the *Paris Agreement* along the BRI need to be canalized to push China in aligning the green transformation of its economy and financial system with its regional development strategy.

Further readings

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The AIIB Reaches a New Milestone

Korinna Horta

The summer of 2017 marks a milestone for the *Asian Infrastructure Investment Bank (AIIB).* It now has received a Triple A credit rating from the world's leading credit agencies, *Moody's, Fitch* and *S & P Global Ratings.* The Beijing-led AIIB, which only became operational in January 2016, now enjoys the same top rating as the *World Bank* and other multilateral development banks (MDBs). The AIIB can now raise funds on international capital markets on favourable terms and further expand its business.

While the AIIB's largest shareholders, China, India, and Russia, do not have a Triple A credit rating, it now has enough member states whose finances have a favourable rating. Germany is the largest non-regional shareholder of the AIIB. As a result of the financial strength of these members and China's own deep pockets, the financial risk of AIIB lending may indeed be negligible. But what about the risks related to governance, environmental degradation and social disruption, all of which are inherent in large-scale infrastructure development?

The rating agencies assume that the AIIB will address these risks in a way comparable to other MDBs. In doing so, however, they are skating on thin ice as the AIIB has not been operational long enough to have created a track record. To date, the AIIB has minimised its own risks by mainly engaging in co-financing operations with other MDBs where the standards and norms of the lead financier are meant to apply.

The real test will come with the growth of the AIIB's stand- alone portfolio. The AIIB portrays itself as being "*lean, clean and green"* and intends to be more efficient (faster) at providing loans than other MDBs. Yet due diligence requires staff and time to address the environmental impacts and issues such as resettlement, which the occupation of land by large infrastructure normally entails.

As part of being "*lean,*" the AIIB has established a non-resident Board. This is meant to cut down on bureaucratic procedures, but it also keeps the oversight of shareholder governments represented on its Board at a distance. The German government is seeking to contravene this by locating the German representative to the AIIB, who represents all Euro-Zone AIIB member states, at the German embassy in Beijing.

The role of the AIIB's Board has not yet been clearly spelled out. It remains unclear to what degree the President of the AIIB can decide on projects and policies without Board involvement. For example, in May 2017 the AIIB published its Energy Strategy, which states in its preamble that the Board has "*registered its support"* for the strategy. It is not semantic nit-picking to point out that "registering support" and "approving" are not the same. There is no coincidence at play here, but carefully calibrated legal wording, which narrows the Board's mandate. For now, Board members have chosen not to take notice of the wording and its implications, which point to centralized decision-making by the AIIB's President and his senior management.

The AIIB still lacks two central pillars of transparency and accountability. A public information disclosure policy and an independent mechanism to investigate and address the concerns of people affected by AIIB-financed operations are still being prepared. The *Public Interim Information Disclosure Policy* currently in effect does not guarantee public access to information on projects in progress. Yet it is at this early stage of project development that public input and consultations can have the most beneficial impacts on project design and execution. Once a project has been approved, the

potential for introducing change is difficult, if not impossible.

The AIIB has established a *Compliance, Effectiveness and Integrity Unit* (CEIU), which combines a vast array of tasks that other MDBs handle as separate functions. These tasks include project monitoring and evaluation, anti-corruption efforts and the handling of external complaints. There are obvious conflicts of interest in this arrangement. The same entity can hardly monitor and evaluate projects while also independently addressing external complaints, which may be contrary to the results of its own monitoring and evaluation activities. A consultation process on the establishment of the complaints handling aspect with shareholder governments and civil society organizations is currently underway with results not expected before 2018.

High-quality infrastructure development requires more than money. It depends on good governance procedures with transparent political and administrative decision-making to avoid environmental degradation, corruption, social marginalization or the creation of debt-generating white elephants.

The AIIB counts on the services of prestigious public relations agencies, such as Saatchi & Saatchi, to enhance its image and it has successfully marketed itself as a multilateral institution.

But China will define the rules of the game in its approach to multilateralism. Leading a multilateral institution will assist in advancing China's economic and political influence in a more effective manner than its current unilateral approach based on sheer economic power.

In his exchanges with the media and at public events, AIIB President Jin likes to cite classical European literature. In an interview with the magazine Asia Money (April 5, 2017) he quotes from Goethe's *Faust*: "If you induce countries to join with nice words, once they are on the boat and it is moored in the middle of the lake, what can they do? No lifejacket!"

Indeed, it is at our own peril that we think of the AIIB as an institution that is separate from China's geopolitical aims. It will be a continuous struggle for Germany and other AIIB member countries to ensure that they will not become complicit in large scale infrastructure development where efforts to advocate for transparency, the protection of local livelihoods and the environment are silenced.

China's Infrastructure Financing Issues in Asia

Civil Society Perspective and Demands for Responsible Investments

Luz Julieta Ligthart

China's role in global finance and its emergence as a dominant economic power nowadays is being felt all over the world and is a critical factor in re-shaping the Asia-Pacific region's development.

Eighty percent of Chinese assistance in the Asia and the Pacific is in the form of concessional loans,[1] mostly in the transport sector.[2] In 2015, the Chinese Government kicked off several investments along its much-vaunted *New Silk Road* flooding these investments into countries in Central Asia and Africa. Over the third quarter of 2015 alone, 17 out of 19 government loans were disbursed, constituting some 90 percent of China's overseas lending during the period. In the Pacific, China is now the third largest aid provider, following Australia and the U. S. and is number one in Fiji, investing 332.96 million US Dollar from 2006 to 2013.

But even before, China has already been a significant player in global infrastructure financing with support coming from its policy and commercial banks and other state-backed investment funds for outbound infrastructure investments. Through its *Going Out Strategy*, it has promoted Chinese companies to expand overseas, utilizing surplus foreign exchange and increase access to global markets, natural resources, and technology. Policy banks such as the *China Development Bank* and *Export-Import bank* (EXIM Bank) have been major drivers of this strategy; which have been set up to support the policy objectives of the Government. China has established various investment funds in recent years such as the *Silk Road Fund* while injecting additional capital into its policy banks specifically to support overseas operations. Through the *Belt Road Initiative* (BRI), the country has even more renewed its support and commitment to outbound capitalization and investments.

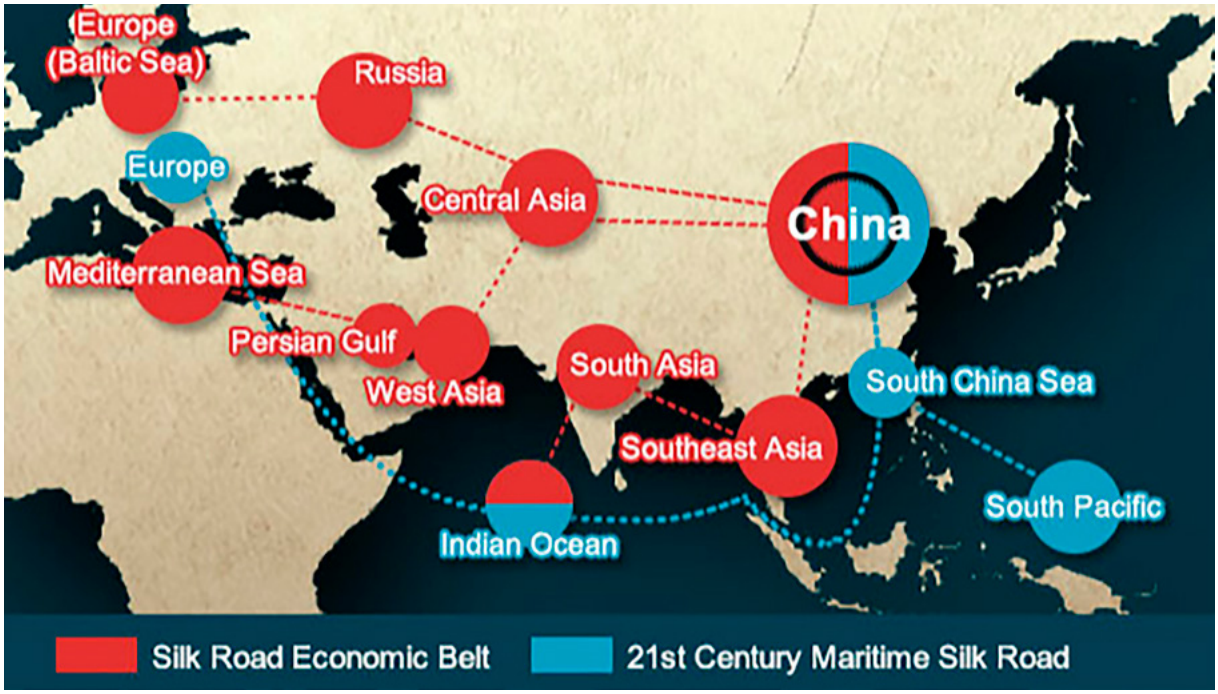
What is in it for China and the region?

Asia's economic growth in the past decade has likewise led to the growth of energy consumption and with this, the required massive amount of investment towards infrastructure development. A number of sub-regional initiatives on oil, gas, coal, nuclear, and power transmissions are now being planned, either in the pipeline or are already being implemented. The region has seen significant increase in infrastructure investment; between 2009 and 2013, accounting for more than 50 percent of the global increase in capital spending. But at the same time, it is said that in order to maintain these current levels of economic growth, Asia will need to spend approximately 8 trillion US Dollar. And to sustain this, it will be necessary to inject between 800 billion US Dollar and 1.3 trillion US Dollar annually into infrastructure projects between now and 2030[3] in order to resolve its serious shortage of roads, railways, ports, power stations and other basic facilities that threaten to hold back some of the world's fastest growing economies.

On the other hand, there is also the fact that there is now a domestic economic slowdown in the country characterized by lower demand for construction and industrial materials from other countries. For China, it is said to be taking steps to address the issue by actively encouraging companies to export excess capacity overseas (not to mention oversupply and overproduction).

China encircles the world with its BRI Policy

An interesting element of BRI is that it is said to be well integrated into China's provincial government objectives; where all 31 Chinese provinces have indicated



Circle of influence – China is working with 60 nations to construct a modern-day Silk Road – by land and sea

that they will actively participate. Two-thirds of these provinces have included it as a development priority and have featured it in their trade and bilateral investment targets.

BRI is creating a new geostrategic landscape in the Eurasian continent. In this context, it is also deemed as an economic countermeasure to USA's rebalancing in the Asia Pacific. At the same time it is pointed out that "with the expansion of the Eurasian transport infrastructure", the Chinese Government is laying the foundations for a "new China-centered production networks" with Chinese companies moving production to Southeast Asia and opening up new trade routes, and "sources of energy" that China needs to sustain its growth.

BRI's potentials for trade links and economic opportunities

BRI could have a lasting impact if it contributes to enhanced trade links. It is said that the areas it covers include about 50 percent of the world's GDP and roughly the same share of global trade. Reduced transport costs could increase trade flows and bring in the benefits of greater competition and efficiency through harmonized trading systems.

But looking closely into the plan, taking in every conceivable goal from improving distributed supply chains to developing trade services, to possibilities of increasing food security for the countries participating in the project, it remains to be grand and a statement of ambitions that could likely favor pet projects and bureaucratic leaders along the route.

Perceived challenges on governance and accountability and CSO concerns

The BRI vision and plan makes it clear that "infrastructure development" projects and investments are seldom politically neutral, and not necessarily economically beneficial. As far as direct economic gains go, the long-term benefits might not merit the shorter term political, economic and environmental factors and vulnerabilities. This is especially the case for fragile and conflict-affected countries where many of them have weak or absent systems of governance. Too single-minded economic and investment-driven decision-making is less concerned with the "externalities" related to the use of natural resources, inclusive growth, and impacts to societies and communities.

If BRI continues to have large-scale outpouring of capital, enterprises, and building of large infrastructure projects as it promises, then consequences are clear and eminent. According to OXFAM data, large-scale infrastructure is one of the main causes of forced displacement globally. Dams have caused between 40–80 million people world-wide to lose their homes who depend on their land or on access to natural resources for their living. Displacement literally means losing their ability to support their families, grow crops, fish and continue their cultural and social practices. Environmental impacts on livelihoods are potentially the most devastating especially among vulnerable communities across borders.[4]

Risks have been identified and measures will have to be implemented to significantly improve the situation through a kind of a unified environmental and social requirements and criteria for all project investments made in BRI countries. With this, it is vital for domestic and international policies to reinforce each other in monitoring and ensuring that the BRI project will lead to sustainable development.

NGO forum on ADB: a network that builds its work from the ground

As a civil society network of over 200 member organizations across 12 countries in Asia, it has been closely monitoring dirty energy and infrastructure projects funded by the ADB since the 1980's. Over the years, FORUM has gained decades of policy advocacy and project monitoring experiences especially in the energy sector namely –ADB funded Large Hydro Power Dams, Coal Plants, Transport Corridors, which often trigger a gamut of collateral damage, both environmentally and socially.

FORUM convenes and leads the *AIIB Civil Society Working Group* (AIIB WG), which includes key civil society groups across the FORUM membership in Asia and networks in Europe, and US which are actively involved in policy advocacy with their respective Non-resident Board Executive Directors (EDs) in their constituencies. It has also made close inroads with select civil society groups in China, who are closely engaging the AIIB HQ and the various government agencies within China.

AIIB's first annual meeting in 2016 (Image: UNIDO CC BY-ND 2.0)

Since Forum has taken on the lobby work on AIIB, it has engaged the Bank through the *Environmental and Social Framework* (ESF), the *Complaints Handling Mechanism* (CHM) and *Public Information Policy* (PIP) in their drafting/consultation processes. During AIIB's 2nd *Annual Governors Meeting* in Jeju 2017, FORUM and its members have made inroads into the Bank and "is seen as a group to contend with." FORUM continues to maintain an active email list among all the groups engaged in AIIB work, and has been conducting regular conference calls with members of the AIIB WG.

The FORUM membership on the ground through each focal organization in the regions are now being convened (South Asia, South East Asia, and Central Asia) as regional AIIB Working Groups and play key roles in bringing in the movements and concerned groups into the table. They bring in case specific data in the monitoring of projects based on their regional and national perspectives and further lobby with their respective leaders and country representatives in the Bank.

Annotations

1 These loans are extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these. Concessional loans typically have long grace periods.

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About this brochure

Asia, and above all, China is playing a major role in implementing development and sustainability goals, as well as working towards global climate projection. China's Belt and Road Initiative (BRI) marks China's efforts to carve out a more active international role. The purpose of the BRI project of the Stiftung Asienhaus is to examine the effects of this initiative on the development perspectives of participating countries. Together with partner chinadialogue, we want to elaborate the opportunities and challenges of the initiative, and the impact it is having on the environment, social stability and international relations. Thereby we hope to feed into the discourse on development policy, including China's development strategy, which is seeing China expand its role as a global development partner and also donor. The effects of this are varied and require critical monitoring and commentary by Chinese, Asian, and European civil society.

人本 Humane
公正 Socially just
环保 Environmentally sound

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About Stiftung Asienhaus
Stiftung Asienhaus is committed to the implementation of human rights, the strengthening of social and political participation, as well as the protection of social justice and the environment. The China programme of Stiftung Asienhaus focuses on civil society initiatives in China and Europe as well as on analysis and background information on China. Since 2008, the China Programme has engaged in several exchange projects and dialogues.
The organisation was founded in 1992 under the name "Asienstiftung".

About chinadialogue
chinadialogue is an independent, not-for-profit organisation based in London, Beijing, Delhi and Sao Paulo. chinadialogue's primary vehicle is our website (www.chinadialogue.net), a unique bilingual platform that promotes a global understanding of the environmental impact of China's rise by publishing informed articles, commentaries and analysis by writers from inside and outside of China.

ISBN 978-3-933341-76-0