CHINA'S BELT & ROAD INITIATIVE

AN INTRODUCTION

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Friends of the Earth United States

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Executive Summary

1. What is the Belt and Road Initiative (BRI)?

The Belt and Road Initiative (BRI) is a major Chinese strategy which marks a national push for China to increase economic links to Southeast Asia, Central Asia, Russia, and the Baltic region (Central and Eastern Europe) through various infrastructure and development projects.

BRI sends a clear signal for Chinese industries to invest along proposed BRI land and maritime routes, and embodies the political, economic, and foreign diplomacy interests of China abroad. Given the immense scope and scale of the policy, managing the environmental and social impacts of BRI projects will be a key challenge for China.

Since Chinese President Xi Jinping announced the policy in 2013, BRI has been officially renamed several times, previously being called One Belt, One Road or the Silk Road Economic Belt and 21st-Century Maritime Silk Road. After the initial announcement in 2013, the policy was more fully articulated in 2015 as a Vision Statement. Since then, numerous supporting policy documents have been produced to support the implementation of the Vision Statement.

2. What sectors or regions will BRI prioritize?

BRI will prioritize energy, infrastructure, transport, aviation, logistics, agriculture, and communications sectors. Chinese policy makers have currently proposed a general land-based route with six economic corridors spanning from Western China to the Middle East, in addition to a maritime-based route stretching from China, Africa, to Europe. However, Chinese policy makers have emphasized that BRI is open to all countries, not just those along Eurasian routes.

3. What are potential sources of financing for BRI projects?

Financing sources will include those typical of Chinese overseas investments, such as Chinese banks (commercial and policy), bonds, state owned enterprises (SOEs), private Chinese equity, private/public partnerships, the Asian Infrastructure Investment Bank, or others. However, it is expected that Chinese banks will continue to be a main source of financing for Chinese overseas projects, including those along BRI routes.

4.What is the process for developing BRI projects?

BRI projects will be developed in the same manner as other Chinese overseas investments. Based on the size of the investment, investors must register and/or receive approval from the National Development and Reform Commission (NDRC), Ministry of Commerce (MOFCOM), and the State Administration of Foreign Exchange (SAFE). For state-owned enterprises (SOEs) or publicly listed companies, approval must also be given by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and the China Securities Regulatory Commission (CSRC). Large investments over 2 billion USD must be approved by the State Council.

5. What are current projects being developed?

Numerous projects have been proposed or are already in development. According to China's Ministry of Commerce, from January - August 2016, Chinese companies signed 3,912 project contracts throughout 61 countries. The value of those projects amounted to US$69.82 billion*. However, a number of what have been termed as new BRI projects are in fact older or previously stalled projects which are being given new life under BRI.

6. What regional or international platforms will be used to support BRI projects?

**Data regarding BRI investments is known to vary, particularly since it is unclear if existing projects are retroactively categorized by the Chinese government as BRI investments. These figures are obtained from China's Ministry of Commerce Statistics Announcement, published on September 23, 2016: http://english.mofcom.gov.cn/article/statistic/foreigntradecooperation/201610/20161001410655.shtml*

China has identified some international and regional platforms to support BRI projects such as the Shanghai Cooperation Organization and ASEAN. In addition to these platforms, all Chinese actors in BRI overlap with existing Chinese overseas investors. These include the Ministry of Commerce, National Development and Reform Commission, State Owned Assets Supervision and Administration Commission, China Banking Regulatory Commission, and other Chinese government bodies. Other major players will of course include host country government and local stakeholders.

7. How does BRI fit into China's Going Out Policy?

BRI is a second wave of Chinese overseas investments and should be seen as a renewed version of China's 2000 Going Out policy, also known as China's "Go Global" strategy. This policy was the first to call on Chinese enterprises and industries to "go out" and invest abroad. BRI has been called an "upgrade" of China's Going Out policy and fits into an ongoing push for China's businesses and industries to internationalize.

8. What is the role of civil society in BRI?

The BRI Vision Statement does not offer explicit guidelines on how Chinese investors ought to regard environmental protection or civil society. However, it does call for strengthening "people to people bonds" and creating "win win" cooperation between Chinese and host country stakeholders. However, if BRI is to be successful, local communities impacted by BRI projects will have to play a key role.

9. What are expected challenges of BRI?

As an extremely ambitious strategy in both scope and scale, BRI will face significant challenges, ranging from corruption issues in BRI countries, the lack of international experience on the part of Chinese investors, to potentially inadequate or insufficiently implemented environmental protection standards. Chinese policy makers have yet to develop robust solutions to these challenges. Compounding this challenge is the lack of space and communication channels given to civil society to proactively participate and provide feedback on potentially sensitive or controversial projects.

10. How can NGOs find out more information on BRI projects?

NGOs will need to draw upon similar methods of researching BRI projects as when researching Chinese overseas investments. These include reviewing bilateral agreements, Memorandums of Understanding, media announcements, and others. Civil society groups can contact their local Chinese Embassy or Chinese Chamber of Commerce (if established in the host country) for requests for information. These agencies are often involved in facilitating Chinese investments in host countries.

11. How can NGOs help in developing a "green" BRI?

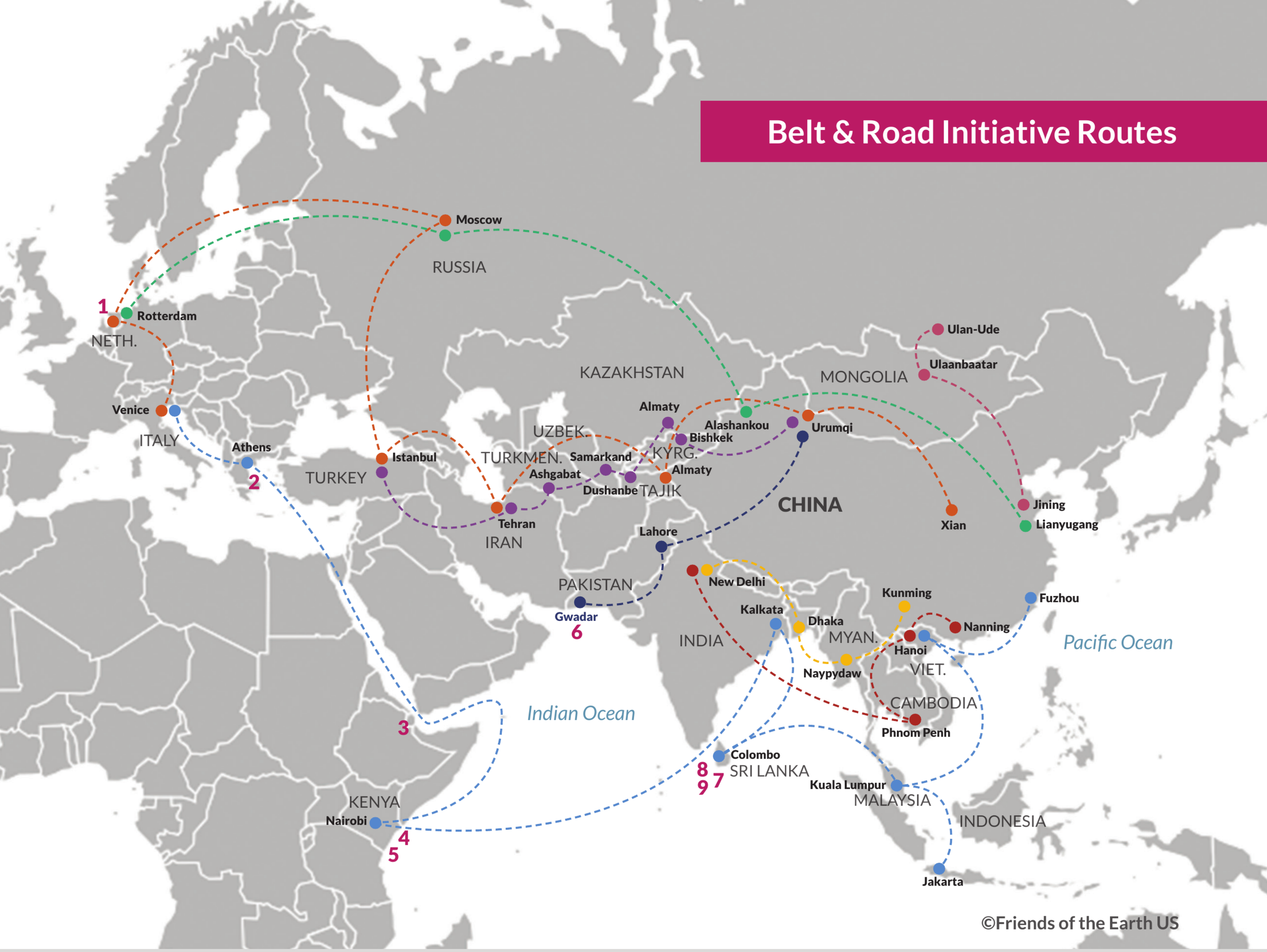
A "green" BRI can only be achieved with the full participation and consent of local communities impacted by potential projects. NGOs can help by working to foster stronger accountability, transparency, and clear channels of communication among Chinese investors and local governments.

Given the lack of international experience of Chinese investors, in addition to the lack of a common definition of what constitutes a "green" project, it is important that local communities and NGOs call on both Chinese and host country government stakeholders to comply with relevant host country laws and international norms and standards, in addition to leveraging existing Chinese policies which promote environmental and social due diligence overseas. Currently, there is no singular Chinese institution or international governance body responsible for ensuring environmental and social accountability among BRI projects.

Introduction

This document is structured as a series of frequently asked questions regarding BRI. It is meant to provide civil society groups a brief introduction to China's Belt and Road Initiative (BRI), which was announced by Chinese President Xi Jinping in 2013. Beginning in Western China and ending in Central and Eastern Europe, the Belt and Road Initiative is immense in scale and ambitious in its political and economic goals.

BRI is a renewed extension of China's 2001 Going Out Policy, which marked the first wave of Chinese overseas investments. Like the Going Out policy, BRI calls on Chinese businesses and industries to "go out" and heighten internationalization efforts. Given the immensity of BRI, however, its success will largely depend on how Chinese policy makers, developers, banks, and other stakeholders engage with civil society in managing BRI's political, environmental, social, and climate impacts.



- General Land Route
- General Sea Route
- New Eurasia Land Bridge Economic Corridor
- China - Mongolia - Russia Economic Corridor
- China- Central Asia - West Asia Economic Corridor
- China IndoChina Penninsula Economic Corridor
- China Pakistan Economic Corridor
- China - Bangladesh - India - Myanmar Economic Corridor

Proposed Land based Economic Corridors

- New Eurasia Land Bridge Economic Corridor
- China - Mongolia - Russia Economic Corridor
- China - Central Asia - West Asia Economic Corridor
- China - Indochina Peninsula Economic Corridor
- China - Pakistan Economic Corridor
- China - Bangladesh - India - Myanmar Economic Corridor

Source: HKTDC Research, China Daily, and Reuters

Existing Ports along Proposed Maritime Route

In the past decade, China has invested over $5 billion in the following ports:

1. Antwerp, **Belgium** - **$3.94mil**
2. Pireas Port, **Greece** - **$624mil**
3. Port of Djibouti, **Djibouti** - **$185mil**
4. Lamu Port, **Kenya** - **$484mil**
5. Mombasa Port, **Kenya** - **$66.7mil**
6. Gwadar Port, **Pakistan** - **$198mil**
7. Hambantota Port, **Sri Lanka** - **$1.9bil**
8. Colombo Port City, **Sri Lanka** - **$1.43bil**
9. Colombo Port, **Sri Lanka**- **$500mil**

1. What is the Belt and Road Initiative?

Image courtesy of Creative Commons

Known by several names, the Belt and Road Initiative (BRI) - also known as One Belt, One Road , or the Silk Road Economic Belt and 21st-Century Maritime Silk Road - is a major initiative which marks a national push for China to increase economic links to Southeast Asia, Central Asia, Russia and Central and Eastern Europe through various infrastructure and development projects. The Chinese government has proposed several land and maritime "routes" from China to Central and Eastern Europe. Given its immense scope and scale, BRI is expected to impact more than 60 countries, which is home to about 4.4 billion people; this represents about 63% of the world's population[1].

What does the policy say?

China's National Development and Reform Commission (NDRC), Ministry of Foreign Affairs (MOFA) and Ministry of Commerce (MOFCOM) jointly published a "vision statement and action plan on the principles, framework, and cooperation priorities and mechanisms in the Belt and Road"[2]. This vision statement lays out the basic scope and purpose of China's Belt and Road Initiative.

According to the vision statement, the basic principles are: "The Belt and Road Initiative is in line with the purposes and principles of the UN Charter. It upholds the Five Principles of Peaceful Coexistence: mutual respect for each other's sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence"[3].

The basic framework is characterized as "a way for win-win cooperation that promotes common development and prosperity and a road towards peace and friendship by enhancing mutual understanding and trust, and strengthening all-round exchanges. The Chinese government advocates peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit. It promotes practical cooperation in all fields, and works to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness".

Cooperation priorities are: "Countries along the Belt and Road have their own resource advantages and their economies are mutually complementary. Therefore, there is a great potential and space for cooperation. They should promote policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds as their five major goals, and strengthen cooperation in the following key areas".

China has identified cooperation mechanisms for implementing BRI: "China will take full advantage of the existing bilateral and multilateral cooperation mechanisms to push forward the building of the Belt and Road and to promote the development of regional cooperation. We should strengthen bilateral cooperation, and promote comprehensive development of bilateral relations through multi-level and multi-channel communication and consultation. We should encourage the signing of cooperation MOUs [Memorandum of Understanding] or plans, and develop a number of bilateral cooperation pilot projects. We should establish and improve bilateral joint working mechanisms, and draw up implementation plans and roadmaps for advancing the Belt and Road Initiative. In addition, we should give full play to the existing bilateral mechanisms such as joint committee, mixed committee, coordinating committee, steering committee and management committee to coordinate and promote the implementation of cooperation projects".

What is the significance of BRI in Chinese policy?

As a cornerstone initiative, BRI represents key economic, diplomatic, and geopolitical interests of China. Some have interpreted BRI as a major underpinning of China's economic reform which will simultaneously further efforts to strengthen diplomatic relationships with neighboring countries. It has also been observed that BRI will help relieve excess domestic capacity by exporting industries abroad.

Others have gone further and surmised that BRI will internationalize China's homegrown model of development through the construction of large infrastructure projects. According to an academic analysis of BRI discourse in China, "For some authoritative Chinese analysts, the emphasis of the One Belt, One Road initiative infrastructure development signifies the 'export [of] China's development blueprint to the world'"[4]. In addition, it has been suggested that the impacts of BRI might extend beyond economic, geopolitical, or diplomatic dimensions. Some have noted that the emphasis on maritime routes suggests that "Chinese military observers see a clear need for China to strengthen its sea lane security as part of the One Belt, One Road Initiative…this could require an enhanced level of PLA [People's Liberation Army] access to necessary military support facilities along the maritime route, but not bases per se"[5].

How are Chinese government agencies promoting BRI?

The Chinese government has designated working groups to oversee, encourage, or guide the implementation of BRI across ministries and departments. For instance, the National Development and Reform Commission (NDRC), responsible for economic planning, houses a special BRI research group; the China Banking Regulatory Commission (CBRC) has designated staff to monitor BRI bank financing; and the Ministry of Environmental Protection (MEP) has also devoted staff and resources towards understanding environmental impacts[6].

In anticipation of environmental challenges associated with BRI, the MEP has launched a website for collecting "information related to environment quality, environmental protection policies, laws, regulations, standards, technologies and industrial development of China and those countries along the One Belt and Road, [and will] share concepts and practice in ecological civilization and green development, establish a channel to promote policy dialogue and communication, decision-making, scientific research and capacity building, provide information support to countries along the One Belt and Road and serves the development of a green One Belt and Road. Jointly developed by China-ASEAN Cooperation Center and China Center for SCO Environment Cooperation, the Platform Website of One Belt and Road Environmental Protection Big Data is the first such website nationwide"[7]. However, it remains unclear how to access this website, as efforts to locate it have proved unsuccessful at the time of publication.

2. What sectors or regions will BRI prioritize?

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BRI will prioritize investments in the energy, infrastructure, agriculture, transport, logistics, aviation, information, and communications sectors.

Geographically, China has prioritized a general land route beginning in China and ending in Central Europe, in addition to six regional economic corridors. These economic corridors build off of pre-existing or previously stalled projects[8]. However, Chinese policy makers have repeatedly emphasized that BRI is open to all countries, not just those along Eurasian routes.

Currently proposed economic corridors include:

The **New Eurasia Land Bridge Economic Corridor** is an existing rail line from China's Jiangsu province running to Rotterdam in the Netherlands. It passes through Kazakhstan, Russia, Belarus, and Poland. China has expanded the rail routes with freight trains running from Wuhan to Pardubice, Czech Republic, Chengdu to Lodz, Poland, and Zhengzhou to Hamburg, Germany.

The **China-Central-Asia-West Asia Economic Corridor** runs from Xinjiang, China, to Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan, in addition to Iran and Turkey. In July 2015, China and the five Central Asian countries committed to jointly building a Silk Road Economic Belt. The economic corridor aims to deepen cooperation between the five Central Asian countries and China on the basis of trade, investment, finance, transport, and communication.

The **China Indochina Peninsula Economic Corridor** was proposed by Chinese Premier Li Keqiang in December 2014, calling on leaders in the Greater Mekong region to strengthen relations with China. Since then, a number of transportation projects are already completed or underway. For instance, an international rail line connecting Nanning, China to Hanoi, Vietnam, has already been completed.

The **China-Pakistan Economic Corridor** connects China's northwest city of Kashgar to the port of Gwadar in Pakistan. Plans for building highways, railways, oil and natural gas pipelines, and optic fiber networks have been proposed. According to media reports, the corridor will involve more than $46 billion in investment from China; $11billion is being allocated to infrastructure projects, while the rest is reportedly earmarked for electricity generation[9].

The **China-Mongolia-Russia Economic Corridor** was agreed upon by Chinese, Mongolian, and Russian heads of state in September 2014, which called for the improvement of rail and highway connectivity, develop customs clearance and transport facilitation, and promote international cooperation. In July 2015, the three leaders further adopted the Midterm Roadmap for Development for Trilateral Co-operation between China, Russia, and Mongolia.

The **Bangladesh-China-India-Myanmar Economic Corridor** was proposed as a key part of BRI during Premiere Li Keqiang's visit to India in May 2013. Later in December that year, representatives from the four countries met in Kunming, China, to convene the first Joint Working Group to discuss priorities for cooperation for the Bangladesh-China-India-Myanmar Economic Corridor[10].

China has also proposed a **maritime route** originating in Fuzhou, China, which then moves on to Vietnam, Malaysia, Indonesia, Sri Lanka, India, Pakistan, Kenya, Djibouti, Greece, and Italy. In the past decade, China has already invested over $5 billion in port development, including:

- Antwerp Port, Belgium: $3.94 million
- Pireas Port, Greece: $624 million
- Port of Djibouti, Djibouti: $185 million
- Lamu Port, Kenya: $484 million
- Mombassa Port, Kenya: $66.7 million
- Gwadar Port, Pakistan: $198 million
- Hambantota Port, Sir Lanka: $1.9 billion
- Colombo Port City, Sir Lanka: $1.43 billion
- Colombo Port, Sri Lanka: $500 million[11]

3. What are sources of financing for BRI?

Investment sources for BRI type projects will include those typical of other Chinese overseas investments, such as Chinese banks (commercial and policy), bonds, state owned enterprises (SOE) equity, peer to peer lending, private Chinese equity, private/public partnerships, or others.

In an effort to facilitate cross border investment, China has signed tax treaties with 53 countries along BRI, as of June 2016[12].

Key financing sources for BRI

Chinese Policy and Commercial Banks: Chinese banks will play a major role in BRI.

Chinese policy banks include China Development Bank and China Export Import Bank.

China's five largest commercial banks are Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), Bank of China (BOC), Agricultural Bank of China (ABC), and Bank of Communications (BOCOM).

According to the"Belt and Road Progress Report" published by Renmin University of China, financial integration will be an "important underpinning for the successful implementation of the BRI". Chinese banks have already played a significant role in financing China's Going Out policy, and the authors of the report emphasize that although numerous new financing institutions have emerged recently, such as the Asian Infrastructure Investment Bank and the New Development Bank, Chinese policy and commercial banks will continue to play a major role in financing BRI: "Domestic policy-based financial institutions serve as the backbone for financial cooperation. By June 30th, 2016, the China Development Bank has established a 'Belt and Road' project pool involving over 900 projects from over 60 countries in transportation, energy, resources, and other sectors. The Export-Import Bank of China holds an outstanding loan balance of over 1000 projects involving roads, railways, ports, power resources, pipelines, communication, and industrial parks in the 49 countries along the 'Belt and Road'. The Export-Import Bank of China also recently signed over 500 projects with countries along the 'Belt and Road'. By June 30, 2016, China Export & Credit Insurance Corporation had supported export, domestic trade and investment with a total value of $2.3trillion USD"[17].

Following the lead of Chinese policy banks like China Development Bank and China Exim Bank are Chinese commercial banks, "serving as the follow-up driver for commercial cooperation".

Chinese banks are increasingly establishing branches in BRI countries. So far, nine Chinese banks have established branches in 24 BRI countries[18]. As of June 2016, China Development Bank's loan balance for BRI projects amounted to more than $110 billion[19]. However, it should be noted that Chinese banks have already been investing in BRI countries for over a decade prior to the formalization of BRI as a national Chinese initiative, so it is likely that what constitutes a BRI project today likely also includes older projects which predate the announcement of BRI.

State Owned Enterprises: State owned enterprises (SOEs) have played an important role in China's Going Out Policy, dominating key sectors such as energy, oil and gas, telecommunications, and shipping. There are 112 SOEs managed by China's central government, with thousands of provincially managed SOEs as well. All SOEs are regulated by the State-owned Assets Supervision and Administration Commission (SASAC). This agency is responsible for appointing top executives at central SOEs, though these selections must be approved and reviewed by the Central Committee of the Communist Party of China. SOEs may function as an investor, developer, or contractor to a project, and are closely connected to China's foreign aid program. In addition, they often benefit from preferential access to credit from China's policy and commercial banks. At the same time, many SOEs are facing overcapacity issues domestically, especially in the steel, cement, coal, and chemical industries, thus prompting SOEs to expand their markets to overseas*. Although SOEs also seek funds from Chinese banks, they can also function as financiers of a project by investing via equity.

** For more information on Chinese SOEs, please see our report, "Understanding the Role and Characteristics of Chinese State-owned Enterprises and Private Enterprises in Overseas Investment", published by Friends of the Earth US in April 2015.*

Other financing sources for BRI

The Silk Road Fund: This is a $40 billion private equity fund, operated by the Silk Road Fund Co. Ltd.

Its first installment of $10 billion was jointly backed by China's foreign exchange reserves (65%), China Investment Corp.(15%), Export-Import Bank of China(15%), and China Development Bank (5%)[13].

The Silk Road Fund invests in infrastructure, resources and energy development, industrial capacity cooperation, and financial cooperation[14].

Green Silk Road Fund (Green Ecological Silk Road Investment Fund): Separate from the Silk Road Fund, this fund has been reported to have 30 billion yuan ($4.3 billion USD)[15].

It was launched by Elion Resources, China Oceanwide, Chint Group, Huiyuan Juice, Macrolink, JuneYao, Ping'an Bank, and Sino-Singapore Tianjin Eco-city. It is the "the first equity investment fund dedicated to eco-environment improvement and the development of eco-friendly photovoltaic clean energy"[16].

Asian Infrastructure Investment Bank (AIIB): AIIB is a multilateral development bank (MDB) founded on Dec 25, 2015. It focuses on developing infrastructure, energy and power, transportation, telecommunications, rural infrastructure, agriculture development, water supply and sanitation, environmental protection, urban development, and logistics.

Current projects are located in Myanmar, Pakistan, Indonesia, Bangladesh, Tajikistan, and India, all of which are located along the BRI route.

New Development Bank (NDB): The concept for the New Development Bank was born in March 2012 as a way to meet the development funding requirements of its founders - Brazil, Russia, India, China, and South Africa (BRICS). However, it was only in July 2014 that the New Development Bank was formally established. The bank has an authorized capital of $100 billion USD and will prioritize infrastructure and sustainable development as key focus areas. It issued its first loans in the spring of 2016.

China Ocean Strategic Industry Investment Fund (COSIIF): This investment fund was launched by Hong Kong-based Golden Grain Capital Management Limited, and a major partner is Dubai-based Elyseum Capital Partners.

According to the Global Times, "In order to balance its roles as a profit-seeking financial institution and a promoter of the BRI initiative, COSSIIF Chairman Jin Kun said the fund will divide its business strategies into two parts. The first part will focus on assembling private equity funds by investing in businesses with potential, while the second part will focus on helping countries located along the routes of the BRI initiative with infrastructure projects"[20].

China-Central Eastern Europe Fund: Managed by Sino-CEE Financial Holdings Ltd. (established by ICBC earlier in 2016), this investment fund aims to raise 50 billion euros for project finance in infrastructure, high tech manufacturing, and consumer goods sectors.

It was launched by Chinese Premiere Li Keqiang in November 2016, and will be backed by the government. The fund will initially focus on Central and Eastern Europe, but may extend to Western Europe if deemed relevant to China-Central and Eastern Europe cooperation[21].

Shanghai Cooperation Organization (SCO) Development Bank (proposed): The Shanghai Cooperation Organization Development Bank has been proposed by Chinese and Russian members of the Shanghai Cooperation Organization.

Should the bank be established, it is expected to fund regional projects with other multilateral and development banks.

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4. What is the process for developing BRI projects?

BRI projects will be developed in the same manner as Chinese overseas investments.

Image courtesy of Creative Commons

Based on the size of the investment, investors must register and/or receive approval from the National Development and Reform Commission (NDRC), Ministry of Commerce (MOFCOM), and the State Administration of Foreign Exchange (SAFE). For SOEs or publicly listed companies, approval must also be given by SASAC and the China Securities Regulatory Commission (CSRC). Large investments over 2 billion USD must be approved by the State Council*.

According to the Vision Statement, the process for encouraging BRI projects is described as: “We should encourage the signing of cooperation MOUs (Memorandum of Understanding) or plans, and develop a number of bilateral cooperation pilot projects. We should establish and improve bilateral joint working mechanisms, and draw up implementation plans and road maps for advancing the Belt and Road Initiative. In addition, we should give full play to the existing bilateral mechanisms such as joint committee, mixed committee, coordinating committee, steering committee and management committee to coordinate and promote the implementation of cooperation projects".

In an effort to streamline standards across BRI, the Chinese government produced the Action Plan for the Belt and Road Standard Coordination 2015-2017, which establishes guidelines for "developing procedures and mechanisms for mutual certification of standards adopted in countries" along BRI. Published by the National Development and Reform Commission (NDRC), the plan provides further guidelines for Chinese investors and companies. The plan describes BRI within the context of advancing China's Going Out Policy, calling for the "development of key national standards for mutually beneficial cooperation".

Although the document aims to "promote international standards", it also calls for the broader adoption of Chinese technical standards in the iron and steel, nonferrous metals, railways, highways, water projects, oil and gas fields, and overseas engineering services sectors. The plan also calls for the translation of 500 national standards of BRI countries into Chinese[22].

** For more information on the approval and registration process for Chinese foreign investment, please see this article published by Mondaq: Cynthia Lau, "China: Approval And Regulatory Requirements For Chinese Foreign Direct Investment ", Mondaq, May 30, 2014.http://bit.ly/2h1PJkk*

5. What are current projects being developed?

Numerous projects have already been proposed or are already in development. According to China's Ministry of Commerce, from January - August 2016, Chinese companies signed 3,912 project contracts throughout 61 countries along the Belt and Road. The value of those projects amounted to $69.82 billion USD*.

However, it should be noted that a number of what have been termed as new BRI projects are in fact older or previously stalled projects which are being given new life under BRI. For instance, the Jakarta-Bandung High Speed Rail in Indonesia has been largely seen as a BRI investment, yet plans for the project have been discussed since at least 2008.

The promotion of trade and investment in BRI countries

As of June 2016, China has signed bilateral investment treaties with 104 countries and established a "Joint Economic and Trade Commission and other mechanisms to promote investment cooperation, providing legal and institutional basis for bilateral investment cooperation"[23].

In facilitating project investment, the Chinese government has also signed numerous implementation plans and cooperation agreements with various BRI countries**.

Investments along the proposed economic corridors have also already begun. As referenced earlier, China has already invested roughly $5 billion in port development, and the China-Pakistan Economic Corridor has reportedly raised $35 billion USD of a total target of $46 billion USD; approximately $11 billion USD of investments will be allocated to infrastructure projects and the rest to primarily coal and hydroelectric projects[24].

Investments by sector

In the **transportation sector**, Chinese investments in BRI countries have steadily expanded. Between 2013-2016, China Railway Group Limited and China Communications Construction Company Limited, both of which are SOEs, signed 38 contracts for demonstration projects for transportation infrastructure in 26 countries, which includes port cooperation and updating existing infrastructure. There have also been fifteen airport projects and 28 airport expansion projects[25].

In the **energy sector**, it has been reported that Chinese SOEs contributed to the construction of 40 energy projects, including power plants, transmission facilities, and oil and gas pipelines in 19 countries; in this year alone, China has already signed at least 16 energy projects[26], one of which was the Yamal LNG project in Russia. The project received $12 billion USD in loans from China Development Bank and China Export Import Bank; the Silk Road Fund and China National Petroleum Company (CNPC), a large SOE, also hold stakes in the project[27].

Although China is the world's leading investor in renewables[28], it has also continued to heavily finance the **coal sector** in BRI countries. Between 2007-2015, for instance, China was the largest investor of coal globally, financing roughly$25 billion USD, and during this same time period, the top destinations for coal financing included mostly BRI countries, such as Indonesia, Vietnam, India, and Russia[29].

Given the immense geographic and sectoral scope of BRI, however, the challenge of managing the environmental and social impacts of such projects are becoming increasingly apparent. For example, in Pakistan, the construction of the Orange Metro Line in Lahore has caused mass protests and triggered lawsuits, as millions of people have been displaced since demolition for the metro line began four months before the loan from China Export Import Bank was approved[30].

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***A useful list of specific country agreements compiled by HKTDC Research can be found here: http://bit.ly/2gRE3A1*

6. What regional/international platforms will be used to support or implement BRI projects?

Image courtesy of Creative Commons

China has identified some international and regional platforms to support BRI projects.

According to the Vision Statement, China has identified the following regional and international platforms for implementing BRI:

- Shanghai Cooperation Organization (SCO)
- ASEAN Plus China (10+1)
- Asia-Pacific Economic Cooperation (APEC)
- Asia-Europe Meeting (ASEM)
- Asia Cooperation Dialogue (ACD)
- Conference on Interaction and Confidence-Building Measures in Asia (CICA)
- China-Arab States Cooperation Forum (CASCF)
- China-Gulf Cooperation Council Strategic Dialogue, Greater Mekong Sub-region (GMS)
- Economic Cooperation, and Central Asia Regional Economic Cooperation (CAREC)

Forums and exhibitions are another proposed means for implementing BRI :

- Boao Forum for Asia, China-ASEAN Expo,
- China-Eurasia Expo
- Euro-Asia Economic Forum
- China International Fair for Investment and Trade
- China-South Asia Expo
- China-Arab States Expo
- Western China International Fair
- China-Russia Expo
- Qianhai Cooperation Forum
- Silk Road (Dunhuang) International Culture Expo
- Silk Road International Film Festival
- Silk Road International Book Fair

Additionally, there is a UNESCO partnership with the China Council for the Promotion of International Trade (CCPIT), which is China's largest trade organization.

In addition to these platforms, all Chinese actors in BRI overlap with existing Chinese overseas investors. These include the Ministry of Commerce, National Development and Reform Commission, State Owned Assets Supervision and Administration Commission, China Banking Regulatory Commission, and other Chinese government bodies. Other major players will of course include host country government and local stakeholders.

7. How does BRI fit into China's Going Out Policy?

Image courtesy of Creative Commons

BRI is a second wave of Chinese overseas investments and should be seen as a renewed version of China's 2000 Going Out policy, also known as China's Go Global strategy. This policy was the first to call on Chinese enterprises and industries to "go out" and invest abroad. BRI fits into this ongoing push for China's businesses and industries to internationalize.

As reported in Xinhua, the vice president of China Communications Construction Company Ltd. (CCCC), stated that the BRI is an "upgrade" of China's Go Global strategy. He noted that the Going Out policy has generally helped increase the sophistication of Chinese enterprises: "Through the construction of major infrastructure projects along the 'Belt and Road,' Chinese enterprises that have ventured out of China are adopting new business models, seeking business and structural upgrades to participate in international competitions at a higher level, promoting the influence of Chinese firms and brands in the process"[31]. However, Chinese companies and banks are comparatively still less sophisticated than their international counterparts in terms of conducting due diligence, committing to international norms (such as the Equator Principles or Global Compact), assessing environmental and social risks,or meeting other international standards on a project level*.

Like the Going Out Policy, BRI represents an increasing political and economic shift towards the internationalization of Chinese companies and industry. It is expected to help boost China's domestic economy by relieving excess capacity in key sectors (such as coal, cement, and others) to overseas markets.

What counts as a BRI project?

There is no common definition of what constitutes a BRI project, and even the geographic boundaries are unclear as Chinese policymakers have emphasized that BRI is open to all countries, not just those along the Eurasian land or sea routes. As such, there is no special Chinese agency tasked with "approving" projects as BRI investments.

** For information on how Chinese banks have performed in complying with international norms and host country law in overseas projects, please see our report: "Going out, but going green? Assessing the implementation of the Green Credit Guidelines Abroad", published by Friends of the Earth US in November 2014. http://www.foe.org/news/archives/2014-11-going-out-but-going-green*

8. What is the role of civil society in BRI?

The Chinese government has provided limited information regarding the role of civil society in BRI.

The Vision Statement offers mostly generic language on NGOs and the role of public participation: "We should increase exchanges and cooperation between non-governmental organizations of countries along the Belt and Road, organize public interest activities concerning education, health care, poverty reduction, biodiversity and ecological protection for the benefit of the general public, and improve the production and living conditions of poverty-stricken areas along the Belt and Road. We should enhance international exchanges and cooperation on culture and media, and leverage the positive role of the Internet and new media tools to foster harmonious and friendly cultural environment and public opinion".

However, one of the priorities for cooperation of BRI is "people to people bonds", which can be loosely interpreted as to include civil society. Under the category of "people to people bonds", the Vision Statement covers broad cooperation in public health (epidemic/disease information sharing, medical assistance), student scholarships, protecting world cultural sites, tourism, sister cities, cultural exchanges, and others.

The "Belt and Road Progress Report" published by Renmin University describes China's support for civil society along similar themes, and notes that China "held 63 events of exchange and cooperation with non-governmental organizations" from BRI countries. However, these exchanges seem to generally involve government sponsored events and organizations, as the examples referenced in the report include the Cairo International Book Fair and China-ASEAN Forum on Social Development and Poverty Reduction.

In sum, the BRI Vision Statement or supporting policy documents do not offer explicit guidelines on how Chinese investors ought to regard environmental protection or civil society. However, environmental protection, local community consultations, and NGOs must play a key role if BRI is to be successful in its goal of developing meaningful "people to people bonds".

9. What are expected challenges of BRI?

Image courtesy of Creative Commons

As an extremely ambitious strategy in both scope and scale, BRI will face significant challenges, ranging from local corruption issues, the lack of international experience on the part of Chinese investors, to potentially inadequate or insufficiently implemented environmental protection standards. Chinese policy makers have yet to develop robust solutions to these challenges. Compounding this is the lack of space and communication channels given to civil society to proactively participate and provide feedback on potentially sensitive or controversial projects.

What is the current discourse in China on potential BRI challenges?

According to an academic analysis of official BRI documents, these challenges remain largely un-addressed, despite the fact that some projects are already in the process of being developed: "Regarding the challenges and problems confronting the One Belt, One Road initiative... relatively few Chinese sources address this issue. While some non-authoritative sources stress the apparent complementarity between the needs of the other developing states that comprise the One Belt, One Road region and China's huge financial resources and extensive experience in undertaking infrastructure projects, none seriously examine what would be required to complete such an endeavor in a profitable and genuinely beneficial manner. Many of the nations in the One Belt, One Road region are exceedingly poor, with limited experience in undertaking huge infrastructure projects, and considerable levels of corruption. Moreover, as some non-authoritative Chinese observers suggest, a major increase in the activities of Chinese enterprises across the One Belt, One Road area could generate damaging political and cultural "blowback" that could harm China's image or increase instability and heighten geopolitical tensions"[32].

Increasingly, these concerns are being discussed in China. In an opinion piece in China Daily, a researcher at Tsinghua Univeristy observed that in the short term, financial interests of Chinese investors may not always align with those of local communities:

"Many local governments and enterprises in China have high expectations from the Belt and Road Initiative, but most of their interests are related to infrastructure projects, trade and capital. They don't seem to care much about Chinese people's understanding of the ground situations in foreign countries. Studying the ground realities in target countries before venturing into them is very important for Chinese enterprises, because if the people of a country do not welcome them, they simply cannot do business there. So getting the green light from such countries' governments does not necessarily guarantee success in business"[33].

Liu Weiping, a researcher at the China Development Bank Research Institute, has echoed this concern. Regarding Chinese overseas investments, Liu has said, "At present Chinese enterprises going global find it 'easy to stand up but difficult to stand steady." He noted that different countries may have different approaches to environmental protection, social responsibility, and human rights, and has thus called for the Chinese government to "set up a systemic and sustainable research platform to monitor the state of Chinese investments (including problems, needs, scale, and types), step up investigation and study of overseas conditions, and establish a joint mechanism. At the same time, [the government should] organize and mobilize researchers to go to investment target countries to launch overseas investigation and study work for at least one year on the One Belt and One Road, and set up a contingent of young researchers who understand the situation in the major countries"[34].

Ensuring environmental and social due diligence

Given the proposed scale and intensity of projects located in what are generally high risk and extremely poor regions, it remains unclear how Chinese policy makers and investors will work with host country governments and local stakeholders in order to adequately assess the environmental, social, and climate change impacts of such projects, all while simultaneously ensuring a common, systematic approach towards applying robust environmental and social standards. In ensuring environmental and social diligence, civil society groups, NGOs, and local communities can play a major role in helping BRI investors meet this challenge.

10. How can NGOs find out information on BRI related projects?

NGOs will need to draw upon on similar methods of researching BRI projects as used for researching Chinese overseas investments. These include reviewing bilateral agreements, MOUs, media announcements, company websites, utilizing financial databases, or others*.

Engaging Chinese Embassies and Chinese Chambers of Commerce

Civil society groups can contact their local Chinese Embassy or Chinese Chamber of Commerce (if established in the host country) for requests for information. They are often involved in facilitating Chinese investments in host countries. Especially for projects for which funding is not yet confirmed, it can be useful to engage these agencies. However, it should be noted that utilizing communication channels at Chinese Embassies and Chinese Chambers of Commerce, whether via via telephone, fax, email, or in person visits, may be challenging depending on each agency's staff. NGOs attempting to contact Chinese Embassies, for instance, have had mixed results, with some embassy staff in certain locations providing responses, whereas others have not. In one example, an Ecuadorean group attempted to deliver a letter to the Chinese Embassy in Quito regarding the controversial Mirador copper mine in 2012. However, their attempt to hand deliver the letter to the Chinese ambassador was denied by staff, and as a result, the situation escalated with the arrest of protesters.

In contrast, in Zimbabwe, the Chinese Embassy acknowledged receipt of a letter from the local group Center for Research and Development, and in Indonesia, the environmental NGO WALHI was contacted by a Chinese mining company at the request of the Chinese Chamber of Commerce of Indonesia.

Developing new strategies

Similar to other advocacy efforts on Chinese overseas investments, a key challenge will be transparency and channels of communications with Chinese project developers and financiers. This challenge is compounded by the fact that BRI land and maritime routes cross through regions with high levels of corruption and weak governance. With this in mind, civil society groups should consider new strategies for contacting BRI developers and financiers, whether it is via participating in regional or international forums (as referenced in Question 6), engaging host country Chinese Embassies and Chinese Chambers of Commerce, or creating local pressure to encourage local government or Chinese investors to disclose additional information.

Online resources

In anticipation of some of these challenges, the Chinese government has created online platforms for Chinese enterprises going abroad. Those related to BRI projects include:

- OBOR Universal Service Platform: This website appears to be tailored to help Chinese enterprises invest abroad. However, it does not appear to contain information on how to appropriately interact with local communities (such as obtaining free, prior, and informed consent), nor does it contain specific guidance on environmental protection standards. www.bigdataobor.com/

- China National Remote Sensing Center of Science and Technology Beijing: This website discusses potential environmental impacts located along BRI routes. www.chinageoss.org/

- Credit China: This website can be used to find information on companies blacklisted from receiving credit in China. www.creditchina.gov.cn

**For more detailed information on this, please refer to our "Tip Sheet on researching Chinese financed projects", which can be accessed by contacting redward@foe.org.*

11. How can NGOs support Developing a "green" BRI?

Chinese policy makers have stressed the importance of a "green" BRI, perhaps most obviously demonstrated by the establishment of the Green Silk Road Fund. However, a "green" BRI can only be achieved with the full participation and consent of local communities impacted by potential projects.

NGOs can help by working to foster stronger accountability, transparency, and clear channels of communication among Chinese investors and local governments. The following is not an exhaustive list of advocacy strategies, but is meant to help inspire and guide further discussion on how civil society groups can promote the development of a "green" BRI.

Early engagement

It is important to engage Chinese BRI investors as early as possible in cases of potentially controversial projects. Engaging BRI investors early and informing them of potential environmental, social, or operational risks can play a key significant role in preventing or mitigating major impacts.

Leveraging international standards

Given the lack of international experience of Chinese investors, it is important that NGOs call on both Chinese and local government stakeholders to comply with relevant host country laws and international norms and standards, such as Free, Prior Informed Consent, UN Declaration on the Rights of Indigenous Peoples, and others, in addition to existing Chinese policies which encourage environmental and social due diligence overseas.

Leveraging Chinese policies

With the increasing swell of Chinese overseas investments, Chinese policy makers are gradually developing an emerging policy framework for managing the behavior and environmental footprint of Chinese banks and companies abroad. Currently, China has developed overseas investments policies related to mining, palm oil, silviculture, and bank financing.

Examples of key policies include the Guidelines for Environmental Protection in Foreign Investments, which encourages Chinese enterprises to implement corporate social responsibility and environmental due diligence, and the Green Credit Guidelines, which obligates Chinese lenders to comply with host country law and international best practices and norms when investing abroad. Text of these policies are included as appendices*.

Creating local pressure

It is important for civil society groups to work with their own governments in calling for the kinds of projects and industries which they wish to be developed in their own communities. Chinese BRI investors are obligated to respect a host country government's decisions, so civil society can play an important role in educating and advocating to both local government and Chinese investors the types of projects that are indeed "win win" for all stakeholders.

Applying lessons learned

NGOs can also help support the development of a green BRI by drawing lessons from China's Going Out Policy over the past decade, as the lessons are equally applicable to BRI investors.

Helping investors understand host country laws and regulations

NGOs can help Chinese BRI policy makers and investors identify and reflect on recurring challenges of Chinese overseas investments, such as a lack of general communication channels, knowledge of local cultural or legal issues, and understanding of relevant international norms and standards.

Although these challenges are not necessarily unique to Chinese investors, given their relative lack of expertise and experience as international players, Chinese BRI investors would especially benefit from increased communication and information sharing from civil society and local communities in order to better localize their operations and mitigate environmental and social risks.

** For more information on all Chinese policies up to 2012, please see: "Chinese Outward Investment: An emerging policy framework" published by the International Institute for Sustainable Development (IISD).*

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Appendix 1

Guidelines for Environmental Protection in Foreign Investment and Cooperation

Issued by: Ministry of Commerce of the People's Republic of China and Ministry of Environmental Protection of the People's Republic of China

Shang He Han [2013] No. 74

Date of Issuance: February 18, 2013

Article 1 These Guidelines are hereby formulated in order to direct enterprises in China to further regularize their environmental protection behaviors in foreign investment and cooperation activities, timely identify and prevent environmental risks, guide enterprises to actively perform their social responsibilities of environmental protection, set up good international images for Chinese enterprises, and support the sustainable development of the host country.

Article 2 These Guidelines are applicable to the environmental protection of Chinese enterprises in foreign investment and cooperation activities, which shall be abided by enterprises consciously.

Article 3 It is advocated that in the course of active performance of their responsibilities of environmental protection, enterprises should respect the religious belief, cultural traditions and national customs of community residents of the host country, safeguard legitimate rights and interests of labors, offer training, employment and re-employment opportunities to residents in the surrounding areas, promote harmonious development of local economy, environment and community, and carry out cooperation on the basis of mutual benefits.

Article 4 Enterprises shall, adhering to the concept of environmental friendly and resource conservation, develop low-carbon and green economy, and implement sustainable development strategies, so as to realize a "win-win" situation of corporate self-interests and environmental protection.

Article 5 Enterprises shall understand and observe provisions of laws and regulations of the host country concerning environmental protection.

For projects invested in the construction and operation by enterprises, application shall be filed to local government for permits with respect to environmental protection in accordance with laws and regulations of the host country.

Article 6 Enterprises shall include environmental protection into their enterprise development strategies as well as production and operation plans, establish corresponding rules and regulations for environmental protection, and reinforce management of enterprise's environment, health and production safety. In addition, enterprises shall be encouraged to utilize integrated environmental services.

Article 7 Enterprises shall establish a sound environmental protection training system to provide employees with proper education and training with respect to the environment, health and production safety, and enable them to understand and know well about relevant laws and regulations of the host country regarding environmental protection and master disposal of harmful substances, prevention of environmental accidents and other environment knowledge, so as to improve employees' law-abiding awareness and environmental protection quality.

Article 8 Enterprises shall, in accordance with requirements of laws and regulations of the host country, conduct environmental impact assessment on their development and construction as well as production and operation activities, and take reasonable measures to reduce possible adverse impacts based on the findings of such environmental impact assessment.

Article 9 Enterprises are encouraged to take full into account of the impacts of their development and construction as well as production and operation activities on the social environment such as historical and cultural heritages, scenic spots and folk customs, and to take reasonable measures to reduce possible adverse impacts.

Article 10 Enterprises shall, attending to the requirements of laws, regulations and standards of the host country concerning environmental protection, construct and operate pollution prevention installations, carry out pollution prevention work, and ensure that the emission of exhaust gas, waste water, solid wastes or other pollutants meet the standards of the host country for pollutant emission.

Article 11 Enterprises are encouraged to, prior to construction of the project, conduct environmental monitoring and evaluation for the proposed construction site, obtain understanding of the environmental background situation of the place where the project is located and its surrounding areas, and put the environmental monitoring and evaluation results on record.

Enterprises are inspired to conduct monitoring on main pollutants discharged, be aware of the pollution situation of enterprises at all times, and put the monitoring results on record.

Article 12 Enterprises are advocated to carry out environmental due diligence on the target enterprise before acquiring overseas enterprises, focusing the evaluation on the hazardous wastes formed in its historical operation activities and the soil and underground water pollution, as well as environmental debts of the target enterprise related thereto. Encourage enterprises to take favorable environmental practices for the purpose of reduction of potential risks of environmental liabilities.

Article 13 Enterprises shall make management plans for hazardous wastes that may be generated during production, the contents of which shall include measures to reduce the amount and hazard of hazardous wastes, as well as measures to store, transport, utilize and dispose these hazardous wastes.

Article 14 For potential risks of environmental accidents, enterprises shall formulate contingency plans for environmental accidents and other emergencies based on the nature, features and possible environmental hazards of the same, and set up a system of reporting to and communication with local government, regulatory authority of environmental protection, the general public that may be affected and the headquarters of Chinese enterprises.

Contingency plans shall include the organizational system and responsibilities of emergency management work, prevention and early warning mechanism, handling procedures, emergency guarantees, and recovery and reconstruction after the emergency. Encourage enterprises to organize emergency drills and make timely adjustments to the plans, as well as to take such measures as covering environmental pollution liability insurance to reasonably disperse risks of environmental accidents.

Article 15 Enterprises shall carefully consider the ecological function orientation of the area where the project is located, and they may, with the coordination of the government of the host country and the community, have priority to take such measures as in-place and nearby conservation of animal and plant resources that worth conservation and may be affected, to reduce adverse impacts on local biodiversity.

For ecological impacts caused by investment activities, enterprises are encouraged to carry out ecological restoration in accordance with requirements of laws and regulations of the host country or common practices in the industry.

Article 16 Encourage enterprises to conduct clean production, promote recycling, reduce pollution from the source, improve the resource use efficiency, and reduce generation and emission of pollutants in the course of production, service and product use.

Article 17 Encourage enterprises to implement green procurement and give preference to environmentally friendly products.

Enterprises are encouraged to apply for relevant environment management system certification and environmental label certification for relevant products in light of provisions of laws and regulations of the host country.

Article 18 Encourage enterprises to post their environmental information on a regular basis, and publish their plans on implementation of laws and regulations on environmental protection, measures taken, and environmental performance achieved, etc.

Article 19 Enterprises are inspired to strengthen their contacts and communications with the government and regulatory authority of environmental protection of the host country, and actively seek for their opinions and suggestions on environmental protection issues.

Article 20 Advocate enterprises to establish a way of communication and dialogue mechanism for enterprises' environmental social responsibilities, take the initiative to strengthen their contacts and communications with their communities and relevant social groups, and take opinions and suggestions with respect to environmental impacts of their construction projects and operation activities through forums and hearings according to requirements of laws and regulations of the host country.

Article 21 Enterprises are encouraged to actively participate in and support local public benefit activities for environmental protection, publicize the concept of environmental protection, and build a good enterprise image in respect of environmental protection.

Article 22 Encourage enterprises to research and learn from the principles, standards and practices with respect to environmental protection that are adopted by international organizations and multilateral financial institutions.

Green Credit Guidelines

CBRC local offices, policy banks, state-owned commercial banks, joint-stock commercial banks, financial assets management companies, the PSBC, provincial rural credit unions, as well as all trust firms, enterprise group finance companies and financial leasing firms directly regulated by the CBRC:

To implement the macro adjustment policies provided for in the Integrated Working Plan of the State Council for Energy Conservation and Emission Reduction during the 12th Five-year Period and the Comments of the State Council on Strengthening Environmental Protection Priorities, and to follow the requirements of matching supervisory policies with industrial policies, the CBRC has formulated the Green Credit Guidelines for the purpose of encouraging banking institutions to, by focusing on green credit, actively adjust credit structure, effectively fend off environmental and social risks, better serve the real economy, and boost the transformation of economic growth mode and adjustment of economic structure. The Guidelines are hereby printed and issued for implementation.

Banking supervisory authorities should forward the Notice to local banking institutions and urge them into implementation.

Feb. 24, 2012

Chapter 1 General Provisions

Article 1 For the purpose of encouraging banking institutions to develop green credit, these Guidelines are formulated pursuant to the Law of the People's Republic of China on Banking Regulation and Supervision and the Law of the People's Republic of China on Commercial Banks.

Article 2 Banking Institutions mentioned herein include policy banks, commercial banks, rural cooperative banks and rural credit cooperatives lawfully incorporated within the territory of the People's Republic of China.

Article 3 Banking institutions shall promote green credit from a strategic height, increase the support to green, low-carbon and recycling economy, fend off environmental and social risks, and improve their own environmental and social performance, thus optimizing their credit structure, improving the quality of services, and facilitating the transformation of development mode.

Article 4 Banking institutions shall effectively identify, measure, monitor and control environmental and social risks associated with their credit activities, establish environmental and social risk management system, and improve relevant credit policies and process management.

The environmental and social risks mentioned herein refer to the hazards and risks on the environment and society that may be brought about by the construction, production and operating activities of banking institutions' clients and key affiliated parties thereof, including environmental and social issues related to energy consumption, pollution, land, health, safety, resettlement of people, ecological protection, climate change, etc.

Article 5 The CBRC is responsible for, in accordance with applicable laws, regulating and supervising banking institutions' green credit business and their environmental and social risk management.

Chapter 2 Organization and Management

Article 6 The board of directors or supervisory board of a banking institution shall build and promote green credit concepts concerning energy saving, environmental protection and sustainable development, be committed to giving play to the functions of facilitating holistic, coordinated and sustainable economic and social development, and establish a sustainable development model that will benefit the society at the same time.

Article 7 The board of directors or supervisory board of a banking institution is responsible for developing green credit development strategy, approving the green credit objectives developed by and the green credit report submitted by senior management, and monitoring and assessing the implementation of green credit development strategy.

Article 8 The senior management of a banking institution shall, pursuant to the resolutions of the board of directors or supervisory board, develop the green credit objectives, have in place relevant mechanisms and processes, define clearly the roles and responsibilities, conduct internal checks and appraisal, annually provide report to the board of directors or supervisory board on the development of green credit, and timely submit relevant reports to competent supervisory authorities.

Article 9 The senior management of a banking institution shall assign a senior officer and a department and configure them with necessary resources to organize and manage green credit activities. Where necessary, a cross-departmental green credit committee can be set up to coordinate relevant activities.

Chapter 3 Policy, System and Capacity Building

Article 10 Banking institutions shall, as per national environmental protection laws and regulations, industrial policies, sector entry policies, and other applicable regulations, establish and constantly improve the policies, systems and processes for environmental and social risk management and identify the directions and priority areas for green credit support. As for industries falling within the national "restricted" category and industries associated with major environmental and social risks, they shall customize credit granting guidelines, adopt differentiated and dynamic credit granting policies, and implement the risk exposure management system.

Article 11 Banking institutions shall develop client environmental and social risk assessment criteria, dynamically assess and classify client environmental and social risks, and consider the results as important basis for credit rating, access, management and exit. They shall adopt differentiated risks management measures concerning loan investigation, review and inspection, loan pricing, and economic capital allocation.

Banking institutions shall prepare a list of clients currently faced with major environmental and social risks, and require these clients to take risk mitigation actions, including developing and having in place major risk response plans, establishing sufficient, effective stakeholder communication mechanisms, and finding a third party to share such risks.

Article 12 Banking institutions shall establish working mechanisms conducive to green credit innovation to boost innovation of green credit processes, products and services while effectively curbing risks and ensuring business continuation.

Article 13 Banking institutions shall give priority to their own environmental and social performance, set up appropriate systems, step up the publicity and education on green credit concepts, standardize their operational behaviors, promote green office, and improve the level of intensive management.

Article 14 Banking institutions shall strengthen green credit capacity building, establish and improve green credit labeling and statistics system, improve relevant credit management systems, enhance green credit training, develop and employ related professionals. Where necessary, they can hire an eligible, independent third party to assess environmental and social risks or acquire related professional services by means of outsourcing.

Chapter 4 Process Management

Article 15 Banking institutions shall strengthen due diligence in credit granting. The scope of due diligence on environmental and social risks shall be defined according to the characteristics of the sector and region in which the client and its project is located, so as to ensure the due diligence is complete, thorough and detailed. Where necessary, the banking institutions can seek for support from an eligible, independent third party and competent authorities.

Article 16 Banking institutions shall examine the compliance of clients to whom credit will be granted. As for environmental and social performance, compliance checklist and compliance risk checklist shall be developed according to the characteristics of different sectors, so as to ensure compliance, effectiveness and completeness of the documents submitted by the clients, and make sure they have paid enough attention to related risk points, performed effective dynamic control, and satisfied the requirements on substantial compliance.

Article 17 Banking institutions shall strengthen credit approval management, and define reasonable level of credit granting authority and approval process according to the nature and severity of environmental and social risks faced by the clients. Credits may not be granted to clients whose environmental and social performance fails to meet compliance requirements.

Article 18 Banking institutions shall, by improving contract clauses, urge their clients to strengthen environmental and social risk management. As for clients involving major environmental and social risks, the contract shall provide for clauses that require them to submit environmental and social risk report, state and avow that they will strengthen environmental and social risk management, and promise that they are willing to be supervised by the lender; the contract shall also provide for clauses concerning the remedies banking institutions can resort to in the event of default on environmental and social risks made by the clients.

Article 19 Banking institutions shall enhance credit funds disbursement management, and consider appropriation management, and regard how well clients have managed environmental and social risks as important basis for credit funds appropriation. As for projects to which credit is granted, all stages, including design, preparation, construction, completion, operation and shutdown shall be subjected to environmental and social risk assessment. Where major risks or hazards are identified, credit funds appropriation can be suspended or even terminated.

Article 20 Banking institutions shall strengthen post-loan management. As for clients involving potential major environmental and social risks, relevant and pertinent post-loan management actions shall be developed and implemented. They shall watch closely the impact of national policies on the clients' operation, step up dynamic analysis, and make timely adjustment to asset risk classification, reserve provisioning and loss write-off. They shall establish and improve internal reporting system and accountability system concerning major environmental and social risks faced by the clients. Where major environmental or social risk event occurs to the client, the banking institution concerned shall timely take relevant risk responses and report to competent supervisory authorities on potential impact of said event on itself.

Article 21 Banking institutions shall strengthen the environmental and social risk management for overseas projects to which credit will be granted and make sure project sponsors abide by applicable laws and regulations on environmental protection, land, health, safety, etc. of the country or jurisdiction where the project is located. The banking institutions shall make promise in public that appropriate international practices or international norms will be followed as far as such overseas projects are concerned, so as to ensure alignment with good international practices.

Chapter 5 Internal Controls and Information Disclosure

Article 22 Banking institutions shall incorporate green credit implementation into the scope of internal compliance examination, and regularly organize and carry out internal auditing on green credit. Where major deficiencies are identified, investigation shall be conducted to determine whom to be held accountable as per applicable regulations.

Article 23 Banking institutions shall establish effective green credit appraisal and evaluation system and reward and penalty system, and have in place incentive and disciplinary measures, so as to ensure sustained and effective offering of green credit.

Article 24 Banking institutions shall make public their green credit strategies and policies, and fully disclose developments of their green credit business. As for credit involving major environmental and social risks, the banking institutions shall disclose relevant information according to laws and regulations, and be subjected to the oversight by the market and stakeholders. Where necessary, an eligible, independent third party can be hired to assess or audit the activities of banking institutions in performing their environmental and social responsibilities.

Chapter 6 Monitoring and Examination

Article 25 Banking supervisory authorities at all levels shall strengthen the coordination with competent authorities, establish and improve information sharing mechanism, improve information services, and remind banking institutions of related environmental and social risks.

Article 26 Banking supervisory authorities at all levels shall strengthen off-site surveillance, improve off-site supervisory indicator system, enhance the monitoring and analysis of environmental and social risks faced by banking institutions, timely guide them to strengthen risk management and adjust credit orientation.

Banking institutions shall, pursuant to the provisions hereof, perform overall green credit evaluation at least once every two year, and submit the self-evaluation report to competent banking supervisory authorities.

Article 27 When organizing and conducting on-site examination, banking supervisory authorities shall take into full account the environmental and social risks faced by banking institutions, and make clear the scope and requirements of examination. As for regions or banking institutions involving prominent environmental and social risks, ad hoc examination shall be conducted and urge said institutions to improve in light of examination results.

Article 28 Banking supervisory authorities shall provide more guidance to banking institutions on green credit self-evaluation, and, in conjunction with the results of off-site surveillance and on-site examination, holistically assess the green credit performance of banking institutions, and treat the assessment results, as per applicable laws and regulations, as important basis for supervisory rating, institution licensing, business licensing, and senior officer performance evaluation.

Chapter 7 Supplementary Provisions

Article 29 These Guidelines become effective as of the date of promulgation. Village banks, lending firms, rural mutual cooperatives and non-banking financial institutions shall enforce actions in reference to these Guidelines.

Article 30 These Guidelines are subject to interpretations by the CBRC.

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