

# THE ALIGNMENT OF CHINESE BRI FINANCING WITH THE PARIS AGREEMENT: PROPAGANDA, ASPIRATION OR REALITY?

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# AESCON



### OUTLINE

- Research question
- Literature
- Methods
- Results
- Discussion
- Key takeaways





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### **RESEARCH QUESTION**

#### Is the Belt and Road aligned with the Paris Agreement?

- In the energy sector
  - 73% of emissions globally
  - More detailed information in NDCs
- In 2014 2016
  - Prior to the entry into force of the Paris Agreement
- In 2017 2019

  - Flurry of initiatives in China to deliver on a green BRI



Paris Agreement in force and BRI International Green Development Coalition (BRIGC)

## LITERATURE

- Current literature
  - Hale, Liu & Uperlainen (2020): 5 strands >
    - **Foreign policy literature**: geopolitical + geostrategic (& some domestic) drivers
    - **Quantitative analyses** of the BRI. Subject to **limited data** 
      - global overview of finance and projects

Agreement.

- BRI as a top foreign policy priority serving divergent interests and actors.
- **BRI in recipient countries**
- •



sustainability of BRI investments & impact on Nationally Determined Contributions (NDCs) and Paris

**Processes, policies, frameworks and institutions** by which BRI is delivered and the interaction among actors.

### LITERATURE

- > Gaps
  - Limited analysis of environmental and climate governance challenges in BRI
  - Role of the international climate regime in driving climate action along the BRI
- > Our approach: Ostrom's Polycentric climate governance
  - **Policentricity**:
    - 'Interaction between multiple governing authorities at different scales, which are mostly or completely independent when making norms and rules within a specific domain' (Tosun, 2018: 152).
  - **Governance:** concept in flux (Jordan *et al*, 2018)
    - Transboundary environmental problems have been tackled by displacing of control 'up' to the international level, 'down' to the regional and local levels of government and 'out' to non-governmental and civil society organisations





# METHODS

#### **Secondary research**

- Literature review >
- Gray literature: official docs

#### **Primary research**

- Semi-structured elite interviews >
  - Research
  - Think tanks
  - Business associations
  - Policy-makers
  - NGO's
  - Finance
  - International organisations













## RESULTS



Sources: Ren et al. 2017, Sandalow 2019, Ministry of Ecology and Environment of the People's Republic of China 2017.



#### Figure 1: China's overseas and BRI green and climate policies

Guidelines for Environmental Protection in Foreign Investment and Cooperation (2013)

Encourage Chinese companies to complete EIA, develop environmental mitigation measures, and work with local communities to identify potential negative environmental and social impacts.

**Environmental Risk Management** Initiative for China's Overseas Investment (2017)

Encourage Chinese financial institutions and enterprises to accelerate the progress towards key sustainability goals

#### Belt and Road Ecological and Environmental Cooperation Plan (2017)

Provides for a number of bestpractice and informationsharing efforts. 'eco-environment behaviours'

Vision and Actions on Energy Cooperation in Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road (2017)

Outline the framework, key areas of co-operation and co-operation mechanisms. Aim at increasing cooperation in conventional and renewable energy sources

Green Investment Principles for the Belt and Road Initiative (2019)

Incorporate low-carbon and sustainable development into BRI projects

China Industrial and Asian Export-Import Construction Commercial Bank of China Bank Bank of China 2018 Green, Social 2015 Green Credit 2017 Green Bond and Sustainability Guidelines Framework **Bond Framework** 

Infrastructure Investment Bank

2016 Environmental and Social Framework

## RESULTS

### Table 1. Types of Chinese Investments in some BRI countries

ΤΥΡΕ	SUBTYPE
DEBT	<ul> <li>Syndicated loans<sup>a</sup> with participation by:</li> <li>Chinese development/policy banks <ul> <li>CDB</li> <li>China Eximbank</li> </ul> </li> <li>Four largest Chinese state-owned commercial banks <ul> <li>Agricultural Bank of China (ABC)</li> <li>Bank of China (BOC)</li> <li>China Construction Bank (CCB)</li> <li>Industrial and Commercial Bank of China (ICBC)</li> </ul> </li> </ul>
	Loans exclusively financed by CDB and/or China Eximbank <sup><math>b</math></sup>
≥	Silk Road Fund (SRF) <sup>d</sup>
EQUI	Chinese nonfinancial enterprises
	<ul> <li>State-owned enterprises (SOEs)</li> <li>Private-owned enterprises (POEs)</li> </ul>

### Source: Zhou *et al* (2018: 7)



COVERED SECTORS	DATA SOURCES
Energy and Transportation	<ul> <li>Thomson ONE</li> <li>Dealogic</li> <li>Bloomberg New Energy Finance (BNEF)</li> </ul>
Energy	Boston University's Global Develop- ment Policy Center <sup>c</sup>
Energy and Transportation	<ul> <li>SRF disclosures</li> <li>Chinese government websites</li> <li>Media reports</li> </ul>
Energy and Transportation	Dealogic





#### Figure 2. China's Energy-Sector Financial Flows to BRI Countries by Subsector, 2014-2017



*Notes:* <sup>a</sup> Syndicated loans by the six Chinese banks are total loan amounts of projects in which the six Chinese banks participated. The actual loan contributions by individual banks were not available for many of the transactions. The six Chinese banks are China Development Bank, Export-Import Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, and Industrial and Commercial Bank of China.

<sup>b</sup> SRF includes four project investments that disclose investment amounts. *Source:* Authors' calculations.

Source: Zhou *et al* (2018: 3)





Figure 3: China's energy investments and construction cor USD billion (in parentheses)





#### Figure 3: China's energy investments and construction contracts by sector in BRI and OECD countries, 2014-19, % and



Figure 3: China's energy investments and construction contracts by sector in BRI and OECD countries, 2014-19, % and USD billion (in parentheses)



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Figure 4: China's major policy banks' energy investments flows in BRI countries<sup>4</sup> by sector, 2014-19, USD billion and GW



Source: China Global Energy Finance Database.



## DISCUSSION

- counteracted by short-term business/development opportunities for host projects.



Goal of a less carbon intensive BRI (reputation and long-term engagement) is governments, Chinese financing institutions and companies involved in BRI

Greening the BRI through soft guidance, lack of sanctions for non-compliance--) "transform and upgrade". Capacity building + change in corporate culture.

# **KEY TAKEAWAYS**

- Mind the DATA gaps!
- Significant amount of international and Chinese initiatives to Green the BRI. 80% of energy sector financial flows to BRI countries to fossil fuels (2014-2017)
- Zhou et al (2018).
- Deep dive into China's main policy Banks (CDB & Exim):
  - > 2014-2019: fossil fuel investments and capacity addition dominate;
    - 2014-2016: fossil fuel investments and capacity additions dominate;
    - 2017-2019: fossil fuel and capacity additions dominate but greater convergence as regards investments.
- Far from being aligned with Paris/fostering NDCs in BRI recipient countries. Green BRI aspirational: soft guidance vs. business as usual and hard guidance. Why: accomodating demands from different domestic and international actors in
- climate governance.









### **TAHNK YOU!**

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# **THANK YOU**





