China's Green Mercantilism and Environmental Governance:

A New Belt and Road to the Global South?

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Abstract

This report examines an important but often neglected issue, namely, the environmental impact of China's Belt and Road Initiative (BRI) on the Global South and China's new efforts to build a BRI-centric sustainable development regime. Why is China now focused on a 'green BRI?' What are the related policy actions? What challenges does China face in its 'green BRI' efforts? This research argues that China's green agenda and initiatives are not just a response to external criticism on BRI's negative environmental impact. Rather, it represents the rise of China's green mercantilism, namely, using state capital to build a BRI-centric coalition around the issue of sustainable development in the Global South. The Global South has long been an important foreign policy priority for China, and as this research will show, many 'green BRI' initiatives seek to woo countries in this region. However, Beijing's green mercantilism prioritizes China's national economic and political interests over environmental benefits. China has thus been ineffective in fostering sustainable development in the Global South and in achieving its stated goal of greening BRI. Environmental governance has often been put on the backburner of BRI's new initiatives, especially at the implementation level.

Policy recommendations

- United States' policy should induce China to play a 'race to the top' game.
- The United States should highlight inadequate environmental protection standards in China's foreign economic policies in general, and within BRI projects in particular; Washington should urge China to bring its governance framework in line with international standards, such as those used by OECD export credit agencies or International Finance Corporation. The United States should specifically pressure China to phase out its financing of overseas coal-fired power plants, a vague promise that Chinese President Xi made but never came through.[1] To be successful, it is critical to build a results oriented dialogue platform with a variety of Chinese offices and agencies, which is currently lacking.
- The United States needs to work together with other creditor countries and transnational environmental groups to engage and urge China to adopt OECD Common Approaches for its export credit agencies' environmental and social due diligence standards. To add pressure on Chinese policy banks, the United States should also ensure other OECD countries, Japan and South Korea in particular, follow OECD rules that restrict export

financing for coal-fired power projects. Global environmental governance on export credits would be ineffective, if not impossible, absent China's participation.

- The United States should provide tangible support for countries in the Global South to create sustainable development incentives. Such support should be comprehensive, covering both policy and industrial level technical assistance, and cater to the needs of government and civil society in both financial and non-financial forms. To this end, cooperation with other creditor countries, as well as China, is necessary.

Introduction

The Belt and Road Initiative (BRI) has morphed into China's premier foreign policy framework, from its inauguration in 2013 to the adoption of BRI into the Constitution of the Chinese Communist Party in 2017. During this period, the geographic and financial scope of Chinese overseas infrastructure development has rapidly expanded. Unsurprisingly, BRI has been among the most discussed topics in the field of international relations (IR), particularly in light of rising competition between China and the United States. BRI has thus spurred widespread debate among international relations scholars and policymakers alike, whose focus has been predominantly on its geopolitical motivations and implications.

While BRI's strategic significance remains hotly debated, this research looks at an important but often neglected issue, namely, BRI's environmental impact on the Global South and China's new efforts to build a BRI-centric sustainable development regime. Over the past two decades, China has risen rapidly in the realm of development finance, especially since BRI's launch in 2013. According to Boston University's Global Development Policy (GDP) Center, from 2009 to 2019 Chinese policy banks have extended around $462 billion in development finance, more than half of which were announced after 2013.[2] The majority of these loans were for infrastructure construction projects in BRI-affiliated countries in the Global South. However, as China's development footprint expanded, BRI projects' environmental impact also intensifies. For example, the GDP Center estimated that by the end of 2019, China-financed fossil fuel power plants were responsible for approximately 314 million tons (Mt) of carbon emissions per year, accounting for about 3.5 percent of the world's annual carbon emission excluding China. Recent research also shows that the rise of large-scale dams in the greater Mekong subregion—driven largely by Chinese capital— came with major ecological and socioeconomic costs, from deforestation and biodiversity loss to food insecurity and dislocation.[3] In addition to large energy projects, environmental concerns related to BRI transportation sector projects were so massive that several researchers warned they might outweigh the project's economic benefits for host countries.[4]

BRI's environmental impact has provoked increased criticism and concerns from host countries and the international community, which has become an important backdrop in China's recent push for a BRI-centric environmental governance regime. As illustrated by the Belt and Road Forums (BRFs) in 2017 and 2019, Beijing made environmental protection and sustainable development a top agenda item and launched a variety of 'green' initiatives, including many high profile financial plans and projects endorsed by multilateral organizations. Nevertheless, current debates have not adequately captured the implications and impact that China's push for a green

BRI will have on the Global South. It remains unclear why 'green' development has become BRI's new focus. What policy actions support this initiative? What does China-led multilateralism in sustainable development look like? What challenges does China face in greening BRI?

This research argues that the emergence of BRI's 'green' agenda and initiatives were not just a response to external criticism. Rather, it represents the rise of China's green mercantilism, namely, using state capital to build a BRI-centric sustainable development coalition in the Global South. The People's Republic of China (PRC) has taken the Global South as a foreign policy priority throughout its history, and as this research will show, many of BRI's green initiatives intend to woo countries in this region. However, Beijing's green mercantilism prioritizes China's national economic and political interests over environmental benefits. China, therefore, has failed to achieve its sustainable development in the Global South, nor has it greened BRI. In fact, China has often deprioritized environmental governance in its 'green BRI' initiatives, especially at the implementation level.

This report has five parts. It starts with the general context of China's green mercantilism, explaining how economic and political interests gave rise to a new BRI agenda centered on environmental protection and sustainable development. The second part provides an overview of BRI's 'green' discourse, policy documents, and policy actions from its inauguration to the present. It illustrates how China's green mercantilism shaped BRI's new agenda, specifically through three economic policy instruments, namely, 'green' foreign aid, 'green' financial systems, and 'green' trade and eco-friendly infrastructure. The following sections examine in detail these three policy instruments, particularly their implementation, accomplishments, and challenges in achieving BRI's stated goal to bring sustainable development to the Global South. Through an examination of quantitative data, the report also shows that in spite of increasing efforts to 'green' BRI, China-backed infrastructure development remains a major source of environmental concern in the Global South. The report concludes with a discussion of BRI's recent developments following the COVID-19 pandemic outbreak, and policy implications for the United States.

Mercantilism and the rise of green BRI: The context

The emergence of China's green BRI agenda requires understanding of the internal and external dynamics driving Beijing's decision-making. Since President Xi unveiled the concept of BRI in 2013 and called for a massive push on infrastructure projects in developing countries, China's overseas investments have become the increasing target of criticism. This criticism intensified within environmental policy and advocacy circles across the world following the announcement of a series of BRI flagship projects, such as large-scale coal-fired power plants, hydropower plants, and other transportation projects.[5] Notably, foreign critics found similar complaints in China, where civil society groups, academia and think tanks, and environmental policy groups have recognized the environmental repercussions of China's own infrastructure push and the risk that BRI might impede China's broader national interests.[6]

Such voices are not coincidental. They reflect the evolution of domestic forces pushing China's own policy towards sustainable development. This push began after decades of rapid industrialization took a toll on the country's ecosystem and public health, with a rising middle class forcing the Chinese leadership to recognize it had to adjust their policy objectives in order to maintain governing legitimacy. Since the 11th Five Year Plan (FYP) (2006-2010), the ideal of 'ecological modernization' and 'ecological civilization' has steadily ascended to one of the PRC's policy priorities. This new policy focus not only espoused the notion of sustainable development, but also reaffirmed the Chinese government's position atop the economy's commanding heights where it set agendas and made decisions in pursuit of a more sustainable form of development.[7] Over the past decade, the Chinese government has rolled out a variety of policies and regulations to promote a state-led green capitalism, from direct and indirect financial support for clean industries to heightened environmental standards to phase out polluting industries. While risks and challenges remain, China has made remarkable achievements, particularly in slowing the growth of carbon emissions and in rapidly building the world's largest renewable energy sector. China's green movement has attracted much research, with some naming it 'authoritarian environmentalism'[8] and others characterizing it as 'new developmentalism.'[9]

This research shows, however, that the concept of *mercantilism* is critical in understanding the importance of BRI to China's green policy movement. In spite of the diverse interpretation of this ancient economic idea, mercantilism at its core promotes a strong state that uses intervening policy to build a rich nation. The contemporary liberalized global economy, however, can place significant limits on state-led policy intervention.[10] Nevertheless, mercantilism continues to influence governments in their efforts to wield foreign trade and investment policy as tools in achieving their national goals. China's 21st century state-led development strategy is emblematic of such practices.[11]

China's interpretation of 'ecological civilization' is steeped in mercantilism, with the PRC leaders seeking to turn their country into not only a green economy but also the world's top exporter of environmental products and technology. To be clear, the mercantilist influence does not permeate the Chinese state evenly. Agencies in charge of trade and industrial promotion, such as the National Development and Reform Commission (NDRC), State-owned Assets Supervision and Administration Commission (SASAC), the Ministry of Commerce (MOFCOM), and the National Energy Administration (NEA), tend to prioritize mercantilist ideas more than agencies in charge of environmental affairs. However, above agencies are powerful and in many cases make final decisions on rules regarding Chinese firms' overseas activities. Their influence– and mercantilist zeal— is on a full display in the 13th FYP (2016-2020), in which environmental, renewable, and energy efficient industries made up a big part of the so-called 'strategic emerging industries.' Following President Xi's pledge to achieve 'carbon neutrality' by 2060, the recently released 14th FYP continued to prioritize the development of 'green' industries.[12] Although from China's perspective, 'green mercantilism' could be mutually beneficial or promote 'win-win,' the Achilles' heel is its limitation in restricting China's foreign economic interests. As such, all these policy plans stress the need of greater financial and trade mobilization between China and the world not merely to gain foreign capital in building China into a green economy. Their goal is also to help upgrade Chinese industries—both clean and dirty— through expanding to overseas markets, which makes BRI essential.

Economic interests are not the sole impetus of China's green mercantilism. As great power status becomes China's new foreign policy ambition, environmental diplomacy is of significant importance.[13] For a long time, prioritization of economic development kept China—the world's largest greenhouse emitter—at the periphery of global environmental governance. Over the past decade, however, with its accomplishments in environmental protection, China has become active in pursuing leadership roles at global environmental fora, as exemplified by its participation in the Group of 20 (G20) Summits and the United Nations Climate Change Conferences over the past decade.

Importantly, environmental diplomacy has also become a new area for China's promotion of 'soft power' in the global south, a region in which China has long identified with.[14] As early as 2010, China began promoting environmental diplomacy in the global south through its creation of China-led regional environmental forums, such as the China-Arab States Environmental Cooperation Forum and the China-ASEAN Environmental Cooperation Forum. Since BRI's launch and against the backdrop of U.S. withdrawal from the Paris Agreement and Green Climate Fund, China became even more active in seeking environmental leadership through expansion of renewable energy installation and Xi's carbon neutrality pledge before the United Nations General Assembly.[15] In this sense, promotion of green BRI is critical to China's leadership in global environmental governance and its relationships with the global south as well as its efforts to compete with the United States in shaping the future of global governance.

Green BRI to lead the Global South: an overview of policy discourses and actions

China has increasingly focused on using state-backed capital to build a BRI-centric sustainable development coalition in the global south. To woo countries in the region into this coalition, China deploys three types of economic policy instruments, namely, 'green' foreign aid, 'green' financial systems, and 'green' trade and infrastructure investments.

These policy instruments as a whole have developed along with BRI's ever-expanding 'green' discourses and policy plans. For starters, President Xi's BRI inaugural speech already addressed the importance of ecological protection.[16] The first BRI action plan published by the National Development and Reform Commission (NDRC) also made sustainable development part of its policy rationale.[17] In 2016, China made the high-profile pledge of a 20-billion-yuan ($3.1 billion) South-South Climate Change Fund to the United Nations, signaling its intent to building global common goods.

The 'green' theme emerged as a key part of President Xi's keynote speech at the 1st Belt and Road Forum (BRF) in 2017, where he called for 'a new vision of green development.'[18] The same year, the NDRC issued *the Guidance on Promoting a Green Belt and Road* (*Green BRI Guidance* thereafter) as the first document stating BRI's mission in environmental promotion. The *Green BRI Guidance* ensured Green BRI's commercial and diplomatic orientation, stipulating that the policy's primary goals included 'eco-friendly infrastructure development, green trade & trade of sustainable production and consumption, green finance, ecoenvironmental protection and risk management projects, and people-to-people bonds.' The Ministry of Environmental Protection (then the Ministry of Ecology and Environment, or MEE) also issued *the Belt and Road Ecological and Environmental Cooperation Plan* (BREECP), specifying dozens of initiatives and planned initiatives to implement the *Green BRI Guidance*.[19] In addition, NDRC, together with other agencies, also issued various new policies and corresponding initiatives as summarized in Table 1.

A series of BRI-themed green action plans and initiatives emerged. They were increasingly multilateral, comprising a variety of environmental policy coordinating mechanisms between China and BRI countries. As Table 1 shows, these initiatives called 'green' foreign aid, 'green' financial systems, and 'green' trade and infrastructure investments or some combination thereof. The following sections will analyze these three policy instruments and seek to answer two important questions: How did mercantilism influence these initiatives? How effective have these initiatives been in 'greening' BRI projects?

Table 1. Green BRI initiatives

Three economic policy instruments	**Official documents related to Green BRI**
Green foreign aid: South-South Climate Change Fund (2015) South-South Cooperation Fund (2016) Lancang-Mekong Environmental Cooperation Center/Green Development Funds (2015/2018) China-ASEAN Demonstration Centers for Environmental Protection Technology and Industrial Cooperation and Exchanges (2016) China-Africa Environmental Cooperation Center/Green Development Fund (2017/2018) Silk Road Green Envoy Program (2017) BRI South-South Cooperation Initiative on Climate Change/Training for Tackling Climate Change (2017) BRI International Green Development Coalition (2019) BRI Green Lighting Initiative (2019) BRI Green Cooling Initiative (2019) BRI Sustainable Cities Alliance (2019) BRI Environmental Technology Exchange and Transfer Center (2019) **Green financial systems:** Green Silk Road Fund (2015) BRI Green Finance Index (2017) China Green Finance Committee (2017) Green Investment Principles for Belt and Road Development (2019) Study of Belt and Road Green Development Fund (2019) **Green trade and infrastructure investments:**	**BRI documents:** Guidance on promoting a green belt and road (2017) Vision for maritime cooperation under the belt and road initiative (2017) The Belt and Road ecological and environmental cooperation plan (2017) Vision and actions on agriculture cooperation in jointly building silk road Economic Belt and 21st century maritime silk road (2017) Vision and actions on energy cooperation in jointly building silk road Economic Belt and 21st century Maritime Silk Road (2017) **Other documents on Chinese outbound investments and other economic activities:** A guide on sustainable overseas forests management and utilization by Chinese enterprises (2009) Green credit guidelines (2012) Guidelines on environmental protection for overseas investment and cooperation (2013) Guidelines for establishing the green financial system (2016) Regulations on outbound investment and business activities of private enterprises (2017)

BRI Green Supply Chain Program (2015) Hazardous Waste Management and Import and Export Regulation Cooperation (2017) BRI Environmental Big Data Platform (2017) Eco-Label Mutual Recognition (2017) Initiative on Corporate Environmental Responsibility Fulfillment for Building the Green Belt and Road (2017) Industrial Park Sewage Treatment Demonstration (2017) Study on Green Interconnection (2017) BRI Green Going-Out Initiative (2019)	China banking regulatory commission on the standardization of banking service enterprises going abroad: Guide to strengthen risk prevention and control (2017) Measures for the management outbound investment regulations (2017)

Green foreign aid with Chinese characteristics

Foreign aid has been China's key policy instrument in its attempt to lead a BRI-centric environmental coalition. As mentioned earlier, China launched the South-South Climate Change Fund in 2016, pledging to build ten low-carbon demonstration projects, 100 climate change adaptation and mitigation projects, and 1,000 training places in developing nations (the "10-100-1000" plan). Other similar financial arrangements included another $2 billion for South-South Cooperation announced at the 2016 United Nations Development Summit to meet the post-2015 Development Agenda. China-led regional environmental forums, such as the Lancang-Mekong Environmental Cooperation Center and China-Africa Environmental Cooperation Center, also provided grants for research and capacity building training. The 2017 BREECP reiterated the importance of 'green foreign aid' programs and outlined foreign aid expansion plans in 'greening' BRI. The 2018 China-Africa summit confirmed this policy line, as President Xi expanded China's aid commitment to Africa, including 50 projects on green development and environmental protection.[20]

It is unclear how much China's pledge of 'green' foreign aid has materialized. Nevertheless, with the backing of the expansive funding, China-led environmental coalitions expanded rapidly through both broadening the existing China-led environmental forums and creating new ones to foster broader and deeper policy exchange and coordination. In 2015 for example, China founded the China-ASEAN Partnership on Eco-friendly Cities. Since 2017, BRI-affiliated environmental forums flourished with various types of environmental stakeholders participating on issues ranged from policy and standards coordination to nuclear and radiation safety management. Among issues discussed, the most prominent BRI International Green Development Coalition, a coalition aiming to promote dialogues and harmonize environmental rules for BRI projects, has reportedly more than 130 participating organizations from 60 countries and environmental ministries from 25 BRI countries—almost entirely from the Global South— to discuss ten environmental topics.[21] China's 'green' foreign aid also promotes the so-called 'people-to-people bonds' activities such as environment-related training, exchanges, and visits. As a major initiative of this sort, the Green Silk Road Envoys Program begun in 2011, expanded in 2017, and is claimed to have provided over 2,000 environmental training sessions for government officials and private citizens from BRI countries.[22] Notably, the United Nations endorsed and jointly administered many of BRI-theme multilateral sustainable initiatives, boosting the profile of China-led sustainable development coalition in the Global South.

While multilateral cooperation is essential for environmental protection, how China's green foreign aid has been put in practice and whether it has achieved its stated goal is questionable. First, BRI's cooperation mechanisms emphasize consensus-building and diplomatic functions more than making substantial policy changes, which was difficult given the diverse interests between the participant states.[23] As many BRI countries lack policy frameworks to facilitate and incentivize renewable or sustainable projects, green development is difficult in practice. As such, the BRI International Green Development Coalition has moved slowly since its inauguration and yielded little impact on the policy level. Further, a consensus-based approach is also inefficient in engaging countries disinterested, if not reluctant, to discuss environmental issues; many BRI countries that were also top greenhouse gas emitters, such as Indonesia, South Africa, and Turkey, were not part of this coalition

The major challenge is intrinsic to China's mercantilist take on 'green' foreign aid. According to a Beijing-based observer, Chinese-content procurement requirement impose many restrictions on Chinese foreign aid, leading to slow implementation of the South-South Climate Change Fund and poor quality projects.[24] Additionally, conflicts between commercial, environmental, and foreign affair ministries over the goals and priorities of the Fund, coupled with coordinating problems between them, have also obstructed the quality of those projects. While the recent reorganization of MEE and creation of the China International Development Cooperation Agency (CIDCA) to manage 'green foreign aid' is a promising change, whether these organizations could remedy pressing problems remains to be seen.

Nevertheless, current studies show that so far, China's mercantilist interests have a diminishing effect on its intent to help with BRI countries' environmental protection and sustainable development. For example, several researchers observed that China's climate mitigation demonstration projects in Africa function like a sales demonstration, with staff emphasizing the productivity improvements in Chinese-manufactured data services, biotechnology, agricultural machinery, and related business facilitation services.[25] Harlan made similar observations on China-led workshops on small hydropower projects, which he argued facilitated medium- and large-scale hydropower investments in BRI countries.[26] He also observed that the majority of China's 'green foreign aid' was not sustainable for development projects, but rather environmental mitigation projects, which are often selectively enforced in developing countries and end up more as 'greenwashing.'[27] Still others observe that surveillance systems, environmental law enforcement training, and cultural exchanges or similar programs, accounted for a substantial part of China's environmental aid donation and Silk Road Envoy Program for BRI countries.[28] In this view, Chinese green foreign aid also helps promote so-called 'coercive environmentalism.'

Importantly, regardless of high-profile pledges, the scale of China's green foreign aid remains modest. According to China's latest foreign aid white paper, in terms of project counts, climate change programs accounted for merely three percent of Chinese aid programs from

2013-2018.[29] It is also difficult to tell the environmental scores of the rest of Chinese foreign aid programs based on the information released in the white paper. Granted, while not directly intended for environmental governance, China is the lead contributor to two new multilateral development banks, the Asian Infrastructure Development Bank (AIIB) and the New Development Bank (NDB). Since the outset, the two banks have collaborated with established development banks in promoting sustainable and eco-friendly development projects. Still, according to an Industrial and Commercial Bank of China and Oxford Economics study, the two banks, together with other multilateral development banks, account for 0.6 percent of BRI projects.[30] In this sense, the impact of China's foreign aid on BRI countries, regardless of whether it is 'green' or not, is negligible compared to that of development funds from China's financial institutions.

China's green(ish) financial system

The same ICBC and Oxford Economic study found that up to the end of 2017, Chinese firms and financial institutions had financed 86 percent of BRI's projects. Financial institutions and the two-decade long campaign known as *Go Out*—BRI's predecessor policy initiative— are the backbone of China's state-led economy in promoting China's exports, outbound investments, and resource acquisitions. Greening the financial system is thus China's key strategy to 'green' BRI.

The green movement of China's financial system can be seen through regulatory changes at two levels. At the firm level, since the *Go Out* era, Chinese ministries and commissions have issued numerous documents regulating various aspects of outbound investments and other economic activities. Among them, the *Guidelines for Environmental Protection in Foreign Investment and Cooperation* (2013), jointly issued by the MEP and MOFCOM, is the most comprehensive in setting environmental rules for Chinese firms operating overseas, including requirements to perform socio-environmental impact assessments to gain Chinese bank loans. Additionally, the NDRC issued *Administrative Measures on Overseas Investments* (2017), requiring firms to disclose the environmental record of their overseas activities. These documents provide a primary framework for Chinese banks' environmental protection practices.

At the financial institution level, China has embarked on a movement to build a green credit system in the early 2010s. From the China Banking Regulatory Commission's (CBRC) issuance of *Green Credit Guidelines* (2012) to *Key Indicators of Green Credit Performance* (2014), these documents construct various guidelines, categories, and indicators in measuring Chinese banks' green scores in the hope of directing them from 'dirty' to 'clean' lending. While Chinese banks' domestic portfolios remain the focus, these documents, and the indicators disclosed, also include their overseas portfolios as part of the assessment. Furthermore, in 2016 the People's Bank of People's Bank of China adopted the *Guidelines of Establishing a Green Financial System*, which not only advances green credit requirements but also expands the 'green' movement into bonds, insurance, and pension markets. Since their first issuance in 2016, China's 'green bonds' in particular saw exponential growth, with an estimated value of $42.8 billion in 2018.[31] Notably, more than one fifth of Chinese green bonds were issued offshored, which requires meeting international green standards.

The green finance movement has also shaped BRI's green initiatives. China first introduced its green finance policy at the G20 Summit in 2016. A year later at the first BRF, China pledged to bring green finance to BRI countries and launched the Green Finance Index to promote transparency in BRI projects' environmental record. At the 2nd BRF the Green Finance Committee of China Society of Finance and Banking, the City of London Corporation, and 27 financial institutions, both Chinese and multinational, signed the Green Investment Principles (GIP), vowing to improve their environmental and social risk management and to promote green investments in BRI countries. Likewise, dozens of Chinese banks sought to expand partnerships with western banks and organizations to uphold international standards on environmental protection with a goal to build co-financing mechanisms. For example, the Export-Import Bank of China (Exim China) signed a memorandum of understanding (MoU) with Mizuho Bank and Standard Chartered Bank on third-party market cooperation, and separate MOU with the United Nations Industrial Development Organization to enhance cooperation on sustainable industrial development in BRI countries.

In spite of regulatory changes at home and multilateral activities abroad, there are many reasons to question the efficacy of China's green efforts. The primary reason is the weakness of China's regulatory bodies, which are still rooted in a mercantilist stance. At the firm level, as Kelly Gallagher and Qi Qi observed, current Chinese regulation, in spite of heightened environmental standards, is mostly non-mandatory, and only in rare cases does the government impose compulsory restrictions on firms' overseas activities.[32] For example, MEP's 2013 Guidelines *recommends* firms to adopt best practices for environmental impact assessment (EIA), namely, the Equator Principles. In fact, the Guidelines displayed MEP's failed attempt in making the EIA best practice mandatory due to opposition from pro-export promotion MOFCOM.[33] While NDRC's 2017 measures helped boost MEP's regulatory strength, it remained in a weak position to coordinate with other agencies on implementing its environmental rules overseas. Importantly, SASAC, which supervises Chinese state-owned enterprises, i.e. heavyweight BRI implementers, shared MOFCOM's mercantilist priorities. SASAC's performance evaluation mechanism remains mainly profit-oriented and lack components for environment, social and governance assessments.[34] At the end of 2020, the most explicit environmental requirement for Chinese firms remains compliance with host country rules, which is commonly seen as a low bar in ensuring the environmental standard of BRI projects.[35] As such, some studies found that Chinese firms investing overseas continue to adopt the lowest environmental standard but still receive state-backed loans.[36]

China's efforts to 'green' financial institutions also began with a mercantilist motivation, as Chinese regulators sought to raise 'green' foreign capital in a market that increasingly demands reporting on environmental, social, governance practices (ESG). The new financial guidelines are thus critical for China's development in green industries, both at home and abroad. Yet, the same mercantilist motivation also makes China reluctant to phase out lending for 'un-green' projects. Thus, the current guidelines, even though with increased regulatory strengthening, mainly call upon Chinese banks' voluntary actions. Procedures to implement these guidelines and mechanisms to supervise banks and their information disclosure also remain ambiguous. Moreover, the above-stated green financial rules from the Chinese bank regulators do not apply to two policy banks, Exim China and China Development Bank (CDB), which are under the direct supervision of the State Council in fulfilling national policies such as BRI. While being *de facto* BRI pillars, both banks have never disclosed their EIA and ESG guidelines and record.

Importantly, China's definition of 'green' –while varying somehow among different Chinese administrative authorities— is peculiar. It generally refers to 'less dirty.' For example, large-scaled hydropower, natural gas, and 'clean' coal technology, which are not included into the 'green' category by most international financiers, are classified into China's 'green' credit categories.[37] Strikingly, nuclear energy also falls into the scope of BRI's renewable energy. Unsurprisingly, studies found that green credit guidelines have yet had clear effect on the major Chinese banks' environmental record either at home or abroad. Others also found that the guidelines remain ambivalent on measures on banks' overseas portfolios and how they are evaluated as part of these banks' 'green' scores.[38] Similarly, hydropower and 'clean' coal development has been lumped into China's onshore green bonds. It was only after the announcement of China's carbon neutrality by 2060 in September 2020 that 'clean' coal was removed from China's green bond basket. According to a local expert, how far this change should apply to other part of the financial system has been highly contested between different ministries.[39] In sum, mercantilism continues to obstruct China's political will in conducting green finance policy and makes BRI at best 'greenish.'

Green trade and infrastructure investments: Touting green and building dirty

Green trade promotion has been touted as one of BRI's primary objectives. While the range of 'green' trade varies widely, from trade in environmental products and services related to air and water pollution control to hazardous waste management and disposal, according to the BREECP, promotion of renewable energy is of particular importance in helping BRI countries develop low carbon and climate resilience. The joint communique of the 2nd BRF reaffirmed this focus with a vow to support "global access to affordable, clean, renewable and sustainable energy for all."[40]

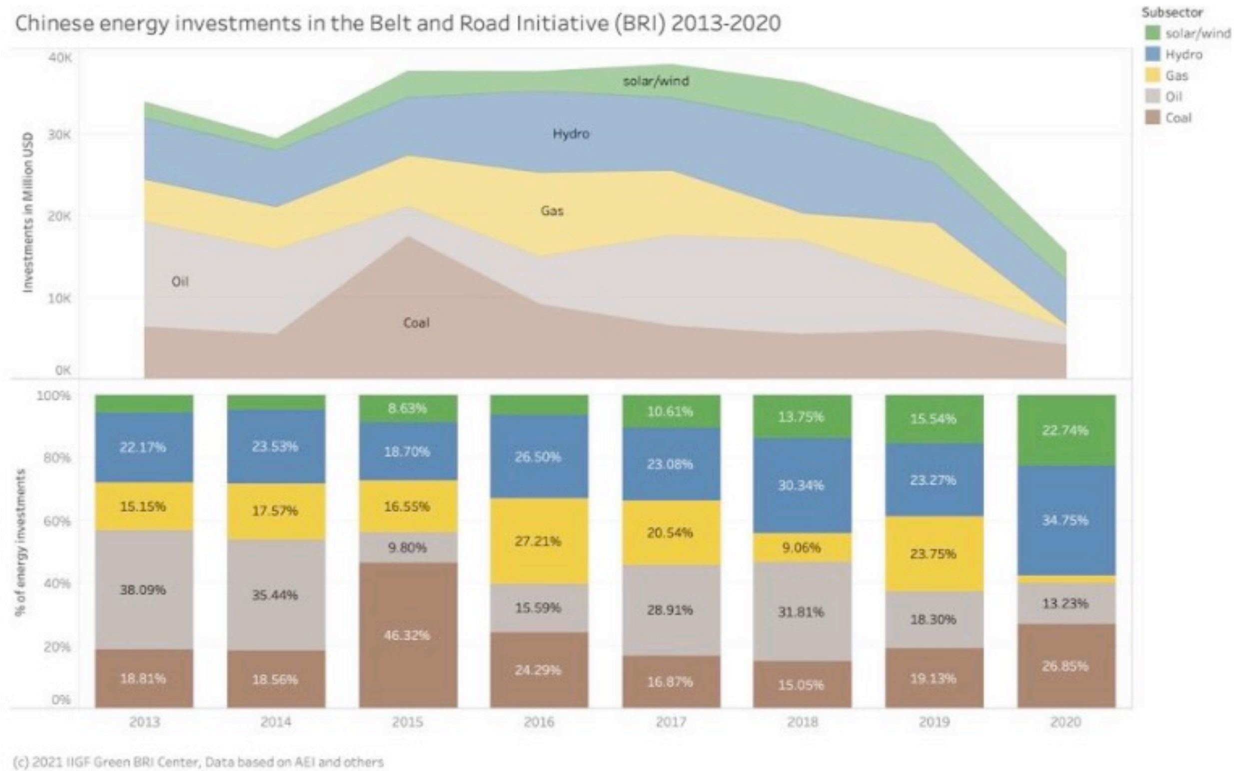
China has since launched many initiatives for harmonizing trade policy with BRI countries via BRI-themed multilateral forums. For example, in collaboration with the United Nations Environmental Programme, China launched green lighting and cooling systems, built sustainable cities alliances, and mentioned earlier, and formed mechanism in promoting, for example, eco-label mutual recognition, nuclear and radiation safety management, and export regulation cooperation. In the run-up to the two BRFs, many Chinese industries also released new environmental or social responsibility guidelines.

These initiatives, however, focus on facilitation and management of environment-related trade and investment in BRI countries rather than advancing these countries' environmental regulation frameworks. More importantly, while the policy significance of the new initiatives remains too early to tell, China's infrastructure development in BRI countries has been proven otherwise. According to the GDP Center's latest estimate, CDB and Exim China made approximately $462 billion worth of lending commitments in 2008-2019.[41] Of these lending, approximately two-thirds was made after the launch of BRI in 2013 for constructing transportation, energy supply, and energy distribution infrastructure and Table 2 illustrates the projects being financed. Strikingly, Table 2 shows that among the 518 projects with GDP validated physical locations, 124 are within national protected areas, 261 are within critical habitats, 133 are within indigenous peoples' land, and near 90 percent of them are located in developing countries in Asia and Africa. Over a hundred of projects— mostly related to hydropower development— in river basins in Southeast Asia, Africa, and South America overlap with multiple categories of sensitive territories. The GDP notes that this amount is an underestimate, as the two banks also earmarked additional loans for oil, gas, and mining extraction, such as the $10 billion Russia-China oil pipeline.

Table 2. China-financed overseas projects: geospatial analysis of biodiversity and indigenous lands

Continent/Area	Within National Protected Areas	Critical Habitats	Indigenous Peoples' Lands
South America	6	17	7
Central America and the Caribbean	3	5	0
North America	0	0	0
Europe	8	6	0
Africa	65	129	72
Asia and Pacific Islands	42	104	54
Australia	0	0	0
Antarctica	0	0	0
Total:	**124**	**261**	**133**

Source: the Global Development Policy Center of Boston University (2020).



Other data also shows the ineffectiveness of its promotion in eco-friendly energy infrastructure. According to the Beijing-based Green Belt and Road Initiative Center, which triangulates various datasets on the subject from 2013 to 2020, the value of the announced Chinese energy projects in BRI countries during this period was about $260 billion, of which coal power sectors made up for 30 percent and oil and gas sectors make up 35 percent. As shown in the figure above, Chinese investments in large-scaled fossil fuel projects declined after 2017 following the launch of BRI's green initiatives. Nevertheless, they remain a major part of China's energy investment in BRI countries. The data also shows that while BRI's renewable portfolio has grown significantly since 2017, it is driven largely by the rise of large-scaled hydropower development. It is important to note that in the year of 2020, under the pandemic outbreak of COVID-19, renewables accounted for 58 percent of new BRI contract value, surpassing the fossil fuels for the first time. However, the surge of renewables was mainly driven by hydropower sectors. At the same time, the share of coal sectors also increased, compared to that in previous years. Hydropower and coal continued to be the top two sectors of China's energy investments in BRI. In short, whether the pandemic might accelerate or stall the 'greening' of BRI energy projects remains unclear.

How to reconcile the contradiction between China's push for a green BRI and its investment record at the same time? The answer lies in the fact that a mercantilist China on the one hand, is spearheading eco-friendly and renewable exports and foreign investments, yet, on the other, it remains reluctant to close up regulatory loopholes and phase out environmentally detrimental ones in order to maintain Chinese state-owned firms' global foothold. Problems related to China's foreign aid and financial system discussed above illustrate this reluctance.

Moreover, most of the above-mentioned initiatives remain unclear in terms of their policy substance.[42] As China's financial system currently provides little real incentives for banks to support eco-friendly trade or renewable investments, firms in this sector—usually smaller and private players—cannot gain sufficient financial support to expand overseas. While a study group on the Green Development Fund was announced at the 2nd BRF, it remains far from unclear when this Fund would come to being.

The statistics shown above is also not a surprise considering two facts. First, China is not part of the OECD, the key platform that sets international rules for export credit agencies. Thus, Chinese policy banks, unlike its OECD counterparts, need not to comply with the Common Approaches on Environmental and Social Due Diligence. Similarly, none of the major BRI financiers has adopted the Equator Principles and performance standards issued by the International Finance Corporation (IFC) of the World Bank Group. While the Industrial and Commercial Bank of China (ICBC) has adopted the Principles as references for its operational guidelines, it has also supported many fossil fuel projects on the BRI map. Second, China actually resisted taking formal part into the 2015 OECD Agreement and Understanding on Export Credit for Coal-fired Electricity Generation Projects, which would restrict China's overseas coal power development.

Nevertheless, promising changes emerged recently. At the 2nd BRF in 2019, the BRI International Green Development Coalition announced the plan to study a traffic light system, which restricts Chinese firms' financing access based on the environmental impact of industrial categories of investment projects. This initiative was in response to the call of many from within Chinese ministries, think-tanks, and environmental groups, both in China and abroad, to raise the environmental standard since the launch of BRI. Then came the pandemic outbreak of COVID-19, which exacerbated financial problems of many large-scale BRI projects and plummeted China's overseas coal power investments in 2020. In November 2020, the MEE released the classification methodology of the Traffic Light system, based on international practices such as the EU Sustainable Finance Taxonomy and the Equator Principles.[43] For example, the system labels coal-fired power plants under red light, which is not recommended for financial support, while other types of projects, such as hydropower and railways, would need to implement internationally recognized mitigation measures to earn a 'green' status. In addition, solar and wind power are considered green projects for they advance the climate goals of the Paris Agreement. Up to date, the Traffic Light system has gained endorsement from individual officials from ministries including NDRC, CBRC, and MOFCOM. Still, how the system may overcome the bureaucratic obstacle and be adopted into a set of implantable and well-coordinated policy guidelines and whether it could apply to all Chinese banks, including policy banks, remain to be seen. While China's recent back-away from financing coal power plants in Bangladesh is a positive sign of the development, the recently released 14th FYP—which said little about ending coal power construction— proves the continued gap between China's commitments and actions under the mercantilist influence.

Policy implications for the United States: A three-pronged approach to a green BRI

This research explains how in spite of increased efforts, China, with other political and economic priorities in mind, has been far from effective in achieving the goal of greening BRI. This finding has important policy implications for the United States and its renewed focus on climate policy under the Biden Administration. This research shows that the U.S. should hold China and its BRI campaign accountable for its action in the Global South as well its impact on global environmental governance. To achieve this goal, the United States needs a *three-pronged* approach that deals not only with China but also with the Global North and South. In proceeding with this three-pronged approach, the following section identifies key tactics and strategies for consideration.

First prong towards China: U.S.-China policy is often framed as a cooperation-vs.-competition dichotomy, which obstructs discussions of policy options at the practical level. This report suggests moving beyond this view and instead look into areas where, from the standpoint of U.S. climate policy, China's BRI practices and policies are most in need of change. As the report shows, the U.S. should urge China to align its BRI practices and foreign economic policy environmental framework with international standards. For example, Beijing could force its export credit agencies to adopt the Equator Principle and OECD Common Approaches in their environmental and social due diligence guidelines. In doing so, the U.S. needs to not only contest but also engage China. The engagement is crucial especially for penetrating a Chinese bureaucracy whose internal relations and interests are so complex and conflicting that they often deter meaningful policy changes. The key is to help China build a 'pro-green' coalition from within. To do so, the U.S. should increase contact with China's sustainability-minded circles, both within and beyond the government, to exchange information, disseminate knowledge, and building their capacity to hold Chinese firms accountable for their overseas conduct. Such goals are rather achievable considering recent trends in China, such as its new carbon neutrality goals and release of the 'traffic light system,' which could indicate that sustainability-minded circles are gaining influence and in favor of a more progressive approach to greening BRI. However, as the report shows, as long as more powerful and higher-tier ministries such as MOFCOM, NDRC, and SASAC— often made up of mercantilist-minded officials— remain unready to support such measures, greening BRI will remain a daunting task. Therefore, U.S. engagements should also focus on those ministries. Nevertheless, these ministries would likely not respond well to U.S. sermons on environmental justice. The U.S. should pressure and persuade them with a focus on the economic and political risks of an environmentally race-to-the-bottom in BRI countries. COVID-struck financial distress in many large-scale BRI projects and emerging interests in renewable energy projects are opportunities to engage in dialogue along these lines. To successfully pressure and persuade China, the U.S. needs to construct a results-oriented dialogue platform for a host of offices and agencies in both Beijing and Washington, something that is currently lacking.

While U.S. policy makers might be hesitant to construct new dialogue frameworks given how unproductive and bloated U.S. – China dialogues became under the Obama administration, in this case Washington could take a page from China's playbook. Beijing frequently uses its bilateral 'partnership frameworks' to engage in dialogues with its strategic and comprehensive strategic partners. The dialogues offer Beijing an opportunity to exert its discourse and convening power and to introduce new norms and practices to its counterpart countries. Although it should now be painfully clear that U.S. engagement is not going to change China, on the issues of climate change and environment that Beijing often perceives as 'win-win' in making foreign collaboration, the United States still has an advantage in shaping the narrative and controlling discourse. Over time, this 'discourse power' can induce Beijing to play a 'race to the top' type game.

Second prong towards the Global North: The United States cannot engage China effectively without getting other creditor countries and environmental groups on board. Engaging creditor countries is also essential from the standpoint of global governance. China's push for BRI and its rise as the world's largest export creditor has weakened the efficacy of an OECD-centric export credit regime. While the OECD Working Party on Export Credits and Credit Guarantees, created in 2012, aimed to bring China, along with other emerging export creditors, in line with other OECD countries, it has been mostly unsuccessful.[44] The U.S. needs to continue working with other OECD countries in making concerting efforts to improve Chinese policy banks' environmental practices. To that end, Japan and South Korea, the OECD's two top exporters of coal-fired power technologies, are particularly important. Last year, under increased civil society pressure, both Japan and South Korea announced that their export credit agencies would phase out coal-fired power projects, making Exim China and CDB the primary target of transnational climate networks. The U.S. should continue to engage other OECD countries in pressuring Chinese policy banks to adopt a carbon policy in line with other export credit agencies. The goal, again, is to induce China to play a race-to-the-top game. This is not to say that an OECD-led export credit regime is perfect. Instead, it suggests that global environmental governance on export credits would be ineffective, if not impossible, absent China's participation.

Third prong towards the Global South: Engagement with the Global South is often neglected, but of crucial importance. After all, it is the host government that has the final say whether to build BRI projects or not. For countries struggling with basic infrastructure, simply asking them to avoid the 'debt trap' is not going to make them turn down Chinese financial assistance. Chinese firms and banks often insist that they simply respond to host country demands. However, if the nature of that demand can shift towards more sustainable projects, change could flow quickly. We have seen this shift in Vietnam where Feed-in Tariffs have brought a flood of foreign investment in solar and offshore wind.[45] Chinese state-owned firm Power China's winning bid in Vietnam's wind power project last year shows the importance of host countries' agency in greening BRI. In this sense, the U.S. should provide tangible support for countries in the Global South to create sustainable development incentives. Such support should be comprehensive, covering both policy and industrial levels assistance, and cater to the needs of both government and civil society. One particular area where the U.S. can contribute is in improving information transparency, which host countries need to make better-informed policy decisions. Stimson Center's Mekong Infrastructure Tracker is a prime example.[46] In addition to technical assistance, the U.S. should also consider providing funding for areas that China currently lags, but are critical to the Global South's renewable energy development, such as grid upgrades that allow energy efficiency and flexibility. To this end, cooperation with other creditor countries, as well as China, is necessary.

The above discussion provides an agenda for the U.S. to address at the United Nations climate summit in April 2021. To reiterate, the U.S. should not only focus on China. It needs to engage other countries as well, particularly those in the Global South, and to take different but mutually supported policy actions in order to manage the global commons and tackle climate change. It is time for the U.S. to reassert its global environmental leadership after spending four long years in the policy desert.

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