China's Role in Financing African Infrastructure

By Peter Bosshard, Policy Director, International Rivers Network[1]

May 2007

Executive Summary

China has become a primary financier of infrastructure projects in Africa. China Exim Bank, the country's official export credit agency, has approved at least $6.5 billion in loans for Africa, most of which is for infrastructure investments. China Exim Bank loans are often part of larger cooperative arrangements between China and African countries, which may include trade deals, arms exports, student exchanges, and the presence of peace keepers.

The rapid emergence of Chinese infrastructure financiers in Africa has raised a variety of concerns among international financial institutions, non-governmental organizations, and Western governments. This report examines and discusses the impacts that Chinese financiers – and particularly China Exim Bank – have regarding debt creation, good governance, and environmental protection. It measures China's efforts not by Western standards, but by international standards which China has signed or helped to bring about.

The report finds that the impacts of Chinese financiers on debt creation, good governance and environmental protection are generally more complex than presented in Western media. It finds that gaps indeed exist between China's commitment to international standards regarding good governance and environmental protection and actual practice on Chinese projects. It also finds that China is currently undertaking efforts to close these gaps in important areas.

The report argues that as a major investor, China now has a self-interest in Africa's longer-term stability, prosperity and development, and that paying more attention to governance and environmental problems is in line with this self-interest. Other actors have a right to call for compliance with international standards in infrastructure projects, but will only be credible in doing so if they practice what they preach in their own activities.

[1] The author would like to thank Lucy Corkin (Centre for Chinese Studies, Stellenbosch University), Michelle Chan (Friends of the Earth – US), Penny Davies (Diakonia), Magda Stoczkiewicz (CEE Bankwatch Network) and Bob Thomson (ECA-Watch) for valuable input and feedback. The paper was written with support from Oxfam America.

1847 Berkeley Way, Berkeley, California 94703 USA

Tel: (510) 848 1155/ Fax: (510) 848 1008/ Email: irn@irn.org/ Web: www.irn.org

Introduction

In China, approximately one fifth of humanity lives on only 7% of the world's cultivable land. The country does not have sufficient reserves of oil, timber or mineral resources to sustain its rapid economic growth. Foreign investment and trade help to secure the resources which China lacks at home. Given its complementary needs and resources, Africa has become a primary partner region in China's "going-out strategy".

Trade between China and Africa increased tenfold between 1999 and 2006, and reached $56 billion at the end of this period. China's imports from Africa primarily consist of oil and minerals. China's exports to the continent include a wide variety of investment and consumer goods. Beijing does not officially report on its development assistance, but estimates to have spent RMB 44.4 billion (or $5.7 billion) on assistance for Africa by 2006.[2] Chinese companies had invested less than $1 billion in Africa by 2004, but the region had the highest growth rate of Chinese investment among all destinations. An estimated 700-800 Chinese companies are operating in Africa.[3]

The Export-Import Bank of China, China's official export credit agency, plays a strategic role in strengthening the economic relations between China and Africa. China Exim Bank helps finance the infrastructure required for the extraction and transport of energy and mineral resources, and extends soft loans which cement the political relations between China and Africa. China Exim Bank's loans primarily benefit state-owned enterprises, while private companies tend to resort to informal and private lending markets in China.

By the end of 2005, China Exim Bank had approved more than RMB 50 billion – at least $6.5 billion – for projects in Africa.[4] Africa accounted for close to 10% of the Bank's total approvals at this time. In September 2006, China Exim Bank entertained relations with 36 African countries, and had 259 African projects in its portfolio. Seventy-nine percent of the Bank's commitment to Africa were for infrastructure projects.[5]

The World Bank estimates that all China Exim Bank loans to Sub-Saharan Africa in the infrastructure sector alone amounted to over $12.5 billion by mid-2006 – a much larger amount than the figure disclosed by China Exim Bank. According to the World Bank, more than 80% of these loans were concentrated on Angola, Nigeria, Mozambique, Sudan and Zimbabwe. Projects in the power sector accounted for about 40% of the commitments, followed by general or multiple-sector commitments (24%), transport (20%), telecom (12%), and water projects (4%).[6]

---

[2] He Wenping, China-Africa Relations Moving into an Era of Rapid Development, in: Africa Institute of South Africa, Inside AISA, Oct./Dec. 2006, pp. 3-6, p. 6. He Wenping is the director of African Studies at the Institute of West Asian and African Studies, Chinese Academy of Social Sciences.
[3] See Harry G. Broadman, Africa's Silk Road, China and India's New Economic Frontier, The World Bank 2007, p. 97, and Sanusha Naidu, Martyn Davies, China Fuels Its Future with Africa's Riches, in: South African Journal of International Affairs, 13/2, 2006, pp. 69-83, p. 77.
[4] Export Import Bank of China, China-Tunisia Cooperation Forum, press release, March 28, 2006.
[5] Gao Zhen, Infrastructure Development in Africa Supported by The Export-Import Bank of China, 17 January 2007.
[6] Harry G. Broadman, p. 275.

China Exim Bank's projects in Africa include hydropower dams (at various stages of development) in Congo-Brazzaville, Ethiopia, Mozambique, Sudan and Zambia, railway lines in Angola and Sudan, and copper mines in the Democratic Republic of Congo and Zambia. The Bank also financed the export of fighter jets to Nigeria, and the construction of a hotel complex in Sierra Leone.

Increased resources for infrastructure development in Africa are badly needed. China Exim Bank could fill a critical gap in Africa's economic development. Will the Chinese government promote a development path that is different from the model promoted by Northern-dominated financial institutions? Will funding from China Exim Bank undermine progress regarding good governance and environmental protection, or will it allow African borrowers to escape a policy diktat that reflects the interests or Western investors? These are some of the questions this paper will address.

China Exim Bank – a brief overview

The China Exim Bank was established in 1994 as one of China's three policy banks. While the Bank is wholly owned by the Chinese government, the government does not formally guarantee its liabilities (except for foreign government loans to China onlent by China Exim Bank). This sets China Exim Bank apart from export credit agencies in most other countries.

China Exim Bank is mandated to implement China's industrial, trade and foreign investment strategies by promoting exports, and receives broad guidance from the central government on this. China Exim Bank reports directly to the State Council, and various parts of its business activities are overseen by the Ministries of Finance and Commerce, the People's Bank of China, and the China Bank Regulatory Commission. The Bank is more than the administrative arm of China's export promotion however, and enjoys "relative autonomy in its project evaluation and approval process".[7]

China Exim Bank offers a variety of services. It provides export credits, including supplier's credits (in renminbi) and buyer's credits (in foreign currency), lends on foreign government loans for projects in China, offers foreign exchange guarantees, and administers the Chinese government's concessional loans to foreign governments. According to the rating agency Standard & Poor's, China Exim Bank extends 90% of its export credits to state-owned enterprises and to large projects (of more than RMB 100 million each).[8]

Before 2001, China Exim Bank also provided export credit insurance. When China joined the WTO, the government created a new institution, the China Export and Credit Insurance Corporation (or Sinosure). Sinosure took on China Exim Bank's export credit business in line with WTO regulations.

[7] Standard & Poor's, Bank Credit Report, Export-Import Bank of China, August 10, 2006, pp. 2ff.
[8] Ibid., p. 5.

At the end of 2005, the outstanding loans on China Exim Bank's balance sheet amounted to RMB 176 billion, which established the Bank as one of the largest export credit agencies.[9] China Exim Bank aims to expand its loans by 15-20% per year. A growth rate of 15% would increase its lending to approximately $40 billion in 2010 – considerably more than the lending of any other export credit agency or the World Bank.

Part of a package deal

Most export credit agencies promote exports to create shareholder value and jobs. China Exim Bank focuses on projects in sectors such as resource extraction that are of strategic importance for China's economy. The Bank's loans – and particularly its concessional loans – are often part of a comprehensive package of political and economic cooperation. Such packages may include aid, investments by state-owned enterprises, arms exports, export credits, visits by China's President or Prime Minister, students exchanges, and the emission of peace keepers.

China does at this stage not have a centralized aid bureaucracy. Concessional loans are an important part of the country's official development assistance. Projects supported by such soft loans need to be approved by China's Ministry of Commerce and by the host government. According to China Exim Bank, concessional loans are "mainly used to procure mechanical and electronic products, complete sets of equipment, high tech product, services as well as materials from China".[10] The role which the Ministry of Commerce plays in approving concessional loans indicates that commercial interests are an important motivation in China's foreign aid policy.

Under Chinese Exim Bank rules, at least 50% of the materials must be sourced from China.[11] This is normal for export credits, but not for aid projects. It means that aid projects financed by China Exim Bank create few backward linkages with the economies of the host countries. The condition mirrors former practices of Western aid projects, and does not support an autonomous development of Africa's economy.

During the 2001-2005 period, China Exim Bank approved 78 concessional loans. Outstanding concessional loans reached approximately RMB 10 billion by 2005.[12] At the Beijing summit of the Forum on China-Africa Cooperation (FOCAC) in November 2006, President Hu Jintao announced that China would double its assistance to Africa by 2009, and provide $3 billion in preferential loans and $2 billion in preferential buyer's credits to Africa in the next three years.[13] By that time, China had signed 27 framework agreements regarding concessional loans with African governments.[14] Projects supported with soft loans included the Benguela railway in Angola and the export of telecommunication equipment to Tunisia.

[9] The Export-Import Bank of China, 2005 Annual Report, p. 5.
[10] China Exim Bank website, http://english.eximbank.gov.cn/business/government.jsp, viewed on April 11, 2007
[11] Ibid., viewed on April 21, 2007.
[12] Standard & Poor's, p. 5.
[13] Address by Hu Jintao, President of the People's Republic of China, at the Opening Ceremony of the Beijing Summit of The Forum on China-Africa Cooperation, Beijing, 4 November 2006.
[14] Strengthen China-Africa Cooperation for Mutual Benefit , Address by Wen Jiabao, Premier of the State Council Of the People's Republic of China At the Opening Ceremony of the High-level Dialogue Between Chinese and African Leaders and Business Representatives, 4 November 2006

Joshua Kurlantzick, a visiting scholar at the Carnegie Endowment for International Peace, observes that "[u]nlike other donors, China prefers to provide loans to Africa, rather than grants, in part because it can then use these loans as leverage over recipient countries".[15] Once countries have established close political and economic relationships with China, China regularly forgives outstanding loans. The preference for loans in foreign assistance strengthens the role of China Exim Bank in China's foreign policy – and at the same time the government oversight over the institution.

A free rider of debt relief?

In 1991, the OECD member governments negotiated what became known as the Helsinki Package on tied aid. The Helsinki Package stipulates that export credit agencies can only provide tied aid – export credits that are at least 35% concessional – to projects that have genuine development characteristics and are not commercially viable.

The WTO's Agreement on Subsidies and Countervailing Measures rules that the interest rates of export credits must be market-based, in that they "are not inadequate to cover long term costs". The Agreement clarifies that export credits are not considered subsidies if they fall under "an international undertaking on official export credits" with at least twelve members such as the Helsinki Package, or if a member country in practice "applies the interest rates provisions of the relevant undertaking".[16]

China Exim Bank is not bound by the Helsinki Package, but by the WTO Agreement. The institution does not systematically disclose the terms under which it offers concessional loans. It has however published the terms of concessional loans for individual projects such as the Benguela railway in Angola (with an interest rate as low as 0.25%), and the Zarafshon hydropower project in Tajikistan (with an interest rate of 1%). The Bank requires that projects that benefit from concessional loans "should be technically feasible and can generate favorable economic returns".[17]

Export credit agencies from other countries maintain that China Exim Bank's concessional loans for economically viable projects do not comply with the WTO Agreement on Subsidies and Countervailing Measures. They have however never filed a complaint with the WTO on this issue.

While export credit agencies are concerned that China Exim Bank may be distorting trade through soft loans tied to Chinese exports, development institutions have expressed concern that China Exim loans to African countries under commercial terms undermine recent debt relief initiatives and create new unsustainable debt burdens.

---

[15] Joshua Kurlantzick, Beijing's Safari: China's Move into Africa and Its Implications for Aid, Development, and Governance, Carnegie Endowment for International Peace, Policy Outlook, November 2006, p. 3.
[16] Agreement on Subsidies and Countervailing Measures, Article K.
[17] China Exim Bank website, http://english.eximbank.gov.cn/business/government.jsp, viewed on April 19, 2007.

After debt relief, African governments that had not been considered creditworthy for many years became able to borrow from private banks and export credit agencies. Western governments and international financial institutions criticized that China Exim Bank benefited from this situation as a free rider of debt relief. The World Bank warned that "if the provision of IDA grants frees up space for increased borrowing from other sources, then IDA would, in effect, be subsidizing other lenders at the expense of its future financial strength". The Bank wanted to prevent this from happening. Supported by donor governments, it announced that it would "explore the feasibility of developing a mechanism whereby a country could cease to be eligible for grants if its government contracts or guarantees new non-concessional loans during any year of IDA 14".[18] In other words, poor countries would have to choose between commercial loans from lenders such as China Exim Bank and the very limited soft loans from IDA.

The risk of a new unsustainable debt build-up is real. Yet the concerns of the World Bank and Northern donors are somewhat hypocritical on several accounts. The purpose of debt relief was to make African borrowers creditworthy again. The World Bank considers it part of its mandate to leverage loans from private banks for low-income countries – which like most China Exim loans, are extended on commercial terms. IMF and World Bank loans come with heavy conditionality, and Western governments have so far not fulfilled their pledges of new aid for Africa. This makes borrowing from China Exim Bank all the more attractive for African governments. Celine Tan of the University of Warwick's School of Law argues that the World Bank sees new lenders such as China Exim Bank "not only as potential competitors for the business of low-income countries but also as threats to [its] financial integrity and political hegemony".[19]

The best insurance against unsustainable debt burdens are projects that make economic sense and are not tainted by corruption. China Exim Bank's record in this respect will be examined below.

No strings attached

While the history of Africa's relation with Europe and North America is checkered, African-Chinese relations have generally been friendly. Many African governments remember that China supported Africa's liberation struggles against the colonial powers. In recent years, the political relations between China and Africa intensified quickly. President Hu Jintao and Premier Wen Jiabao visited no less than 18 African countries between April 2006 and February 2007, and 48 African governments sent high-level delegations to the FOCAC summit in Beijing.

Many African leaders admire the tremendous economic success which China has achieved over the past decades. As a developing country, China can offer experiences and goods that are better suited to the needs of African societies than the policy advice and products from industrialized countries. For example, China and Africa both have dual health systems that rely on traditional as well as modern medicine. While Western pharmaceuticals are unaffordable for most African

[18] International Development Agency, Debt Sustainability and Financing Terms in IDA 14: Further Considerations on Issues and Options, Washington DC, November 2004, p. 7.
[19] Celine Tan, Who's 'Free Riding'? A Critique of the World Bank's Approach to Non-Concessional Borrowing in Low-Income Countries, CSGR Working Paper No. 209/06, June 2006, p. 32.

patients, China offers cheap and effective anti-malaria drugs based on the Artemisia shrub that are of great interest for African consumers.

According to China's new African Policy of January 2006, China "respects African countries' independent choice of the road of development" and will "provide and gradually increase assistance to African nations with no political strings attached".[20] Indeed, China extends loans with (almost) no strings attached. At the FOCAC summit of November 2006, President Hu Jintao pronounced that "[t]reating each other as equals is crucial for ensuring mutual trust".[21] At the same event, Premier Wen Jiabao stressed that "Chinese assistance to Africa is sincere, unselfish and has no strings attached".[22] China's only condition for political and economic cooperation is the "one China principle", in that African partner governments may not have official contacts with Taiwan.

African governments have hailed China's new role as a trade partner and financier as a major new opportunity for Africa's development. "[China] is cooperating with African countries on an equal basis without any desire to colonize Africa", Zimbabwe's President Robert Mugabe said in October 2006.[23] Around the same time, Sudan's President Omar El-Bashir praised his country's relations with China as "exemplary" in South-South cooperation.[24] And a senior Nigerian government official was quoted by the *Financial Times* as follows: "Being a developing country, they understand us better. They are also prepared to put more on the table. For instance, the western world is never prepared to transfer technology – but the Chinese do."[25]

Representatives of civil society organizations and other independent observers tend to take a more balanced view on China's emerging role in Africa. Leni Wild and David Mepham of the United Kingdom's Institute for Public Policy Research (IPPR) warned in 2006:

> "China represents opportunities and risks for Africa. Managed well, China could bring real development benefits to Africans. (…) Managed badly, however, China's role in Africa may lead to worsening standards of governance, more corruption and less respect for human rights."[26]

African civil society networks have yet to develop a joint platform on the risks and opportunities of China's role in Africa.[27] Civil society concerns have so far mainly focused on the risks that China's "no strings attached" policy may strengthen undemocratic, repressive regimes, undermine efforts to fight corruption, weaken the social and environmental standards used in infrastructure projects, and (as elaborated above) initiate a new cycle of indebtedness in Africa. The following sections will address these concerns. They will not measure China's activities by the standards of Western institutions. The most appropriate measure for China's activities in

---

[20] China's African Policy, January 2006
[21] Address by Hu Jintao, 4 November 2006
[22] Address by Wen Jiabao, 4 November 2006.
[23] Zimbabwean president hails China-Africa summit as crucial, *Xinhua*, October 28, 2006
[24] Sudanese president: Sudan-China ties exemplary in South-South cooperation**,** *Xinhua*, November 11, 2006
[25] *Financial Times*, February 28, 2006
[26] Leni Wild and David Mepham, The New Sinosphere, China in Africa, 2006, p. 1.
[27] See Akwe Amosu, China in Africa: It's (Still) the Governance, Stupid, in: Foreign Policy in Focus, March 9, 2007.

Africa are the conventions that China has ratified internationally, the standards which China applies at home, and the standards of African host countries.

Strengthening repressive regimes?

The Chinese government considers human rights abuses internal affairs. It entertains close economic and political relations with resource-rich countries such as Burma, Sudan, Uzbekistan and Zimbabwe in spite of the massive repression of opposition forces and ethnic minorities. The China Exim Bank is part of this economic and political cooperation.

Sudan is a prominent example of China's supportive and at the same time complex relations with undemocratic and repressive regimes. China has invested heavily in Sudan's oil exploration, chemical industry, and railway transport. China also finances power projects such as the Quarre I and Al Jaily thermal power plants, and the Merowe and Kajbar hydropower projects (see below).

China invested in Sudan's oil exploration after several Western investors pulled out of the country because of the atrocities committed in the civil war between North and South Sudan. China was accused of participating in human rights abuses by cooperating in the forced displacement of farmers from its oil concession areas.[28] In 2005, Sudan provided 5% of China's oil imports, and China is the largest importer of Sudanese oil.[29]

In 1995, China sold six or seven F-7M fighter jets to Sudan, and there are claims that Chinese military equipment has been used in attacks on civilians in Darfur.[30] With a share of 9.3% of total sales, China was only the third-largest arms exporter to Sudan during the 1994-2004 period however. With a share of 77.4%, Russia was by far the most important supplier of arms to Sudan.[31]

China provided diplomatic cover to the Sudanese government at critical instances. At the UN Security Council, China threatened to use its veto power against attempts to impose an oil embargo on Sudan. China did however not oppose a Security Council decision to refer Darfur suspects to the International Criminal Court, and has repeatedly urged the Sudanese government to show more flexibility in allowing UN peacekeepers to play an active role in Darfur. In April 2007, the Special Envoy of the US President to Sudan conceded that "[t]he Chinese have been largely supportive of our efforts to resolve the Darfur situation through peaceful means and have been publicly encouraging Khartoum to allow the AU/UN hybrid force as agreed to in [an agreement reached in Addis Ababa in November 2006]".[32]

The China Exim Bank is an integral link of China's close but complex relations with Sudan. China Exim Bank provided large loans to finance the Merowe Dam Project, the Al Jaily gas-

---

[28] See Yitzhak Shichor, Sudan: China's Outpost in Africa, in: Association for Asian Research, 11/4/2005
[29] See UN Comtrade Database, http://comtrade.un.org/
[30] Leni Wild and David Mepham, p. 64.
[31] Stockholm International Peace Research Institute, Arms Transfers to Sudan, 1994-2004, see www.sipri.org/contents/armstrad/atsud_data.html/view?searchterm=sudan, viewed on April 13, 2007
[32] Andrew S. Natsios, President's Special Envoy to Sudan, Darfur: A 'Plan B' to Stop Genocide?, Testimony Before the Senate Foreign Relations Committee, Washington, DC, April 11, 2007

fired power plant and a new railway line to Port Sudan, among other projects. All of these projects help extract and export oil from Sudan. In early March 2007, China's National Development and Reform Commission removed Sudan and eight other countries from the list of destinations for which Chinese investors will receive concessional loans from China Exim Bank and other incentives.[33] It is not known whether this decision was motivated by political reasons.

As the example of Sudan illustrates, China's insistence on treating severe human rights abuses as internal matters is not without exceptions. China's position on good governance is however less progressed than Africa's own official attitude. As IPPR's Leni Wild and David Mepham have pointed out, the African Union and the New Partnership for Africa's Partnership (NEPAD) have articulated strong commitments to democracy, good governance and the respecting human rights.[34]

Undermining the fight against corruption?

The UN Convention against Corruption commits the signatory governments to take effective measures to prevent and prosecute corruption, including the bribery of foreign public officials. China ratified this Convention in January 2006 – earlier than most industrialized countries. While the Chinese government is making strong efforts to clamp down on corrupt practices at home, the same cannot be said for China's international economic activities. The Bribe Payers Index of Transparency International, which assesses the propensity of companies to bribe abroad, ranked companies from China 29th out of 30 countries in October 2006. "In the case of China and other emerging export powers, efforts to strengthen domestic anti-corruption activities have failed to extend abroad", commented Transparency International.[35]

In recent years, governments and financiers from the North and South have increasingly acknowledged the importance of good governance for economic and social development. The perceived propensity of Chinese companies to bribe abroad, and the lack of success by the Chinese government to prevent this, may undermine international efforts to strengthen good governance and fight corruption in development projects.

In September 2006, a task force of the African Union identified "[ensuring] that Chinese investment practices do not undermine Africa's efforts to promote financial transparency and combat corruption" as one of the challenges in Africa's new partnership with China.[36] As if to drive this concern home, Alfred Mutua, a spokesperson for the Kenyan government, in June 2005 was quoted as follows: "The Chinese do not peg their economic activity or aid to political conditions. You never hear the Chinese saying that they will not finish a project because the government has not done enough to tackle corruption."[37]

---

[33] See Richard McGregor, Iran, Sudan and Nigeria taken off China investment incentive list, in: *Financial Times*, March 2, 2007.
[34] Leni Wild and David Mepham, p. 62.
[35] Transparency International, Leading exporters undermine development with dirty business overseas, press release, 4 October 2006.
[36] African Union, Meeting of the Task Force on Africa's Strategic Partnership with Emerging Powers: China, India and Brazil, September 11-13, 2006, Report, p. 5.
[37] Quoted in *USA Today*, June 21, 2005

Angola is a prominent case in which Chinese funding allowed a government to evade international pressure to strengthen its accountability. According to Human Rights Watch, more than $4 billion in oil revenues vanished from Angola's public coffers between 1997 and 2002.[38] In 2004 and 2005, the International Monetary Fund and other international donors put pressure on the Angolan government to strengthen transparency in its oil sector. Right at this time, China Exim Bank offered Angola a concessional loan of $2 billion. This allowed Angola to forego the loans from Western and international donors and the good governance conditions that were tied to them. Angola became China's largest oil supplier in 2006, and China is the biggest importer of Angolan oil.

In 2000, the OECD Working Party on Export Credits and Credit Guarantees issued an Action Statement on Bribery and Officially Supported Export Credits (revised in 2006). The Action Statement is in many ways insufficient. It still commits the OECD's export credit agencies to "take appropriate measures to deter bribery" in transactions supported by official export credits, to refuse export credit coverage if due diligence concludes that bribery was involved in a transaction, and to take appropriate action, including denial of payment, if bribery in a contract is proved after an export credit has been approved.[39]

While the Chinese government is fighting corruption at home, it is concerned about a more active good governance agenda of the multilateral development banks. In a consultation on the World Bank's new anti-corruption framework, the Chinese government responded that "[the Bank] should remain focused on development, refrain from interference in domestic affairs and politics, and respect client ownership".[40] A Bank manager in China even reported that her counterpart in the Ministry of Finance was "so worried and [was] considering to suspend the lending program discussions next year".[41]

Not being a member of the OECD, China has not signed on to the Action Statement on bribery and export credits, and China Exim Bank does not have an official policy on corruption. China Exim Bank disburses export seller's credit, which make up the bulk of its lending, to contractors as progress in project implementation is made, and not to borrowing governments.[42] This reduces the risk of the wholesale diversion of China Exim loans by borrowing agencies. It does however not ensure that the projects themselves are free of corruption, even more so because many of the respective projects are not based on international competitive bidding.

---

[38] Human Rights Watch, Some Transparency, No Accountability: The Use of Oil Revenue in Angola and Its Impact on Human Rights, January 2004, p. 1.
[39] OECD Working Party on Export Credits and Credit Guarantees, 2006 Action Statement on Bribery and Officially Supported Export Credits, 11 May 2006, paragraph 2.
[40] The World Bank, Strengthening World Bank Group Engagement on Governance and Anticorruption Consultation Feedback, China, January 23-24, 2007, p. 1.
[41] Electronic message from Hsiao-Yun Elaine Sun, Operations Manager, The World Bank, to James Adam, Vice President, The World Bank, March 12, 2007, viewed at the website www.foxnews.com/projects/pdf/WB-China.pdf on April 20, 2007.
[42] See Henry Chan, New Phenomenon – Or Merely Old Wine in a New Bottle? A Comparison of China's Current Foreign Aid Model Against the Traditional Bilateral Donors' Historical and Current Practices, April 2007, pp. 12f.

At the FOCAC summit of November 2006, Premier Wen Jiabao announced that China's assistance projects in Africa would be "in line with international practices and the principle of being open, fair, just, equitable and transparent".[43] As far as corruption is concerned, this commitment still needs to be filled with substance.

The Merowe Dam Project in Sudan

In 2005, Sierra Leone's ambassador to China (and noted science fiction writer) Sahr Johnny reported about a meeting with Chinese visitors to discuss hydropower and agriculture projects as follows:

> "The Chinese are doing more than the G8 to make poverty history. If a G8 country had wanted to rebuild the stadium, we'd still be holding meetings! The Chinese just come and do it. They don't hold meetings about environmental impact assessment, human rights, bad governance and good governance. I'm not saying it's right, just that Chinese investment is succeeding because they don't set high benchmarks."[44]

While many governments welcome the lack of high benchmarks by financiers, others are concerned about the impacts on Africa's environment. The African Union task force which met in September 2006 found that one of the challenges in Africa's new partnership with China was to "[e]nsure that China pays more attention to the protection of the environment in its investment practices".[45] The Merowe Dam Project in Sudan is a prominent example of this challenge.

The Merowe Dam is currently being built near the fourth cataract of the Nile in Northern Sudan. With a planned capacity of 1,250 megawatts, the dam is one of the largest hydropower projects currently under construction. The project will more than double Sudan's power generation capacity. Its electricity will mainly serve the cities and industrial centers of Khartoum, Port Sudan, and Dongola.

The Merowe Dam will create a reservoir with a length of 174 kilometres and a surface area of 476 square kilometres. The project will have massive social and environmental impacts. More than 50,000 people are currently being displaced from the fertile Nile Valley to arid desert locations. The project authorities have promised to provide irrigation water to the resettlement sites, but the soils are generally so poor that this does not offer the displaced farmers a realistic source of livelihood. A visit to the project's first resettlement site in February 2005 showed that the poverty rate was rapidly increasing among the displaced people.[46]

The communities which have not yet been displaced for the Merowe Dam ask to be resettled at the shores of the new reservoir rather than in the proposed desert locations. The project

---

[43] Address by Wen Jiabao, 4 November 2006.
[44] Quoted in Lindsey Hilsum, We Love China, in: Granta 92, The View from China, 2005
[45] African Union, Meeting of the Task Force on Africa's Strategic Partnership with Emerging Powers: China, India and Brazil, p. 5.
[46] See International Rivers Network, The Corner House, A Critical Juncture for Peace, Democracy, and the Environment: Sudan and the Merowe/Hamadab Dam Project, pp. 7f.

authorities have responded to these demands with strong repression. In one incident in April 2006, militias of the project authority killed three people in Amri village and wounded 47 others.

Lahmeyer International, one of the companies involved in the project, prepared a brief environmental assessment of the Merowe Dam in April 2002. The Lahmeyer report asserts that all negative impacts of the dam can mitigated, and that the project will have a series of beneficial impacts, including on wildlife, the welfare of the affected people, and health.[47] In violation of Sudan's Environmental Protection Act of 2000, the Ministry of Environment's Higher Council for Environment and Natural Resources was never allowed to review and certify the environmental assessment of the Merowe Dam. A senior representative of the Merowe Dam Project Implementation Unit argued that being an international company, Lahmeyer International would follow international standards, and so compliance with national law was not important.[48]

In March 2006, EAWAG, the Swiss Federal Institute of Aquatic Science and Technology, carried out an independent review of the Merowe Dam's likely environmental impacts and the Lahmeyer assessment. The EAWAG review predicted serious negative impacts on aquatic ecology, water quality and public health due to factors such as strongly fluctuating water levels and sedimentation. It concluded that the Lahmeyer report was "far from meeting European or international standards", and that "[k]ey environmental issues such as reservoir sedimentation, irrigation, water quality, [and] downstream ecological impacts resulting from hydropeaking were not addressed adequately".[49]

The Merowe Dam is being built by CCMD, a consortium of China International Water & Electric Corporation and China National Water Resources & Hydropower Engineering Cororation, in cooperation with several Sudanese construction companies. Lahmeyer International of Germany manages the construction of the project, Alstom of France is supplying electro-mechanic equipment, and ABB of Switzerland is building transmission substations.

The Merowe Dam's project authority approached countries such as Malaysia, China, Canada, Arab and European countries for funding.[50] COFACE, the official export credit agency of France, rejected the request of support because of the project's environmental impacts. China Exim Bank did not share COFACE's scruples. With support of $520 million, the Bank is the main foreign financier of the Merowe Dam. Other funders include the Arab Fund for Economic and Social Development ($250 million), the Development Funds of Saudi Arabia ($200 million), Abu Dhabi ($150 million), and Kuwait ($150 million), the Sultanate of Oman ($106 million), and the State of Qatar ($15 million).[51]

---

[47] See Lahmeyer International, Environmental Assessment Report for the Merowe Dam Project, April 2002, chapter 4.
[48] Personal communication from Mutaz Musa Abdalla Salim, Director General of Financing, Merowe Dam Project Implementation Unit, February 27, 2005.
[49] EAWAG, Independent Review of the Environmental Impact Assessment for the Merowe Dam Project (Nile River, Sudan), March 15, 2006, pp. 5, 76.
[50] Website of the Merowe Dam Project Implementation Unit, www.merowedam.gov.sd/en/funding.html, viewed on April 18, 2007.
[51] Ibid.

China is financing the project's transmission lines, while the Arab institutions are funding the dam body and power plant. China Exim Bank loans of more than $100 million require the approval by the State Council, and so it is likely that the decision to finance the Merowe Dam was as much motivated by foreign economic policy interests as by the costs and benefits of the dam proper.

Undermining environmental standards?

Since the 1980s, the World Bank and other multilateral development banks have adopted safeguard policies that address the social and environmental impacts of their projects. With some delay, the export credit agencies of the OECD countries in December 2001 established common guidelines on the environment in the Common Approaches to the Environment and Officially Supported Export Credits.[52]

Under the Common Approaches, the export credit agencies commit to conducting environmental assessments for projects with potentially significant adverse environmental impacts. When undertaking environmental reviews, the agencies commit to "benchmark projects against host country standards, against one or more relevant environmental standards and guidelines published by the World Bank Group, the European Bank for Reconstruction and Development, the Asian Development Bank, the African Development Bank and the Inter-American Development Bank".[53] The Common Approaches to the Environment were revised by the member governments of the OECD in April 2007 (see below).

China is not a member of the OECD, and China Exim Bank has not signed on to the Common Approaches. The Bank adopted an environmental policy in November 2004 (see below). Representatives of other financial institutions are concerned that this will result in an environmental race to the bottom, in that Chinese banks will finance projects that were rejected by other financiers due to their unacceptable environmental impacts. There is ample anecdotal evidence to suggest that borrowing governments use the fact that Chinese financiers do not set high benchmarks to put pressure on the benchmarks set by other financial institutions.

In a newspaper interview, World Bank President Paul Wolfowitz warned in October 2006:

> "Almost 80% of the world's commercial banks respect [the Equator Principles] when they finance projects. The large Chinese banks do not apply them. True, they are relatively new to this type of activity in Africa. But they should not make the same mistakes which France and the United States have made in Mobutu's Zaire… Let's be honest, this would be terrible, a true scandal. We have discussed the problems that we have discovered very directly with the Chinese. I hope that our views will converge over time."[54]

---

[52] Recommendation on Common Approaches on Environment and Officially Supported Export Credits, formally adopted by the OECD Council on December 18, 2003.
[53] Ibid., paragraph 12.1.
[54] Quoted in *Les Echos*, October 24, 2006 (translated from French)

The Chinese Foreign Ministry angrily rejected Wolfowitz's criticism, emphasizing that China's relations with Africa were based on equality and mutual benefit. Yet around the same time, Philippe Maystadt, the President of the European Investment Bank (EIB), criticized Chinese financiers even more bluntly. "The competition of the Chinese banks is clear", Maystadt said according to the *Financial Times*. "They don't bother about social or human rights conditions." The EIB President claimed that Chinese banks had snatched projects from under his bank's nose in Asia and Africa, after offering to undercut the conditions it imposed on labor standards and environmental protection.[55]

Philippe Maystadt and others recommend that international financial institutions should lower their own standards in order not to lose more projects to their competitors from China. Arguing that international financial institutions needed to avoid "excessive" conditions, the EIB President said: "The international finance community needs to consider this problem. We have to think about the degree of conditionality we want to impose."[56]

When the member governments of the OECD revised the Common Approaches of their export credit agencies to the environment in April 2007, they decided to weaken them by creating a critical loophole. OECD export credit agencies may now decide to "support a project which does not meet the international standards against which the project has been benchmarked", as long as they "report and justify the standards applied" to their peer agencies.[57]

Civil society observers suspect that some financial institutions may use the competition by Chinese banks as a welcome pretext to lower their own environmental standards. Compared with other financial institutions, the environmental standards of export credit agencies and the EIB are hardly "excessive". Non-governmental organizations and other observers argue that international financial institutions should keep up their own standards, and encourage Chinese financiers to strengthen theirs.[58] Eisuke Suzuki, a former Director General of the Asian Development Bank's Operations Evaluation Department, stipulated in a Chinese legal journal in February 2007:

> "Ironically, any government that finances its [export credit agency] has supported social and environmental safeguards policies, to which multilateral development banks (MDBs) are subject. China is no longer an ordinary borrower in MDBs; it is an important donor. As a responsible financier in development, the China Exim Bank needs to develop its operational policies and procedures."[59]

---

[55] *Financial Times*, EIB accuses China of unscrupulous loans, November 28, 2006.
[56] Philippe Maystadt quoted ibid.
[57] OECD, Working Party on Export Credits and Credit Guarantees, Export Credits and the Environment: Revised Draft Text for a Revised OECD Recommendation on Common Approaches to the Environment and Officially Supported Export Credits, April 6, 2007, paragraph 13.
[58] See for example Peter Bosshard, Export Credit Agencies and Environmental Standards: An Invitation to Join the Dialogue, International Rivers Network, December 2006.
[59] Eisuke Suzuki, Bi-lateral Policy Orientation in the Multilateral Development Policy: A Challenge for the China Exim Bank and its Accountability, in: Chinese Journal of International Law, 2007, pp. 1-7, p. 1.

In the remainder of this paper, it will be argued that strengthening the social and environmental policies of China Exim Bank and other financial institutions is also in China's long-term self-interest, and that Chinese financiers are indeed making steps in this direction.

New developments in China

Under President Hu Jintao, the Chinese government has begun to emphasize the need to maintain social equity and cohesion in a period of rapid economic growth and disparity. There are signs that the government is also translating this emphasis into concern for social equity and environmental protection on a global scale.

In his opening speech at the Beijing summit of the Forum on China-Africa Cooperation in November 2006, President Hu Jintao said that China would strengthen cooperation with Africa to "promote balanced and harmonious global development".[60] The Action Plan that was adopted at the summit announced that "China will give high priority to African concerns of environmental protection and sustainable development".[61] The African Policy which China adopted in January 2006 also declared that "China will actively promote China-Africa cooperation in climate change, water resources conservation, anti-desertification, bio-diversity and other areas of environmental protection".[62]

In January 2007, Cheng Siwei, Vice-Chairman of the Standing Committee of the People's Congress, appealed to Chinese companies to be more conscious of their social responsibility, including in their international investments. In an article in *China Economy Weekly*, a magazine published by the Communist Party, Cheng Siwei said that "irresponsible practices" had prevented Chinese companies from expanding their business overseas, and warned: "Even in developing countries, foreign companies that turn a blind eye to their social responsibilities will be kicked out of the market."[63] The lawmaker said that severe legal sanctions should apply to companies that shirk their social responsibilities.

Concerned about China's international image, the powerful National Development and Reform Commission, the Ministry of Commerce and Chinese business associations have taken up the concept of corporate social responsibility in recent years and months. The Ministry of Commerce proposed in September 2005 that the OECD and China cooperate on issues of corporate social responsibility, and that OECD explain its Guidelines for Multinational Enterprises to Chinese companies. According to the Ministry's proposal, all chief executives of major Chinese corporations would have to take compulsory training courses on corporate social responsibility.[64] The China National Textile & Apparel Council followed suit and announced a corporate social responsibility program in February 2007. "This is not just China trying to take care of its image,

[60] Address by Hu Jintao, 4 November 2006
[61] Quoted from Highlights of the Action Plan of the Beijing Summit of the Forum on China-Africa Co-operation.
[62] China's African Policy, January 2006, Part IV
[63] Cheng Siwei quoted in: www.chinaview.cn, Companies lacking social responsibility criticized, January 29, 2007
[64] OECD, Directorate for Financial and Enterprise Affairs, Expanding Co-operation with China on Investment Policies, 2007-2008, February 22, 2007, pp. 14f.

but also to improve management and look after our workers", said Sun Ruizhe, a Vice-President of the Council. "We have no choice but to do this."[65]

Li Ruogu, the Chairman and President of China Exim Bank, took up the theme of a global harmonious development in his institution's annual report for 2005. The President committed that China Exim Bank would contribute "to the strong support for sustainable economic and social development and the harmonious coexistence of human and nature". "We will spare no efforts (…) to contribute to establishing a harmonious society in our own country and a harmonious world at large", Li Ruogu concluded.[66]

In a meeting with the author of this paper, Li Ruogu stressed that China Exim Bank was very committed to the protection of the environment, which had to be balanced with economic development, and to a dialogue with civil society organizations. The President said that he was aware of the concerns regarding the Merowe Dam Project, and that a delegation of China Exim Bank would visit the project to investigate the situation.[67]

China Exim Bank adopted an environmental policy in November 2004. The Bank shared a copy with the author in December 2006, and made it publicly available in April 2007. The policy deals with issues before, during and after project implementation. It espouses strict principles, but does not elaborate them in much detail.[68] There are indications that China Exim Bank experts are aware that the Bank's environmental policy needs to be specified in more detail to become more effective.

China's self-interest in Africa's development and stability

The control over oil and other strategically important resources is not left to the free markets. In July 2005, the US Congress repudiated China National Offshore Oil Corporation's bid to buy UNOCAL Corporation. This reminded China and the world that governments are prepared to use political if not military means to defend their country's control over essential resources. China is a late-comer to the world of strategic resources, and late-comers frequently assert their interests aggressively.

China's consumption of oil and other resources is still low on a per-capita basis, even without considering that a large share of the products manufactured in China are destined for foreign markets. China will continue to catch up, and to assert control over resources around the world. But this expansion needs to happen in a way that does not undermine the stability of the host regions. China has become an important actor in Africa and other regions, with hundreds of companies and tens of thousands of citizens on the ground. The country now has a self-interest in the stability of the regions it invests in.

[65] Sun Ruizhe quoted in the Financial Times, China's good corporate citizens find their voice, February 26, 2007.
[66] The Export-Import Bank of China, 2005 Annual Report, pp. 6f.
[67] Li Ruogu, China Exim Bank, personal communication, December 8, 2006.
[68] China Ex-im Bank's environmental policy (translated from the Chinese original).

In Africa, the Chinese government pursues stability by fostering economic growth and extending military support even to governments that oppress their own people. According to Joshua Eisenman of the American Foreign Policy Council and Joshua Kurlantzick of the Carnegie Endowment for International Peace, China has offered the government of Zimbabwe jamming devices to be used against opposition radio stations, and trained African governments in monitoring the internet.[69] While China's economic cooperation with Africa is welcome, its support for repressive regimes mirrors the approach that the United States and former colonial powers used to ensure stability in Africa during the Cold War. This approach did not have long-term success then, and is not likely to work in an era of free global information flows.

Already, Chinese investors in several African countries have faced a backlash against exploitative labor practices. In April 2006, the Movement for the Emancipation of the Niger Delta exploded a car bomb near a refinery in Nigeria and declared: "We wish to warn the Chinese government and its oil companies to steer well clear of the Niger Delta. (…) The Chinese government by investing in stolen crude places its citizens in our line of fire."[70] In February 2007, a Chinese engineer was killed in an attack on a Chinese factory in Mombasa, Kenya. Around the same time, President Hu Jintao had to cancel a planned visit to Zambia's copper belt because of popular resentment against the working conditions in Chinese mines. And in April 2007, gunmen massacred 65 Ethiopian and nine Chinese workers at an oil field in Ethiopia, and kidnapped seven other Chinese workers.

In 2005, China Exim Bank had a ratio of non-performing loans of 4.9%.[71] The ratio improved in recent years, but the rapid expansion of the Bank's business entails an inherent risk to its asset quality. The Chinese government does not guarantee its liabilities, and so China Exim Bank has a direct interest in the sustainability of the projects it finances.

China Exim Bank finances large projects in the oil, hydropower and mining sectors in Nigeria, Zambia, and other African countries. Environmental and corruption risks are as much a threat to project quality and longer-term stability in Africa as they are in China. Avoiding negative impacts is as much the responsibility of Chinese financiers and investors as of the African host governments. China Exim Bank is a tool of China's economic foreign policy, and it is the government's sovereign right to adopt safeguards against environmental destruction and corruption in China Exim projects. Like the one-China principle, this does not interfere with the sovereignty of host countries.

China Exim Bank adopted an environmental policy in November 2004, and appears interested in strengthening this policy. This is encouraging. At the same time, decisions about important projects are not necessarily taken by China Exim Bank's management, but by the Ministry of Commerce (in the case of concessional loans), and the State Council (in case of projects with a size of more than $100 million). Useful next steps for China Exim Bank to take would be to clarify what the policy's relatively strict principles mean in practice, and to consult communities that are affected by its projects. The safeguard policies of the World Bank Group, which China

[69] Joshua Eisenman and Joshua Kurlantzick, China's Africa Strategy, in: Current History, May 2006, pp. 219-224, p. 223.
[70] Quoted in the *Washington Post*, May 1, 2006.
[71] The Export-Import Bank of China, 2005 Annual Report, p. 6.

helped develop, can provide guidance in the further development of China Exim's environmental policy.

No place for hypocrisy

An opinion piece by Tichaendepi Chuma in Zimbabwe's *The Herald* of July 18, 2006, which was widely reprinted in Chinese media, said the following about Western governments' concern for Africa:

> "The talk that the United States and Europe are involved in Africa for democracy, good governance, humanitarian work, capacity building and human rights, is a frightening heap of nonsense. They were, and are still in Zimbabwe and Africa for their resources. (…) America and Europe should not pretend to express empathy for Africa when everyone who can follow history knows that they have been the source of instability in the Democratic Republic of Congo (DRC) since the day they slaughtered Patrice Lumumba."[72]

When the Chinese government was consulted on the World Bank's anti-corruption strategy, it pointedly asked: "While the World Bank, as the world's largest multilateral development institution is facing the daunting task of improving its own governance, is it suitable for it to judge measurement on the level of governance in member countries?"[73]

Western governments and international financial institutions often display a certain hypocrisy when they preach the values of good governance and environmental protection to Chinese investors and financiers. Northern governments would be more credible in promoting good governance if they prosecuted corrupt practices under their own jurisdiction more seriously. Financial institutions could fight cronyism more effectively if they practiced what they preached to others. Western export credit agencies would be more credible in their concern about the environment if they more seriously committed to implementing international environmental standards themselves.

Regardless of such hypocrisy, good governance, human rights, environmental protection and social justice are core values of a people-centered development. It is in the long-term self-interest of all actors, whether from China or the West, to promote and protect such values rather than to hide behind the hypocrisy of other actors.

China's economic expansion challenges the Western development model more fundamentally. In an interview with *Reuters*, the chief economist of the International Energy Agency predicted in April 2007 that China would become the world's largest emitter of carbon dioxide in 2007 or 2008.[74] Yet at 4.1 tons per year, China's per-capita emissions of carbon dioxide were still vastly

---

[72] Tichaendepi Chuma, China-Africa Ties Rile West, opinion piece in: The Herald (Harare), July 18, 2006.
[73] The World Bank, Strengthening World Bank Group Engagement on Governance and Anticorruption Consultation Feedback, China, January 23-24, 2007, p. 9.
[74] See Reuters, China about to become biggest carbon emitter – IEA, April 18, 2007.

lower than those of the United States at 19.6 tons per capita and year. As China is increasingly catching up, these figures demonstrate that the development model pursued by Western societies is not globally sustainable. If the consumption patterns of the industrialized world are the model for poorer societies, even the strictest environmental policies of financial institutions will not contain the environmental damage that the resource extraction required for this will cause.

All financial institution, including China Exim Bank, share a responsibility for the environmental impacts of the projects they finance. Yet as China increases its environmental footprint, Western societies must also reconsider their own development model and find ways to massively reduce the extraction of resources required and the emission of greenhouse gases caused by it.