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China's Overseas Dam Builders: from Rogue Players to Responsible Actors? 中国の国外ダム建設業者——ならず者から責任感ある姿へ？

Peter Bosshard

China's Overseas Dam Builders: from Rogue Players to Responsible Actors? (Updated)

Peter Bosshard

In the early years of the new century, Chinese dam builders and financiers appeared on the global hydropower market with a bang. China Exim Bank and companies such as Sinohydro, China Gezhouba Group and China Southern Power Grid started to take on large, destructive projects in countries like Burma and Sudan, which had previously been shunned by the international community. Their emergence threatened to roll back progress regarding human rights and the environment which civil society had achieved over many years. However, new evidence suggests that Chinese dam builders and financiers are trying to become good corporate citizens rather than rogue players on the global market. Here is a progress report from the perspective of an international civil society advocate.

In December 2003, China Exim Bank approved $519 million in loans for the Merowe Dam in Sudan. The Chinese government's export credit agency thus helped kick off a project which would displace more than 50,000 people from the fertile Nile Valley into desert locations, and for which the Sudanese government had failed to attract funders for many years. China Exim Bank also provided support to projects in Burma such as the Yeywa and Lower Paunglaung dams, which no other funder was prepared to touch. "The Bank specializes in financing projects that no other financial institutions would fund", International Rivers and Friends of the Earth warned in July 2004.

The Merowe Dam, Sudan, a Sinohydro Corporation Project

Once they acquired the technology to build large hydropower projects, Chinese dam companies wasted no time rolling up the international market. Low costs, access to cheap loans and a big portfolio of domestic projects make them attractive partners for clients around the world. We are aware of at least 216 dam projects in 49 countries which have some form of Chinese involvement – and counting. Chinese companies are currently building 19 of the world's 24 largest hydropower stations. The President of Sinohydro recently estimated that his company controls half the global hydropower market.

The primary interest of Chinese dam builders in their new "going out" strategy is to win international contracts, which typically have much bigger profit margins than projects in China. Companies such as China Southern Power Grid and the Yunnan Joint Power Development Company are also building projects in Burma and Laos in order to supply electricity to the Chinese home market.

The rapid emergence of China's overseas dam builders alarmed environmental organizations and the Western dam builders and financiers, which had controlled the global market for decades. "The competition of the Chinese banks is clear", Philippe Maystadt, the President of the European Investment Bank, warned in 2006. "They don't bother about social or human rights conditions." Maystadt claimed that Chinese banks had snatched projects from under his bank's nose in Africa and Asia, after offering to undercut its conditions on labor standards and the environment. The following year, the OECD recommended that China "improve governmental oversight and environmental performance in the overseas operations of Chinese corporations".

Like every country, China tends to export its own development philosophy when financing and investing in overseas projects. Throughout the second half of the 20th century, the Chinese government built dams and other large infrastructure projects without regard to their social and environmental impacts. This growth-first approach is exacting a huge toll on the environment and public health. The World Bank estimates that water and air pollution cause 750,000 premature deaths in China every year. In the last few years, the government has strengthened environmental regulations, created a Ministry of Environmental Protection, and become the world's leading promoter of renewable energy options.

Chinese dam projects have triggered strong protests among affected communities, environmental organizations and trade unions in countries such as Sudan, Botswana, Zambia and Burma. With a certain time lag, the government's growing concern for the environment has also left its mark on China's overseas investment policy. In 2006, the State Council called on Chinese investors to "protect the legitimate rights and interests of local employees, pay attention to environmental resource protection, care and support of the local community and people's livelihood cause", and to "preserve our good image and a good corporate reputation". The Ministries of Environmental Protection and Commerce are currently preparing a guideline which will urge Chinese investors to apply China's domestic environmental laws in overseas projects if host country standards are too weak.

International Rivers has witnessed the growing concern for the environment in our own work with Chinese dam builders and financiers. After we first warned about the role of China Exim Bank in funding rogue dam projects in 2004, a bank manager wrote back saying: "To my knowledge, [the Bank] actually cares about the environmental issues of its projects. Maybe its standard cannot reach yours or international common practice. Since it is one of export credit agencies in the world it really needs to meet the international practice."

Two years later I had the chance to meet the President of China Exim Bank. He insisted that countries needed to reach a certain level of prosperity to care about the environment, but agreed that his institution shared an environmental responsibility for the projects it funds. The Bank adopted an environmental policy in 2004, and made it public after a request from NGOs in 2007. More detailed guidelines followed in 2008.

In late 2008 the China Exim President told Deborah Brautigam, an expert on

The author meets the president of the China Exim Bank

Chinese aid practices, that his institution only worked with Western agencies for the assessment of environmental impacts. They were "more credible", the President said, and: "We do not want the environment to be an issue."

Seeing some progress with China's main financier of overseas dams, International Rivers decided to approach the biggest hydropower company next. In February 2009 a coalition of non-governmental organizations called on Sinohydro to "establish a world-class environmental policy and strengthen its relations with the host communities of its international projects". The NGOs also offered to enter into a dialogue with the company on how it could achieve this goal. In response, Sinohydro's management invited me to meet with them. In what was likely the first dialogue between a Chinese state-owned enterprise and an international advocacy group, the management expressed a commitment to protecting the environment, and said that they would consider preparing an environmental policy.

Late last year, Sinohydro announced that it planned to get listed at the Shanghai stock exchange. Through an initial public offering (IPO), a company defines its profile for international investors: Does it plan to take on contracts at any cost to the environment? Or does it try to minimize social and environmental risks as a good corporate citizen? We strongly suggested that if Sinohydro wanted to become a world class brand, it needed to adopt and implement a world class environmental policy.

As part of its green credit policy, China's Ministry of Environmental Protection needs to clear IPOs of companies in polluting sectors. In early March, the Ministry invited the public to comment on the Environmental Audit Report which Sinohydro had prepared for its public offering. At the same time, Sinohydro informed International Rivers that it was now indeed preparing an environmental policy, and invited our recommendations. Working together with partner groups from China and other countries, we again recommended that the company adopt highest international standards if it wanted to become a leading global brand, and submitted specific suggestions. We will also conveyed this message to Sinohydro's potential investors.

Policy changes at the leading Chinese dam builder and financier are important first steps. Yet as we know from other institutions, including the World Bank and Western banks, there is often a big gap between an environmental policy and actual practice on the ground. The proof of the pudding is in the eating. What is happening there?

In December 2009, we learned that Turkey had invited China to build the Ilisu Dam on the Tigris. The project in Eastern Anatolia had become a cause célèbre among NGOs due to the strong resistance by the local population. After an independent committee of experts had documented persistent social and environmental policy violations, the German, Austrian and Swiss export credit agencies pulled out of the project in July 2009. Now the Turkish government was trying to fill the gap which the Western financiers had left. Turkish NGOs and International Rivers immediately wrote to the Chinese authorities to warn against such involvement. Chinese support for the dam would enable a social and environmental disaster in Turkey, and undermine the international efforts to strengthen the social and environmental standards in big infrastructure projects.

Ilisu is a test case for the future role of Chinese dam builders and financiers. We expected China's involvement to be confirmed by January, but so far, there has been no such news. The Chinese ambassador in Ankara has repeatedly stressed that China was not getting involved in Ilisu. Have Chinese dam builders and financiers indeed opted against this project even if it meant offending an important government and passing up a lucrative deal?

The Ilisu dam in Southeastern Turkey on the Tigris, the nation's largest dam

While the jury is still out on Ilisu, we have witnessed progress on the ground in Gabon. With support from China Exim Bank, Chinese investors plan to develop a huge iron ore deposit in this West African country, complete with a hydropower dam, railway line and port. Brainforest, Gabon's inspiring environmental NGO, sent a letter to the Exim Bank pointing out that the proposed dam was to be built in a national park, and would violate its environmental guidelines. In due course, Brainforest learnt from the Gabonese government that China Exim Bank had suspended the project over environmental concerns.

In a separate development, Sinohydro agreed to work together with the Global Environmental Institute, a Chinese NGO, in an effort to address the social and environmental impacts of the Nam Ngum 5 Dam, a $200 million hydropower project in Laos. Sinohydro also applied for a guarantee by the World Bank's Multilateral Investment Guarantee Agency (MIGA), evidently to learn more about how international financial institutions are applying their safeguard policies.

Nam Ngum 1 dam outside Vientiane

While there has been significant progress, we will not let our guard down. While Sinohydro is preparing an environmental policy, there are serious problems in several of its ongoing projects, including the Bakun Dam in Malaysia, the Bui Dam in Ghana, and the Shweli and Tarpein dams in Burma. Sinohydro has also expressed an interest in extremely problematic projects such as the Paklay Dam on the Mekong mainstream and the Gibe 4 Dam in Ethiopia. The Mekong hosts the world's most important inland fisheries, and if built, the Paklay Dam could seriously impact the main protein source of millions of people.

While China Exim Bank and Sinohydro have embarked on a process of environmental reform, many smaller Chinese actors still disregard social and environmental concerns at will. Companies such as China Gezhouba Group, Yunnan Machinery Equipment Import & Export Co. and China Power Investment Corporation are building rogue dams in Burma under horrific conditions. China Southern Power Grid, which is also building several dams in the Mekong Basin, has so far ignored all inquiries from civil society. On April 17, 2010, a series of bomb blasts rocked the construction site of China Power Investment Corporation's Mytsone Dam in Kachin State, and according to unconfirmed sources, killed several Chinese workers.

In conclusion, the most important institutions in China's hydropower sector have expressed an interest in following international environmental standards, and are open for civil society concerns. After we warned about rogue dam builders a few years ago, we are happy to acknowledge progress now. We will work to ensure that the new environmental policy principles translate into changes on the ground, and that the environmental stragglers fall in line.

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