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BELT AND ROAD DECISION-MAKING IN CHINA AND RECIPIENT COUNTRIES: HOW AND TO WHAT EXTENT DOES SUSTAINABILITY MATTER?

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EXECUTIVE SUMMARY

“Greening” China’s Belt and Road Initiative (BRI) is necessary to meet global climate and sustainability goals.¹ Fortunately, there is increasing recognition in China and in BRI countries of the need to align BRI with global and national sustainable development targets. At the Second Belt and Road Forum in April 2019, President Xi Jinping declared that “We should pursue the new vision of green development and a way of life and work that is green, low-carbon, circular and sustainable.” A wide array of standards and principles have been developed and promulgated by various Chinese regulators, financial entities, and industry associations.²

The key question therefore becomes how to rapidly shift BRI decision-making and implementation away from “business as usual.” This requires understanding how decision-making around BRI operates and what role sustainability considerations play within it. We need to know, in China and in recipient countries, who are the key actors? Who initiates, approves or rejects, and implements projects? What are their interests, and through what processes do they interact? And within this complex array of actors and interactions, how and to what extent are sustainability considerations relevant?

Understanding BRI decision-making on a granular, operational level is important because the initiative is not systematized or institutionalized. Rather, it is an overarching “campaign” style directive that sits atop, and is largely continuous with, China’s wide range of previous overseas investment activities. Understanding BRI as a whole therefore requires understanding the various actors that develop, govern, finance, and implement BRI projects, both in China and in recipient countries. These actors seek to operationalize the broad BRI objectives in ways that advance their own goals, creating significant heterogeneity across different actors, countries, and sectors.

Within this complex landscape, this report seeks to provide a structured way to think about how decisions are made around BRI projects. We focus on concrete projects, not more political decisions about, for example, why countries do or do not sign memoranda of understanding with China regarding BRI. While it would be misleading to overgeneralize, regular patterns can be identified. We seek to answer four key questions:

1. Who are the key actors in China and recipient countries? What are their interests and relations to each other?
2. Through what processes do projects get proposed and approved? What formal and informal decision-making patterns do we observe?

¹ Zhou et al., 2018. Moving the green belt and road initiative: from words to actions.

<https://www.wri.org/publication/moving-green-belt-and-road-initiative-from-words-to-actions>

² See Gallagher and Qi (2018). More recently, see Green Belt and Road principles receive industry backing. <https://news.cityoflondon.gov.uk/green-belt-and-road-principles-receive-industry-backing/>

3. How does decision-making vary across different parts of the Chinese bureaucracy, across different sectors and investors, and across different countries?
4. How and to what extent do decision-makers take sustainability into account?

The report explores these questions both in China and in five recipient countries: Malaysia, Pakistan, Kazakhstan, Kenya, and Indonesia.

Key findings

Decision-making differs between those projects that are of strategic importance for the Chinese state and those that are not. We find most of this variation occurs at the project and sector level, not the country level. For example, Pakistan is a longstanding military ally. However, certain projects in Pakistan are clearly of strategic importance, such as the Gwandar port, while others are not, such as power plants. The latter type of projects, which account for the majority, are typically initiated by domestic economic interests, though economic actors in China also seek to benefit from them. Overall, we find no evidence that many of the most environmentally damaging projects, such as coal plants, are driven by strategic questions, though they do sometimes correspond to the economic interests of powerful Chinese actors. The main exception are oil and gas pipelines, which are characterized by both strategic and commercial interests. In this way, for most of the projects of environmental interest, we expect domestic actors in recipient countries to be the primary initiators, and therefore the decisive actors in determining the “supply” of BRI projects.

Capacity limitations seriously undermine the ability of all actors involved in BRI to design, monitor, implement, and hold actors accountable for high quality projects. Strikingly, none of the key decision-makers in China or recipient countries possess sufficient personnel with adequate knowledge to measure or monitor environmental risks. These capacity limitations are compounded by significant fragmentation of decision-making processes, resulting in profound information asymmetries that further undermine the capacity of actors to anticipate and prevent risks, monitor implementation, or hold actors accountable. In the BRI, the adage that “personnel is policy” very much applies.

Overall, we find very few actors in China or in recipient countries who advocate for environmental priorities at any stage of project development. In most of the countries considered, domestic environmental regulations are weak and poorly enforced. Even when regulators are relatively more effective (such as in Kenya or Indonesia), they often lack power compared to other domestic political actors. This is particularly true in the project planning and proposal stage. Given this widespread and systematic bureaucratic weakness, by far the most important actors for injecting environmental considerations into decision-making are local civil society groups and media organizations.

The nature of domestic institutions in recipient countries shapes decision-making. In several countries, the primary actor is the office of the president or prime minister (Malaysia, Kazakhstan, Indonesia, Kenya). Political leaders in these countries are primarily responsible for selecting projects to be supported by BRI (though in Indonesia a wider range of bureaucratic actors is also relevant).

The “high politics” nature of decision-making means that environmental concerns are difficult to raise, since few national leaders in the countries selected have incentives to prioritize such concerns. In the two largest countries—Indonesia and Pakistan (and to a lesser extent, Malaysia)—competition between different elements of the national bureaucracy and between central and regional governments, is also relevant. Finally, in Indonesia, Malaysia, and Kazakhstan the role of dominant domestic economic groups (state-owned enterprises, or SOEs, in each case) is particularly relevant. In each of these countries, state-run (or quasi state-run) corporations hold significant influence over sectors that attract BRI support.

Aside from elections in recipient countries, we observe relatively little substantive change in decision-making processes over time. While a large number of new standards and principles have been promoted, and official rhetoric has emphasized “greening BRI” and other good governance measures, we can detect no real changes, formal or informal, in how projects are approved and financed. In many ways, the lack of substantive institutional changes in BRI decision-making, despite rhetorical and regulatory attention to the issue, makes sense. Standards and rhetoric can easily be changed by high-level political directives. The underlying interests of bureaucratic and economic actors in the Chinese system are far harder to shift.

Recommendations

Any successful strategy to green BRI will need to influence the incentives that key actors face to engage in green behavior. “Greening BRI” has been popular in part because it has been articulated at a very high level of abstraction. This allowed a wide range of actors to interpret it as consistent with their interests. Building a wide consensus on “greening BRI” was useful as a first step. However, going forward, more difficult choices will likely need to be made.

Our recommendations seek to reshape the incentives BRI decision-makers face to consider sustainability. Ultimately, such a project will require the backing and support of the top political leadership. Because we do not expect the leadership to invest political capital in this project in the short- to medium-term, given other political and economic priorities, we instead focus our recommendations on how the coalition of actors across the Chinese policymaking system and in recipient countries supporting substantive steps to green BRI can be expanded.

Our recommendations can be grouped in “three Cs”—capacity, coordination, and control. The recommendations are outlined in greater detail in the conclusion.

Increase capacity

- Build the capacity of policy banks, SOEs, local companies, and regulators to measure and understand environmental considerations
- NDRC, MOFCOM, and CBIRC need more staff and expertise to play their overall regulatory functions, could include specific Paris alignment procedures (see below).

- The CCP Central Organization Department (responsible for the training and promotion of Party officials) is a critical decision-maker and enabler (or blocker) regarding the above recommendations. Because it shapes personnel policy across ministries, policy banks, and SOEs, the COD possesses a unique capacity to take a holistic approach to building capacity for greening BRI across the entire set of BRI-related actors. The COD can organize trainings that bring these actors together to learn from experts and from each other, building a network of high-capacity personnel across the entire system. It can partner with Chinese and foreign universities to design an integrated, world-class curriculum for greening BRI.
- While building capacity within China, it is equally important to support recipient countries to develop a pipeline of sustainable development projects they can offer to China as BRI projects. Given that most BRI projects originate in host countries, improving the capacity of the “project originators” in these countries to develop green infrastructure is perhaps the single most important factor toward “greening BRI.”

Increase coordination

- Beijing-based central offices and regulators should embrace and support local civil society and media in recipient countries as a way to overcome the information asymmetry that is inherent in the Principal-Agent problem they face. The MEE-led BRIGDC could be one useful platform for engaging with such actors and linking them to decision-makers in Beijing. Holding dialogues, conferences, and other forms of platforms between local civil society in recipient countries and Beijing headquarters/regulators can overcome information stove-piping. The existence of such information-sharing mechanism can expose malfeasance of Chinese project developers to Chinese regulators before the occurrence of investment blowback. These decisions would need to be taken by top decisionmakers at policy banks and regulators, and supported and championed by MEE.
- Further coordinate BRI activities within key provinces and link them to national reporting structures.
- Increase coordination in recipient countries. The Leading Small Group should declare a policy of designating a central BRI contact team focal point “on the ground” in recipient countries. They should have capacity to monitor all ongoing projects in the country.

Increase control

- Give a substantive role to MEE in project approval for larger projects in environmentally sensitive sectors. Such projects should be required to get an approval certificate from MEE, just as they currently need NDRC and MOFCOM approvals.
- Building on the emerging body of standards and principles, CBIRC and SASAC should incorporate concrete sustainability benchmarks into their oversight mechanisms for SOEs and policy banks. SASAC can incorporate sustainability benchmarks into the performance evaluation system for the SOE management teams. This will create an incentive structure

that links top SOE managers' career prospects to the extent to which the SOEs fulfill environmental and social safeguards.

- National regulators should perform in-country inspections at random. Cross-ministerial teams from NDRC, MOFCOM, and MEE should visit BRI countries to inspect SOEs' compliance with environmental and social safeguard.

1. INTRODUCTION

“Greening” China’s Belt and Road Initiative (BRI) is necessary to meet global climate goals. According to a study from Tsinghua University, “business as usual” development in BRI countries will put their 2050 emissions three times above the level needed to limit climate change to 2C, even if the rest of the world follows a 2C pathway.³ To date, the vast majority of Chinese overseas investment associated with BRI has flowed into fossil fuels and other forms of high-carbon infrastructure. However, the initiative also has enormous potential to channel resources toward clean energy, public transportation, and other infrastructure needed to drive the sustainability transition.⁴

Fortunately, there is increasing recognition in China and in BRI countries of the need to align BRI with global and national sustainable development goals. At the Second Belt and Road Forum in April 2019, President Xi Jinping declared that, “We should pursue the new vision of green development and a way of life and work that is green, low-carbon, circular and sustainable.” 2019 also saw the launch of the Belt and Road Initiative International Green Development Coalition (BRIGDC), coordinated by China’s Ministry of Ecology and Environment (MEE), complementing a number of other transnational initiatives seeking to align global financial flows with sustainability.⁵ At the same time, a wide array of standards and principles have been developed and promulgated by various Chinese regulators, financial entities, and industry associations.⁶

The key question therefore becomes *how* to rapidly shift BRI decision-making and implementation from “business as usual” toward global and national sustainability goals. This requires understanding how decision-making around BRI operates and what role sustainability considerations play within it.

While there has been an explosion of journalism, policy reports, and scholarship on BRI in recent years, decision-making processes remain something of black box, in part because they can vary greatly from project to project.⁷ We need to know, in China and in recipient countries, who are the key actors? Who initiate, approve or reject, and implement projects? What are their interests, and through what processes do they interact? And within this complex array of actors and interactions, how and to what extent are sustainability considerations relevant?

Understanding BRI decision-making on a granular, operational level is important because the initiative is not systematized or institutionalized. Rather, it is an overarching “campaign” style directive that sits atop, and is largely continuous with, China’s wide range of previous overseas investment

³ Jun, M. and Simon, Z., 2019. Decarbonizing the Belt and Road: A Green Finance Roadmap.

https://www.climateworks.org/wp-content/uploads/2019/08/BRI_Exec_Summary_v10-screen_pages_lo-1.pdf

⁴ Zhou et al., 2018. Moving the green belt and road initiative: from words to actions.

<https://www.wri.org/publication/moving-green-belt-and-road-initiative-from-words-to-actions>

⁵ Thomas Hale, Sangjung Ha, and Xiao Wang, 08 July 2019. Filling the sustainable infrastructure gap in Asia: AIIB as a catalyst and orchestrator.

<https://www.bsg.ox.ac.uk/research/publications/filling-sustainable-infrastructure-gap-asia-aiib-catalyst-and-or-orchestrator>

⁶ See Gallagher and Qi (2018). More recently, see Green Belt and Road principles receive industry backing.

<https://news.cityoflondon.gov.uk/green-belt-and-road-principles-receive-industry-backing/>

⁷ As Yu (2018) notes, “Few analysts understand who in Beijing decides on BRI projects and how the overall budget is distributed through the government” (p. 2).

activities. Because there is no single model or system covering all Chinese overseas financing, understanding BRI as a whole requires understanding the various actors that develop, govern, finance, and implement BRI projects, both in China and in recipient countries. These actors seek to operationalize the broad BRI objectives in ways that advance their own goals, creating significant heterogeneity across different actors, countries, and sectors.

Moreover, understanding BRI is a “moving target” as both the Chinese leadership and the actors involved in implementing it in China and in recipient countries react to previous experiences and temporal trends and shocks. For example, in 2019 slowing domestic growth in China, tensions with the United States, and criticism of “debt-trap diplomacy” have arguably led to the government toward a “quieter” approach to BRI. The COVID-19 pandemic has led to a sharp drop in international travel, trade, and infrastructure investment. Boston University finds that Chinese policy banks financed just three energy projects in 2019, totally around \$3 billion, the lowest level since 2008.⁸ In many recipient countries, shifts in political leadership can radically alter a country’s engagement with Chinese overseas investment from one year to the next.

Within this complex, dynamic landscape, this report seeks to provide a structured way to think about how decisions are made around BRI projects. We focus on concrete implementation of projects, not more political decisions about, for example, why countries do or do not sign memoranda of understanding with China regarding BRI. While it would be misleading to overgeneralize, regular patterns can be identified. We seek to answer four key questions:

1. Who are the key actors in China and recipient countries? What are their interests and relations to each other?
2. Through what processes do projects get proposed and approved? What formal and informal decision-making patterns do we observe?
3. How does decision-making vary across different parts of the Chinese bureaucracy, across different sectors and investors, and across different countries?
4. How and to what extent do decision-makers take sustainability into account?

Our analysis leans more heavily on the earlier side of the project life-cycle, emphasizing project initiation, approval, and financing. Decision-making around implementation, compliance, and correction are also critical, however. We aim to expand on these questions in further work.

The remainder of this section situates the report in the growing literature on BRI and lays out a novel conceptual framework to guide the analysis. Sections two and three then outline the details of BRI decision-making in China and in five recipient countries, respectively. For each, we consider the key actors, their interests, the processes through which they operate, and how, if at all, sustainability considerations enter their thinking.

⁸ Ma et al, 2020. “China’s Global Energy Finance 2019,” <https://www.bu.edu/gdp/2020/02/13/chinas-global-energy-finance-cgef-2019/>

Overview of current writing on Belt and Road

Journalistic and scholarly interest in BRI has expanded exponentially. In 2013-2014, the year following the formal launch of the initiative, a Google Scholar search for “Belt and Road Initiative” yields 539 references. For 2017-2018, the figure climbed to over 7,200. In Chinese, searching the same period yields 22,700 hits for “一带一路”.

Despite this explosion of writing, few studies in the academic or policy literature have applied systematic social scientific analysis to the institutions, actors, and decision-making processes around BRI.

We identify five strands of literature relevant to the present study.

First, perhaps the majority of studies have looked at BRI through the lens of foreign policy, predominantly from a US perspective.⁹ Such studies tend to emphasize the geopolitical and strategic drivers of BRI, though many also acknowledge other causes including domestic ones. Scholars tie the origins of the BRI to a more assertive Chinese foreign policy following the 2008 financial crisis. They also describe a “pushback” to BRI in the last 2-3 years and emphasize the risks that BRI might pose to recipient nations. While it is difficult to show dispositive evidence for or against the idea that geopolitical interests serve as an important motivation for the Chinese leadership’s support for BRI, scholars have focused on the strategic *effects* of the initiative.¹⁰ As Roland (2019) argues, the expansion of BRI “has created an overall acceleration and geographic expansion of Chinese overseas activities that will inevitably generate the need for some level of state and military protection” (p. 2).

Second, because BRI remains difficult to define, a number of studies have tried to collect quantitative data on Chinese overseas finance and its impacts in order to better understand BRI. The Chinese government does not maintain a database of “official” BRI projects, and many outbound flows remain difficult to track. Nonetheless, key datasets have been pieced together, which do not attempt to delineate boundaries around BRI but instead provide an overview of Chinese overseas finance as a whole. Two overarching datasets are particularly relevant, the Boston University Center for Global Development work led by Gallagher and colleagues, and Horn et al. 2019, which includes 1974 loans and 2947 grants to 152 emerging or developing countries from 1949-2017 and is compiled from multiple sources. Drawing on these or similar quantitative resources, several studies have estimated the economic impacts of BRI. Bluhm et al. look at geo-located data on Chinese-financed projects in 138 countries between 2000-2014, finding that projects in general, and transport projects in particular, reduce economic inequality within and between subnational bodies. A 2019 World Bank study found that infrastructure and policy gaps in BRI countries hinder trade and FDI. New infrastructure helps close gaps, but can be very costly, and occurs in the context of rising public debt. On this point, Hurley et al 2018 review debt sustainability in 68 BRI countries and find problems in 23 of them, eight of which are caused by BRI: Djibouti, Kyrgyzstan, Laos, Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan.

⁹ Smith 2018, Scobell et al. 2018, CNAS 2018, CNAS 2019, Roland 2019.

¹⁰ Reeves 2018, Garlic 2018.

Another set of quantitative studies, particularly relevant to this study, concerns sustainability. UNEP 2017 surveyed Chinese companies operating abroad to determine how they self-reported engagement with environmental issues. Cabré et al. 2018, Zhou et al. 2018, and NDRC 2019 explore how current BRI energy and transport investments put countries off track to meet global goals and national NDCs, but how greater investment in low carbon alternatives could advance these objectives. Ma and Zadek 2019 show how under BAU growth the 126 BRI countries could be 66% of emissions in 2050, three times above what would be needed to get onto a 2C pathway.

Third, a recent wave of studies have emphasized that the BRI, though a top foreign policy priority of the Chinese leadership, is powerfully shaped in practice by the divergent interests and priorities of individual Chinese ministries, financial institutions, enterprises, and local governments.¹¹ This report builds on this approach. Such scholars emphasize that there is not “one” BRI, but many different interests and objectives that are combined under the intentionally broad umbrella of the BRI. Such studies acknowledge the top leadership’s role as a driver of the BRI “campaign,” but also stress the limitations the central government faces in monitoring and controlling the implementation of the initiative. Instead, this literature highlights the agency and interests of the multitude of actors involved in the initiative. As Jones and Zeng 2019 put it, BRI is shaped by

...evolving contestation among fragmented, decentralised and partially internationalised party-state apparatuses and their societal allies...not meticulously planned by top leaders; rather, they are loose ‘policy envelopes,’ whose parameters and implementation are shared by internal struggles for power and resources. They are kept deliberately vague to accommodate diverse interests, creating wide latitude for them to influence, interpret and even ignore top leaders’ wishes.

Within this framework, some studies have explored in more detail the specific interests and behaviors of key elements of the larger BRI system, including the China Development Bank (Chen 2018), state-owned enterprises (Benoit 2018), and the coal sector (Kong and Gallagher 2019).

Fourth, and related, some scholars have emphasized the importance of dynamics in recipient countries. Such scholars criticize overly China-centric accounts of BRI and note that many actors in recipient countries, from governments, to firms, to civil society, play a key role in shaping BRI outcomes (Lim 2017, Liu and Lim 2019, Ahmed 2019, Downs 2019).

Fifth and finally, seeing the BRI, at least in its operation, as fragmented and contested places additional importance on describing and understanding the set of processes and institutions through which the various actors interact with each other. In this vein, a report by Gallagher and Qi (2018) laying out the various policies and frameworks covering the BRI, particularly with respect to sustainability, is of particular value. Jiang 2019 and CDB and UNDP (2019) also lay out key elements of China’s regulatory framework.

In sum, while we understand much better the scale and scope of BRI projects, who implements them, and the regulations that govern them, we still know too little about the interests and capabilities of the

¹¹ Yu 2018, Ye 2018, Jones and Zeng 2019, Ang 2019, Russel and Berger 2019, Summer 2015, Tjnia 2020.

relevant actors, and their power vis-à-vis one another. We also need to map the actual processes, formal and informal, through which decisions are made. Our study seeks to contribute to these gaps.

Conceptual framework: Reverse two-level games

Many scholars have interpreted BRI outcomes as either a one-sided projection of Chinese interests onto host countries, or as a product of bargaining between China and recipient countries (Oh 2018). Such views broadly align with the familiar “two level games” framework (Putnam 1989) that models international negotiations as the interaction between interstate bargaining (level 1) and the bargaining between the executive and veto players (e.g. a legislature) in domestic politics (level 2). Because whatever bargains leaders strike must be approved at home, domestic politics constrain the potential winset of interstate bargains.

In contrast, we propose that decision making around BRI projects can be interpreted in the reverse fashion. Domestic interest groups and bureaucratic actors in China and recipient countries seek to develop projects within the opportunity structures created by interstate bargaining. Interest group consortia, possibly linked transnationally, develop a project and seek regulatory approval from bureaucratic actors in both countries. Interests groups and their bureaucratic allies link specific projects to higher political goals in one or both countries to secure greater political support, although the ability of political leaders to ensure alignment is constrained by information asymmetries. Such efforts occur in the shadow of interstate bargaining, as “high politics” might intervene to veto or modify the project.

This “reverse two-level games” framework emphasizes the role of interest groups and bureaucratic politics, in the shadow of interstate bargaining. Consider each element in turn:

Interest group politics: Primary agency resides in interest group politics, as resource-seeking commercial entities (public and private, project implementers and funders) in China and in recipient countries seek to develop projects for financial benefit.¹² Often, transnationally linked brokers such as individuals and companies in the Chinese diaspora play a key role in linking commercial entities in China and in recipient countries.

Bureaucratic politics. Interest groups seek government approval and support for their projects, which may require regulatory permission and, commonly, public financing support. Project approval and support involves bureaucratic competition between government agencies, both in China and in recipient countries. Government agencies seek to promote projects that a) advance the political goals they are responsible for; b) promote interest groups to which they are connected; c) avoid risks bureaucrats might be blamed for. Linking to public benefits (e.g. advancing broader political goals) are a way for interest groups to attract government support because they allow government agencies to advocate for projects inside the government, so interest groups and bureaucratic supporters promote these strategically. Projects are more likely to succeed if they can claim to advance a number of public objectives for both countries.

¹² N.B. We do not assume that “commercial” implies transactions taking place in a competitive, open market. In many cases we can expect significant political economy dynamics to distort economic competition.

Information asymmetries in this process creates room for agency slack. Because supporting public objectives increases the chances for approval, public priorities are at least partially internalized by interest groups and bureaucratic actors and advanced by BRI projects. However, the ability of political actors to ensure alignment with political objectives during approval and, especially, implementation, is limited. Political actors rely on commercial entities and bureaucratic actors to provide information. Interest groups and bureaucratic actors may therefore overstate or misrepresent their contributions to public goals in order to seek advantage in the approval process. Such information asymmetries and consequent risks can be exacerbated by domestic political conditions that reduce information flow, such as a weak domestic civil society or media presence.

The shadow of interstate bargaining and geopolitics. Interest group contestation and bureaucratic politics occurs in the shadow of interstate bargaining. This means “high politics” may occasionally intervene to block projects should they be found to fall outside the boundaries of public objectives. For example, should a project attract negative media attention in the press, Chinese or recipient country leaders may intervene to reshape or even cancel the project. Such incidents may be particularly common in political environments in which opposing political parties compete for power, allowing BRI projects to become subject to majoritarian political contestation.

2. BRI DECISION-MAKING IN CHINA

There are three common misconceptions about BRI. First, BRI is not a top-down grand strategy meticulously planned by top leaders (Jones and Zeng, 2019; Ye, 2019). As one State Council official explicitly indicates, “An analogy between the BRI and the Marshall Plan is fundamentally wrong” (Interview with a State Council official, 09/22/2019). In particular, the criteria of what constitutes a “BRI” project are not well defined. For example, it is difficult to define a transnational project as part of BRI even if the host country has signed an MoU on Belt and Road cooperation. This is because most developing countries across Africa and Asia have already signed BRI MoUs.¹³ BRI MoU countries include many EU countries as well. Therefore, there is no substantial difference between BRI projects and China’s cross-border investment activities in these regions. In contrast, as we will see below, BRI is essentially a “policy envelope” that is shaped primarily by competing domestic interests in both China and recipient countries. In other words, BRI is a slogan that is subject to interpretation by a variety of actors in a way that caters to their own needs.

Second, except for a few projects explicitly approved by the top Chinese leadership for diplomatic objectives, most overseas projects are initiated and organized through a bottom-up process (Interview with a State Council official, 09/21/2019; Interview with a State Council official, 09/22/2019). Enterprises play a predominant role in this process, including seeking approval from China’s regulatory agencies (e.g., MOFCOM and NDRC), acquiring loans from Chinese banks, conducting the third-party assessment of social and environmental impacts in host countries, and navigating through the domestic decision-making process within the recipient countries. While certain features of the BRI may be influenced by interstate relations (e.g. whether or not host countries sign BRI MOUs), decision-making around specific projects is shaped primarily by the behavior and preferences of specific bureaucratic and commercial actors (interview with a State Council official, 09/21/2019; interview with a State Council official, 09/22/2019; interview with a policy bank staff, 09/25/2019). Rather than being a radical departure from the previous practice, BRI is continuously structured by interactions between a set of bureaucratic interests, financial entities, and companies that have engaged in China’s overseas businesses throughout recent decades.¹⁴

Third, and related to the previous point, BRI should not be regarded as coherent and monolithic. China’s international development finance system includes a wide variety of mechanisms through which Chinese economic entities fund infrastructure abroad. Two of the most significant components are official development assistance (ODA, i.e., foreign aid) and loans supporting Chinese exports and

¹³ India is a salient exception.

¹⁴ Studies show that newly-established the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF) play a relatively peripheral role in financing BRI projects despite their publicly announced goals compared to long-standing players like China Development Bank (CDB) and the China Export-Import Bank (CHEXIM) (Hameiri and Jones, 2018; Ye, 2019, p.707).

overseas investments.¹⁵ BRI projects are largely funded by these two distinct sources of finance. Researchers often encounter enormous challenges to classify these activities since major Chinese financiers do not disclose detailed information that allow outsiders to identify a specific type of financing associated with a particular project (Gallagher and Irwin, 2014, pp.5-6). The distinction between foreign aid and trade finance loans is important for us to understand BRI projects since decision-making varies from one type of financing to another.

What decision-making processes are relevant for different financing mechanisms?

Chinese overseas investment projects include several major categories – foreign aid programs, projects supported by policy loans (by far the largest category), and direct investments by SOEs from their own balance sheets, and financing via special funds like the Silk Road Fund.¹⁶ Foreign aid, if we use a strict OECD Development Assistance Committee (DAC) standard, includes grants, zero-interest loans, and concessional loans by official agencies¹⁷ in the context of China (Brautigam, 2011b). The ratio of concessional loans to total foreign aid is estimated at about 44% between 2001 and 2013 (Kitano and Harada, 2016. P.1097). Trade finance loans encompass export buyers' credits,¹⁸ non-concessional official loans,¹⁹ and commercial loans covered by Sinosure.²⁰ Chinese corporations financed by these loans engage in a wide array of infrastructure activities (e.g., roads, railways, highways, dams, ports, and telecom infrastructure) abroad. Put differently, these Chinese firms are trading abroad in goods and services with the support of Chinese banks.

Both foreign aid and trade finance loans constitute China's overseas development finance, estimated at \$354.4 billion from 2000 to 2014, a period of drastic growth.²¹ According to the State Council's official figures, China provided \$ 14.53 billion in foreign aid between 2010 and 2012 (Zhang, 2017,

¹⁵ Chinese companies are increasingly using their own capital to fund infrastructure and energy projects overseas (Interview with a State Council official, 09/22/2019; Interview with an expert on China's global energy investments, 09/25/2019). We leave these recent developments for future exploration.

¹⁶ In terms of the relative share of foreign aid and trade finance loans, it is difficult to know the relative size of each. Because of the opacity of China's overseas lending and investments, even by far the most comprehensive datasets do not allow researchers to access the necessary details of each loan or grant. Horn et al (2019, p.10) only covers necessary details of one third of all China's overseas loans for the period 2000-2017.

¹⁷ Grants and zero-interest loans are disbursed by MOFCOM's Department of Foreign Aid (DFA) (Chen, 2018, p.6). Only CHEXIM issues concessional loans. To obtain CHEXIM's concessional loans, "Chinese contractors must be awarded the infrastructure contract financed by the loan. Furthermore, in principle no less than 50 per cent of the contract's procurement in terms of equipment, materials, technology or services must come from China (China Exim Bank 2008)" (Corkin, 2011, p.69). In addition to concessional loans, CHEXIM also provides preferential buyer's credit – "these dollar loans are not calculated as part of China's official aid, because they are financed by the bank's own capital and are not subsidized by government funds" (Chen, 2018, p.6). However, in structure these are very similar to CHEXIM's concessional loans (Brautigam, 2011b, 206). Chen (2018) views preferential buyers' credits as a type of foreign aid.

¹⁸ Export credits are "government financial support, direct financing, guarantees, insurance or interest rate support provided to foreign buyers to assist in the financing of the purchase of goods from national exporters." See OECD, Glossary of Statistical Terms, Export Credits, <https://stats.oecd.org/glossary/detail.asp?ID=909#targetText=Export%20credits%20are%20government%20financial,of%20goods%20from%20national%20exporters>. In the context of China, non-concessional loans issued by the CHEXIM are export credits.

¹⁹ These non-concessional loans are issued by China Development Bank (CDB) to finance large-scale energy and infrastructure projects in developing countries.

²⁰ China Export and Credit Insurance Corporation (Sinosure) is an official export credit agency, which backs up failed projects by using government's fiscal revenue (Chen, 2018.p.7).

²¹ UNCTAD, <https://unctadstat.unctad.org/EN/>.

p.751). Xi Jinping pledged grants and interest-free loans worth \$5 billion to Africa in 2015 (Zhang and Smith, 2017, p.2330). Kitano and Harada's estimates show that in terms of ODA, China's donor ranking has increased from 16th in 2001 to 6th in 2013 (Kitano and Harada, 2016). To put these numbers in perspective, China's total OFDI stock increased from \$27.8 billion in 2000 to \$1.28 trillion in 2016.²²

Distinguishing between foreign aid and trade finance loans is important because the decision-making process varies from one to another. Governmental agencies actively orchestrate foreign aid programs, but play a relatively more limited role in determining trade loans. Furthermore, foreign aid only accounts for a minor proportion of China's overseas development credits (Chen, 2018, p.9, Figure 1). For example, "concessional foreign aid loans provided by the China Eximbank amounted to only 3 per cent of its assets" (Brautigam, 2011a, p.757). Trade finance loans, on the other hand, represent the lion's share of the total stock of Chinese international development finance credits (Brautigam, 2011b).

Before we get into the details on decision-making process of BRI projects, it is important to understand that China uses its own standard to define what constitutes foreign aid, which is different from the widely-used OECD standard (Brautigam, 2011a; Dreher et al., 2018, Chen, 2018, p3). OECD's DAC categorizes two types of financial flows: Official Development Assistance (ODA), which is commonly used by OECD countries as their foreign aid, and Other Official Flows (OOF). Export credit represents a significant type of OOF. To be defined as ODA, three criteria must be met. First, capital must be provided by official agencies. In addition, the interest rate of this capital must be lower than market rate, or loans have "a grant element of at least 25 percent at a 10 percent discount rate" (Brautigam, 2011a, p.754).²³ Finally, the main goal of these credits is for the economic development and welfare of the recipient country. Because the Chinese government does not adopt the OECD-DAC standard, researchers struggle with a precise alignment of China's official development finance credits with DAC's categorization of ODA and OOF (Strange et al., 2017, pp.938-940).²⁴ Strange et al. (2017) improve on previous estimates by presenting an alternative scheme that differentiates "ODA-like" activities from "OOF-like" activities. As a result, for China's overseas developing finance, there is significant grey area in distinguishing foreign aid programs and trade finance loans. The only exception is grants and interest-free loans disbursed by the Ministry of Commerce (MOFCOM), which can easily be qualified as ODA.

Central ministries are responsible for deciding how to allocate foreign aid (Varrall, 2016). In the past, MOFCOM has been responsible for coordinating specialized aid programs with Ministry of Foreign Affairs (MFA) (Zhang and Smith, 2017, pp.2336-2337) and other line ministries such as the Ministry of Agriculture and the Ministry of Health (Zhang and Smith, 2017, p.2338; Shi and Hoebink, 2019, pp.10-11). Going forward, the new Chinese International Development Cooperation Agency (CIDCA)

²² UNCTAD, *World Investment Report 2017* (Geneva: UNCTAD, 2017).

²³ Concerning loans, it is often difficult to draw a clear line between ODA and OOF since researchers do not have information regarding concessionality for many development projects.

²⁴ For further details on China's foreign aid definition, see the State Council White Paper "China's Foreign Aid," Available at: http://english.www.gov.cn/archive/white_paper/2014/08/23/content_281474982986592.htm

is supposed to take a leading role (see below). However, the implementation of specific aid programs and associated program management are highly decentralized with different levels of the Chinese government playing different roles. Shi and Hoebink (2019, p.11) show that central ministries delegate the responsibility of foreign aid management to local governments. In particular, “a mirroring bureaucratic structure takes charge at the provincial level, where the office of foreign affairs and the department of commerce coordinate and specialized departments take the responsibility of selecting implementers.” Due to this highly decentralized structure, local government agencies become major players in China’s foreign aid programs. For instance, with regard to agricultural aid projects in Africa, “Chongqing sent a team to Tanzania; a Hubei team is in Mozambique, and a Sichuan team in Uganda” (Shi and Hoebink, 2019, p.10).

As noted, foreign aid programs only constitute a minor proportion of China’s cross-border development projects. Instead, a majority of these projects concentrate in the energy and infrastructure sectors (Jiang, 2019, p.48) and they are mainly credited by trade finance loans from China’s banks (Chin and Gallagher, 2019). For example, by 2015, energy and infrastructure loans had accounted for around 49% of total CDB’s \$ 573 billion overseas loans. According to Zhou et al. (2018, p.14), CDB and CHEXIM provided about \$44.7 billion loans to energy sector in BRI countries from 2014 to 2017. During the same period, these two policy banks also syndicated loans with the other four largest Chinese commercial banks that totaled \$143 billion across 165 energy and infrastructure projects in 32 BRI countries (Zhou et al., 2018, p.12).

Development projects funded by trade finance loans are different from foreign aid programs in a crucial way. The latter relies on government’s fiscal revenues while the former is supported by bank capital. Consequently, Chinese banks exert far more influence in the formulation and implementation of these large-scale overseas projects than more specialized aid programs. Relatedly, companies play a more proactive role in projects supported by trade loans since they are the actors who propose the projects to potential Chinese financiers in the first place.

While no two projects are exactly the same, many large infrastructure projects follow broadly similar patterns. Table 1 shows a generic life cycle for BRI projects and the associated crucial actors for each stage of the project life cycle. The projects are often initiated by the host country’s government (Tan-Mullins et al., 2017, p.472). For example, Myitsone hydropower dam project was first proposed by Myanmar’s military regime (Interview with an expert on China’s infrastructure investments in Southeast Asia, 09/21/2019). The host government can either negotiate directly with a Chinese company or reach an agreement with the Chinese government and then open up for bids. The Chinese company starts by registering with the economic and commercial counsellor’s office²⁵ in the host country and then the office will decide whether to approve the application (Chen and Orr, 2009, p.1204). After that, if the company is contactor, it needs to provide an acceptance letter from the counsellor’s office to the China International Contractors Association (CHINCA) to get another acceptance letter (Chen and Orr, 2009, p.1204). With these two acceptance letters, the company

²⁵ The role of the economic and commercial counsellor is further articulated in the next subsection.

approaches banks and credit insurance companies for support. In particular, the company needs a “Letter of Interest in Lending” from a bank and a “Letter of Interest in Insuring” from a Chinese insurance company (Chen, 2018, p.16). According to Mullins et al. (2017, p.473), “The bank then submits the finance schedule first to the Chinese MOFCOM and then to the insurance companies for approval.” Once it has obtained support from the Chinese financiers, the company goes back to the MOFCOM’s Department of Outward Investment and Economic Cooperation to get a bidding permit (Chen, 2018, p.16).

Table 1: The BRI Project Life Cycle and Key Actors

Activity	Key actors in China	Key actors in recipient country
<i>Project initiation</i>	SOEs	Companies, political interests
<i>Project financing</i>	Policy banks	Limited
<i>Approve / block projects</i>	NDRC, MOFCOM	National / local political leaders, bureaucracies
<i>Project implementation</i>	SOEs	Companies
<i>Trouble shooting</i>	MOFCOM, MFA	National / local political leaders, bureaucracies

Figure 1 displays a typical institutional setting of the implementation of overseas projects financed by trade finance loans, which varies across contract modality, the level of governance, and the dominance of the state’s geopolitical objectives (see detailed discussion below). Despite the increasing importance of FDI in financing Chinese-led projects in host counties, loans by state-owned banks account for the largest share of BRI finance (CDB and UNDP 2019, p. 44). For interested readers, we also present a snapshot of how Chinese agencies regulate the OFDI (For more details, see Sauvart and Chen, 2014). Figure 2 shows a roadmap of China’s OFDI approval processes for central SOEs, which presents the

supplementary information for our focus on China’s foreign aid and development projects that are mainly supported by export credits.

Figure 1

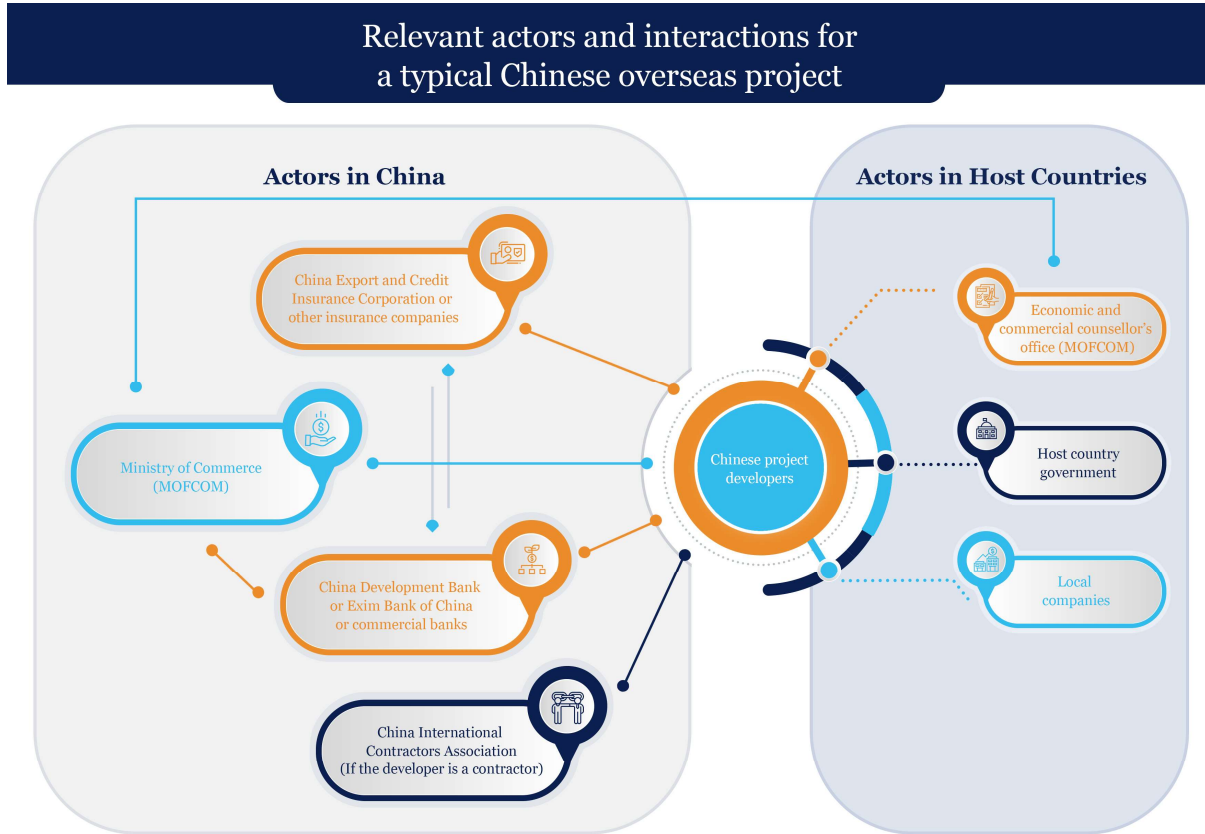
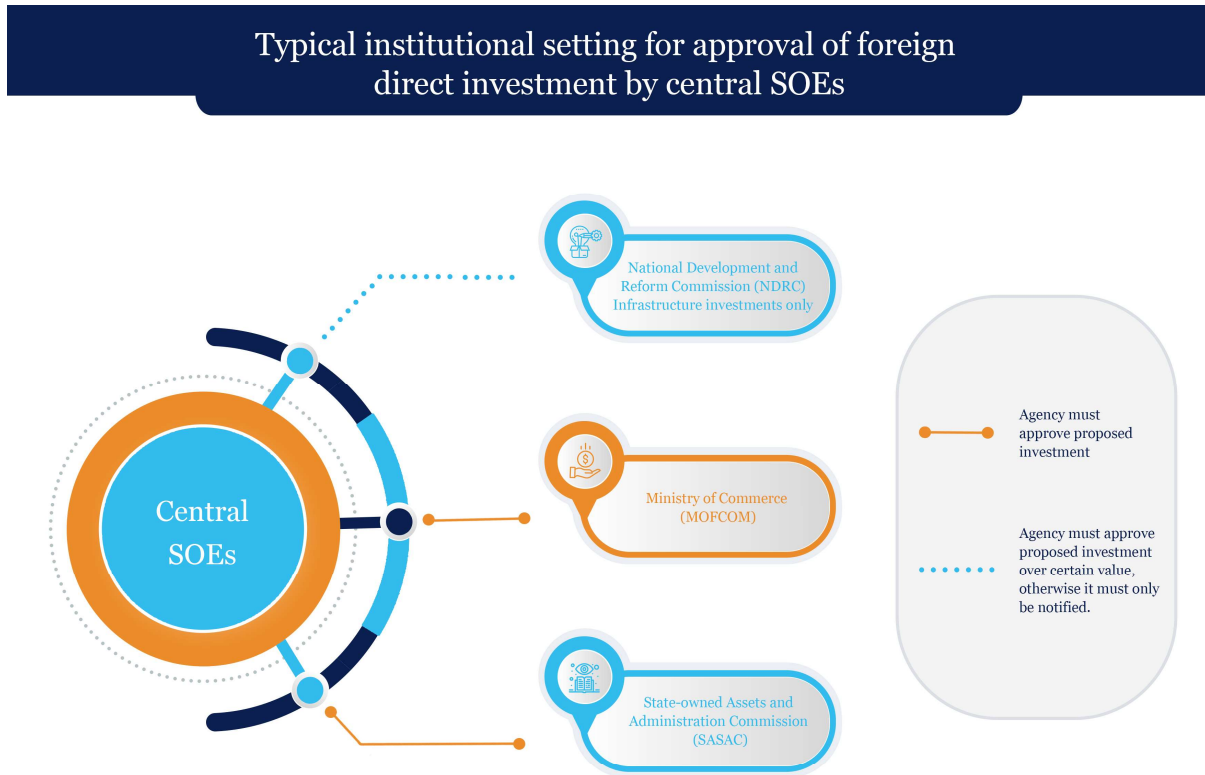


Figure 2



While this general model roughly applies across most projects funded by trade finance loans, the decision-making process for Chinese overseas investment varies across three distinct dimensions: contract modality, the level of governance, and the dominance of the state’s geopolitical objectives. Consider each in turn:

Contract modality refers to the type of investment contract through which Chinese actors engage in cross-border projects. These include subcontracting, Engineering, Procurement, Construction (EPC), Build-Operate-Transfer (BOT), Build-Operate-Own (BOO), and equity investment.²⁶ Each contract modality involves different sets of actors and procedures. During the 1990s and the early 2000s, subcontracting was a popular form of Chinese firms’ overseas expansion. Later, EPC became a more common approach for Chinese companies to engage in overseas activities. Now, a growing number of Chinese corporations participate in BOT and BOO projects (interview with a State Council official, 04/28/2019). The changing prevalence of how Chinese companies employ a particular contract modality in cross-border projects complicates the decision-making process through which other

²⁶ For detailed discussions on contract modality, see Tan-Mullins et al. (2017); Leutert (2019).

Chinese actors engage in these programs. For example, for BOT projects, large Chinese firms tend to finance these programs using their own funds instead of getting loans from policy banks (interview with a State Council official, 04/28/2019). Therefore, policy banks are less likely to participate in these types of investments. More importantly, loans for BOT projects are qualified as OFDI since the contractors “will own the project for a significant length of time” (Gallagher and Irwin, 2014, pp.5-6). If involvement in an overseas project is a type of OFDI, Chinese investors need to go through a different procedure to get approval of their investments because of relevant Chinese regulations. In particular, it is an imperative for these enterprises to get approval from both MOFCOM and National Development and Reform Commission (NDRC) or these regulators’ provincial equivalents (Sauvant and Chen, 2014). The role of these two agencies are specified in the next subsection. After the approval of MOFCOM and NDRC, Chinese investors also need to transfer foreign exchange offshore through the State Administration of Foreign Exchange (SAFE).

Another recent change in contract modality with regard to these overseas projects is a rapid increase of equity investments after 2013. For example, a report by Greenpeace and a research center affiliated with the Sichuan government shows that there had been a 1,370% increase in Chinese equity investment in solar, wind, and coal from 2014 to 2018.²⁷ For coal-fired power projects, there has been a dramatic shift from the EPC modality to equity investments among the Chinese enterprises.²⁸

The second dimension, the level of governance, refers to which levels of the Chinese government are linked to the companies leading and financing the projects. This multi-layer governance system reflects in the way in which different types of Chinese SOEs participate in overseas investment. SOEs are major actors in the formulation and operation of overseas development projects credited by Chinese policy banks. For instance, by the end of 2014, the CDB had loaned about \$67 billion to finance central SOEs’ cross-border projects (Chen, 2018, p.16-17). SOEs also play a vital role in China’s outward direct investments. Despite a decrease in the share of SOEs in China’s OFDI, SOEs still account for around 49% of the total OFDI stocks in 2017 (Oh and No, 2019, p.1). The number is even higher during the 2000s - China’s SOEs accounted for about 69% of total ODI stock by the end of 2009 (Song, Yang, and Zhang, 2011, p.39).

Chinese state capitalism operates through a multi-level decentralized system. Specifically, SOEs can be of one of two distinct types, which vary significantly in terms of their control structure. On one hand, the top-tier firms – fewer than 200 central SOEs – are supervised by the Communist Party’s Organization Department and the State-owned Assets Supervision and Administration Commission (SASAC, see below). On the other hand, the bottom-tier firms – local SOEs (over 100,000 companies) – are supervised by local SASACs affiliated with provincial and municipal governments (Pearson, 2015, p.40). In addition to those central SOEs (which are often labelled as “national champions”),

²⁷ Greenpeace East Asia’s Beijing office and Sichuan Province Cyclic Economy Research Center, 2019.

“China’s Equity Investments in Overseas Coal, Wind, and Solar Energy Projects,”
<https://secured-static.greenpeace.org/eastasia/PageFiles/795887/Press%20briefing%20-%20Chinese%20equity%20investment%20in%20overseas%20energy.pdf>

²⁸ Wang and Li, 2019. “How China’s power companies invest overseas,”
<https://pandapawdragonclaw.blog/2019/09/24/how-chinas-power-companies-invest-overseas/>

China's provincial SOEs also actively participate in development projects abroad. Bräutigam and Tang (2014, p.83) record how the Tianli Group, a provincial SOE, became involved in the JinFei Economic and Trade Cooperation Zone in Mauritius. Gu et al. (2016, p.31) presents a case study of a rice farm in Mozambique in which Hubei Lianfeng, which is a provincial SOE, made investments in the country's rice farming. As we expect, because of a highly decentralized regulatory environment, local SOEs have more leeway and flexibility to make their cross-border investment decisions than their central-level counterparts. Provincial NDRC offices are tasked with the supervision of local SOEs. However, these offices are funded and required to report to provincial governments (Cheng and Tsai, 2008). The regulations are less stringent for these provincial and municipal SOEs given that subnational governments rely on these local firms to provide revenue streams to their own coffers. Local states also have incentives to relax regulations over local SOEs because the latter is responsible for creating employment opportunities for the local population.

A third major dimension across which overseas projects vary is the extent to which a project serves the Chinese state's diplomatic purposes. A small proportion of projects are directly shaped by the Chinese government's strategic objectives, while others are primarily commercial in nature. For example, the Myitsone hydropower dam project in Myanmar is mainly driven by the China Power Investment Corporation's pursuit of commercial profits while the Kyaukpyu Special Economic Zone in the same country is to ensure China's energy security (Interview with an expert on China's infrastructure investments in Southeast Asia, 09/21/2019). However, without access to internal discussions of top Chinese leadership, it is difficult to discern the motives underlying China's involvement in overseas projects in a systematic way. Indeed, many projects may involve a mix of strategic and commercial incentives, with different actors involved believing one or the other to be dominant. As Hensengerth (2013, p.287) indicates, "whether or not a Chinese company receives preferential loans from Chinese banks and/or diplomatic support from the Chinese government says little about the nature of its involvement in projects abroad." For these strategically important projects, China's top leadership and related bureaucratic agencies rather than Chinese companies and other business actors play a more proactive role in formulating and implementing these projects.

Certainly, when significant geopolitical interests are at stake, top Chinese leaders are able to tighten their control over commercial actors and make them sacrifice their own material profits to achieve certain strategic goals. For example, in the competition over the Jakarta-Bandung High Speed Railway between China and Japan, top Chinese leaders intervened in the loan decisions made by the CDB – the bank then offered loans at extraordinarily low interest rates (Interview with an expert on China's policy banks, 04/27/2019). On the other hand, interviews with the State Council's policy advisors and researchers show that investments driven by strategic diplomatic goals are exceptions rather than the rule (interview with a State Council official, 09/21/2019; interview with a State Council official, 09/22/2019). So-called "extractive resource diplomacy" provides a good example. Media accounts often ascribe a strategic interest in resource security as a pivotal motive for the overseas engagement of Chinese corporations (Norris, 2016, pp.69-90). However, a number of studies also demonstrate how Chinese SOEs game the system in the name of serving the national interests but

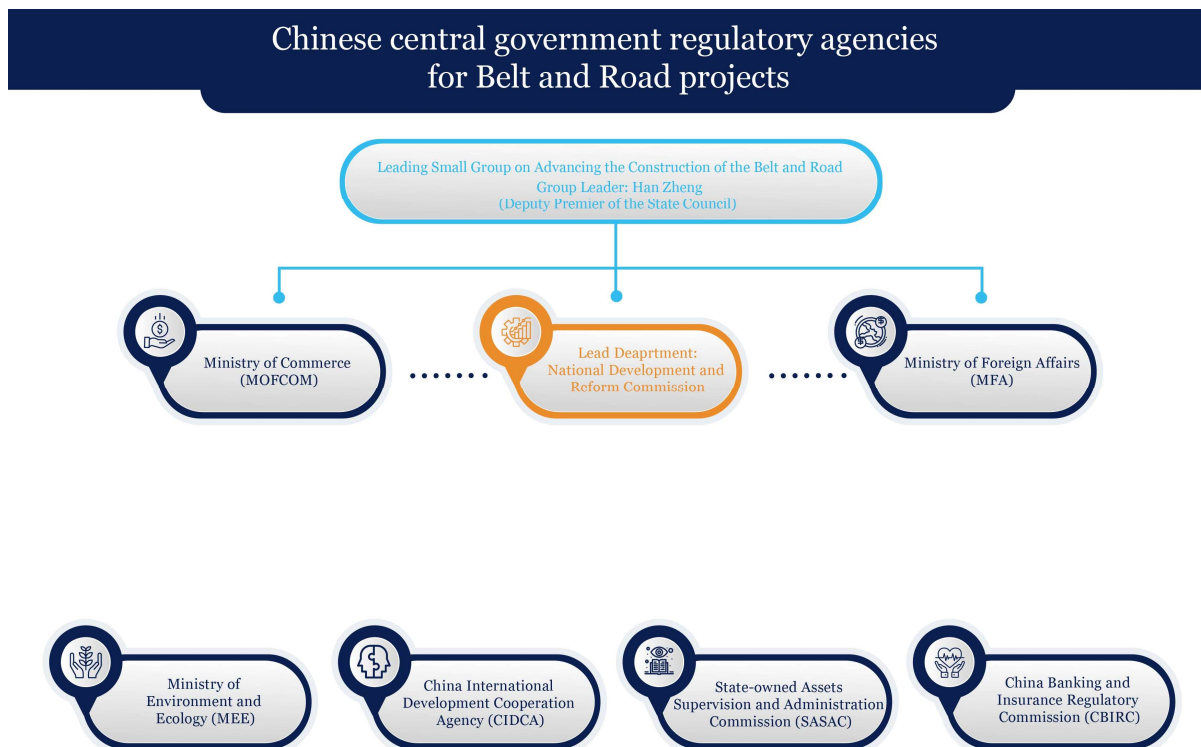
in fact advance their own parochial interests at the costs of China’s diplomatic objectives (Downs, 2008; Liou, 2009; Jones and Zou, 2017).

In addition to this well-known principal-agent problem, it is not easy to separate geopolitical considerations from commercial interests for many development projects. Nearly half of overseas loans lent by China’s policy banks are so-called “commodity-backed loans” (Brautigam and Gallagher, 2014). For example, “Ghana secured a Chinese loan for its Bui Dam hydropower project with the export of cocoa beans, while Ethiopia has several rounds of credit packages for infrastructure secured with its exports, primarily sesame seeds” (Brautigam and Gallagher, 2014, p.347). This form of resource-secured finance lowers the business risk for China’s policy banks to provide loans to those developing countries without good credit ratings. To acquire future-flows from resource exports of the recipient country, it is therefore imperative for Chinese policy banks to cooperate with the borrowing government. As Chin and Gallagher (2019, p.253) notes, Chinese policy banks tend to negotiate an agreement with the borrowing government’s finance ministry during the country leader’s visit or in the aftermath. In particular, “these arrangements are often described as ‘package deals’. At their most complex, the players involved would include the borrowing government’s Ministry of Finance, a company exporting a commodity and the one importing the commodity in China, and the ministry commissioning the project” (Brautigam and Gallagher, 2014, p.347). The prevalence of such resource-based collateral may therefore explain China’s disproportionate investments in the energy and mining sectors. The bulk of Chinese overseas investments in resource-abundant countries may not be driven by China’s geopolitical goals, but may be mainly motivated by economic considerations. The resource guarantee can lower the macro-economic risk of associated investments made by Chinese policy banks (Gallagher et al., 2018).

Who are the key actors and what are their interests?

This subsection lays out the key actors involved in BRI, their formal role, their *de facto* role, and their relationship with other actors. We divide these actors into five groups: political leadership, bureaucratic regulators, policy banks and insurers, enterprises, and provincial governments. Figure 3 depicts the relationship between political leadership and central-level bureaucratic regulators.

Figure 3



Political leadership

BRI is the brainchild of President Xi Jinping, who has tied his personal legacy to the project and had it enshrined in the Communist Party constitution. Ultimately the project is under the control of the Politburo, led by President Xi, and the issue has been discussed at Politburo Standing Committee meetings several times. Such oversight is very high-level, however. In China, the leading small group is a mechanism to integrate diverse interests of various bureaucratic actors and ensure the implementation of policies that are prioritized by top leaders (Tsai and Zhou, 2019). Under President Xi’s tenure, China has created many more leading small groups in different policy areas, many formally chaired by President Xi himself, seeking to strengthen the leadership’s control over the party-state apparatus. The “Leading small group on advancing the construction of the Belt and Road” was created in 2015. Its head is not President Xi but instead Han Zheng, the first-ranked Vice Premier of the State Council and a 2017 appointee to the Standing Committee of the Politburo (Manuel 2019). Other members represent China’s foreign policy and economic ministries, but the secretariat for the group is housed in the National Development and Reform Commission (NDRC), the powerful economic planning agency (see below). Although this leading small group is nominally in charge of coordinating different central-level agencies with regard to all the BRI-related activities, it does not meet frequently (Rolland, 2019, p.226). In practice, the Office of the Leading Small Group “performs

the day-to-day tasks and routine administrative work for the leading small group” (Tsai and Zhou, 2019, p.5). Since the Office is located within the NDRC, it is safe to assume that the NDRC plays a *de facto* role of coordinating BRI-relevant Chinese bureaucratic agencies within the leading small group.

Bureaucratic Regulators

National Development and Reform Commission (NDRC)

The NDRC is a supra-ministry charged with China’s macroeconomic planning. Its remit includes “the approval of large investment projects, in coordination with other central economic agencies, and in this capacity it provides directives to provincial governments” (Ye, 2019, p.705). It is the most important ministerial decision-maker on BRI (Ye, 2019, p.706), and in China’s domestic political economy. Along with the MFA and the MOFCOM, it is one of the three central ministries that “were tasked with coordinating BRI implementation and had jointly drafted the BRI Vision and Action Plan in early 2015, which remains the only formal policy publication on BRI in China” (Ye, 2019, pp.704-705).

The NDRC is tasked by the State Council to approve major outward direct investment projects under the following conditions:

- (1) “The proposed investment is in natural resources and the investment committed by the Chinese investor(s) would be over US\$300 million” (Sauvant and Chen, 2014, p.1478);
- (1) “The proposed investment project is not in natural resources, and the investment committed by the Chinese investor(s) would be over US\$100 million” (Sauvant and Chen, 2014, p.1478);²⁹
- (2) Projects that are considered as special³⁰

Note that if a proposed investment does not fall into the three categories and it is formulated by a central SOE – “All other projects undertaken by central SOEs” – they are “exempted from approval by the NDRC” (Sauvant and Chen, 2014, p.148). Other projects that do not fall into the three categories need to be put on record (备案) through the NDRC.

The NDRC is a central ministry, but it has many provincial branches with significant authority. In particular, the approval of projects “undertaken by sub-national SOEs and non-SOEs – is delegated to local DRCs” (Sauvant and Chen, 2014, p.1478). According to Sauvant and Chen (2014, p.148), “Local DRC offices can independently approve other projects below the investment thresholds previously

²⁹ The threshold was increased from US\$100 million to US\$300 million after December 2017. See King & Wood Mallesons, 2017, 热点解读：国家发改委正式发布第 11 号令《企业境外投资管理办法》，<https://www.chinalawinsight.com/2017/12/articles/corporate-ma/%E7%83%AD%E7%82%B9%E8%A7%A3%E8%AF%BB%EF%BC%9A%E5%9B%BD%E5%AE%B6%E5%8F%91%E6%94%B9%E5%A7%94%E6%AD%A3%E5%BC%8F%E5%8F%91%E5%B8%83%E7%AC%AC11%E5%8F%B7%E4%BB%A4%E3%80%8A%E4%BC%81%E4%B8%9A%E5%A2%83%E5%A4%96/>

³⁰ Special projects include “investments in a country without diplomatic relations with China; countries under United Nations sanctions; war zones, as well as investment related to infrastructure, telecommunications, cross-border water utilization, large-scale land exploitation, electricity networks, and news media” (Sauvant and Chen, 2014, p.148)

specified. However, local DRCs need to inform the central office of natural resource investment projects between US\$30 million and US\$300 million and non-natural resource investment projects between US\$10 million and US\$100 million.”

Critically, NDRC’s overwhelming primary interest is the domestic economy. China’s engagement abroad is seen through the prism of domestic economic performance. This gives the NDRC an interest in supporting Chinese companies, particularly “National Champions,” but also makes it wary of potential economic risks. According to a retired MOFCOM official, the NDRC is more likely to veto an overseas project than the MOFCOM (Interview with an expert on China’s global energy investments, 09/25/2019). NDRC’s central economic planning role also means that it has a strong relationship with, and large formal and informal power over, major SOEs. For this reason, NDRC is inclined to coordinate and negotiate with these “national champions” before approving a specific project (Interview with a State Council official, 09/17/2019). For example, anecdotal evidence shows that the NDRC has never vetoed an overseas investment project proposed by the China National Petroleum Corporation (Interview with a top Chinese oil company’s expatriate, 09/13/2019).

Despite its considerable power, the NDRC’s capacity of overseeing and reviewing the operation of projects abroad is largely constrained by the number of its personnel. Within the NDRC, the Department of Foreign Capital and Overseas Investment is tasked with approving major resources-related overseas investment projects. According to a government officer from the State Council, there are fewer than 50 NDRC officers who are governing China’s overseas investment projects (Interview with a State Council official, 09/22/2019). The understaffing problem is not specific to the Department of Foreign Capital and Overseas Investment. For example, despite its designated powerful role over allocating resources for the entire energy sector, the energy department of the NDRC “was staffed with fewer than 30 people” (Brødsgaard, 2012, p.631). In 2008, the NDRC had 28 different bureaus and departments and a personnel allocation of 913 without accounting for 116 retired people (Central Government Institutions and Organs, 2009, p.93). Put differently, the average size of a bureau/department is about 33 people. Because of the paucity of officers,³¹ the NDRC’s direct intervention in China’s businesses abroad is limited and tends to be reactive. One researcher mentions that this agency often has “no teeth” when it comes to regulating international projects on the ground (Interview with an expert on China’s infrastructure investments in Southeast Asia, 09/21/2019). The administrative limitations of this regulatory agency have also been highlighted by its relationship with major Chinese financiers for overseas investments. For example, the NDRC sets up an office to supervise China’s Exim Bank, which handles China’s concessional loans, in the Bank’s Beijing head office. However, according to a policy bank staffer, the office is only staffed with 4 people, of whom two are directly responsible for the office’s daily functions (Interview with a policy

³¹ The personnel allocation for ministry-level entities is handled by the State Council’s Office for Public Sector Reform. Typically, a department within a ministry has 30-35 administrative staffs. To be true, each ministry has more than ten affiliated institutions (“部属事业单位”). However, the understaffing problem persists even if we take these affiliated institutions into account. There is a division of labor among a ministry’s directly affiliated institutions. Usually, there was an affiliated institution that was in charge of the same specialized task as the corresponding department of the ministry. Therefore, the number of staffs who are involved in a specific function would be no more than 400-500 if an affiliated institution and its corresponding department are combined together.

bank staffer, 09/25/2019). Consequently, the Exim Bank itself plays a far more important role in monitoring firms to enforce sustainability considerations than the NDRC (Interview with a think tank researcher affiliated with the People's Bank of China, 09/18/2019).

Ministry of Commerce (MOFCOM)

Though less powerful than the NDRC, it is widely accepted that the MOFCOM plays the most direct role in managing China's overseas development projects among all central ministries to date (Varrall, 2016; Zhang and Smith, 2017). Specifically, MOFCOM is in charge of two tasks. The first is to manage the country's foreign aid programs, although its control over this function is now in the process of shifting to CIDCA (see below). Historically, MOFCOM's Department of Foreign Aid (DFA) is tasked by the ministry with managing over 90 percent of "the bilateral aid funding allocated by the Ministry of Finance" (Varrall, 2016, p.26). Second, and more importantly, MOFCOM has control over the approval of Chinese companies' investments abroad. The ministry's Department of Foreign Economic Cooperation (DFEC), is "responsible for regulating all Chinese companies involved overseas" (Gill and Reilly, 2007, p.42). For international projects, all Chinese investors need to obtain a Certificate of Enterprise/Organization Investment Abroad from the MOFCOM.

The central DFEC office of the MOFCOM is responsible for the approval of the following types of projects:

- (1) "Any projects conducted by central SOEs, regardless of the investment size" (Sauvant and Chen, 2014, p.147);
- (2) "Any project by other firms in natural resources" (Sauvant and Chen, 2014, p.147);
- (3) "And any project where the committed investment by a Chinese investor is over US\$100 million" (Sauvant and Chen, 2014, p.147);

Like NDRC, the MOFCOM has local branches, and consequently "Applications for a Certificate for all other projects and enterprises not mentioned above are through local departments of commerce" (Sauvant and Chen, 2014, p.147). It is important to note that while the DFEC prioritizes increasing market share for Chinese companies, the DFA (and now CIDCA) gives more weight to improving China's foreign aid programs (Liou, 2014, p.227). Such intra-agency dynamics mirror the competition between MOFCOM and MFA, elaborated below.

In addition to DFA and DFEC, the MOFCOM governs a team of Economic and Commercial Counsellor (ECC) officials in China's diplomatic missions abroad. Unlike NDRC, the ECC has officials in BRI countries. These offices are regarded as local representatives of MOFCOM (Gill and Reilly, 2007, p.43), tasked with managing Chinese aid to a given recipient country and promoting China's trade and investment connections with that country. For example, MOFCOM requires the ECC offices to report incidents of worker deaths to its Beijing headquarters (Gill and Reilly, 2007, p.48).

In general, MOFCOM supports China's global economic expansion. According to a retired MOFCOM official, the MOFCOM rarely vetoes overseas projects, especially those proposed by central SOEs. In part this is because MOFCOM has built mutual trust with these large SOEs over long-term interactions (Interview with an expert on China's global energy investments, 09/25/2019).

However, similar to the case of the NDRC, the MOFCOM suffers from an understaffing problem. In 2008, the MOFCOM had 28 different bureaus and departments and a personnel allocation of 888 without accounting for 68 retired people (Central Government Institutions and Organs, 2009, p.275). Put differently, the average size of a bureau/department is about 32 people. Because the DFA has only 70 people, it faces considerable obstacles in managing China's foreign aid programs. The DFA has been overwhelmed by the workload and the agency has to rely on the help of Chinese Academy of International Trade and Economic Cooperation, which is a think tank affiliated with the MOFCOM, to manage a number of foreign aid projects (Zhang and Smith, 2017, pp.2337-2338). It is highly possible that the DFEC also suffers from a shortage of staff like the DFA given the aforementioned average size of a MOFCOM bureau.

Note that ECC officers also lack sufficient capacity to supervise China's overseas projects. First, the time horizon of the ECC officials is short. They usually occupy their postings for a short period (three to five years), which discourages them from developing in-country expertise (Zhang and Smith, 2017, p.2334). Second, given the limited number of staff at MOFCOM, it has to "select officials from the provinces and cities" to assign to overseas ECC offices (Zhang and Smith, 2017, p.2333). This practice exacerbates the information problem that staff in these office encounter. They lack necessary development expertise to monitor and evaluate the projects, as well as having local language skills. Third, ECC officers are usually overwhelmed by their day-to-day workloads, which involve significant logistical operations. For example, one duty of these offices is to introduce the recipient country's relevant government agencies to Chinese SOEs for project initiation, or to arrange meetings for visiting officials or Chinese companies (Interview with an expert on China's infrastructure investments in Southeast Asia, 09/21/2019). Therefore, there would be limited time for ECC offices to keep an eye on projects on the ground.

Ministry of Foreign Affairs (MFA)

The MFA is less important than MOFCOM or NDRC in shaping China's international development projects (Hameiri and Jones, 2018, p.582; Interview with an expert on China's policy banks, 09/15/2019; Interview with a State Council official, 09/22/2019). Instead, the MFA tends to get involved only when a diplomatic problem associated with a specific project occurs and requires diplomatic assistance. For example, when the Colombo Port City in Sri Lanka was suspended, the Chinese company involved actively communicated with the embassy every week seeking the latter's support (Interview with a researcher on China's infrastructure investments in Sri Lanka, 09/23/2019). The MFA's most concrete operational role in BRI projects is therefore as a "trouble-shooter."

To the limited extent the MFA does engage in BRI project selection, it attempts to make Chinese foreign aid, including concessional loans by the CHEXIM, more in line with the state's geopolitical goals. Because the MOFCOM pays more attention to promoting the commercial interests of Chinese companies than China's geopolitical interests (Varrall, 2016), the Chinese state's strategic concerns are secondary to corporations' economic interests in the eyes of the MOFCOM. As a result, in the dispersal of foreign aid, MFA attempted to compete with MOFCOM for control over the distribution of development aid. CIDCA is now meant to referee these conflicting interests, but it remains to be seen

how this will be done. According to Zhang and Smith (2017, p.2336), “Relations between Chinese ambassadors and the Economic and Commercial Counsellors’ offices are at the centre of competition between MOFCOM and MFA.” As a local subsidiary of the MOFCOM, the Economic and Commercial Counsellors’ offices report directly to the MOFCOM while the Chinese embassy reports to the MFA (Varrall, 2016, p.27). The lack of coordination between the Economic and Commercial Counsellor and the embassy is also noted by Corkin (2011, p.67).

Like the MOFCOM, the MFA’s in-country embassy faces a shortage of staff. In one Southeast Asian country, for example, the embassy staff are overwhelmed by their workload such as hosting groups of visiting Chinese officials and firms. Because of the understaffing problem, some university faculty members have been temporarily transferred to the embassy and work as translators (Interview with an expert on China’s infrastructure investments in Southeast Asia, 09/21/2019). According to a policy bank officer, there is an office within the CHEXIM that is responsible for the coordination with the MFA. However, the main task of the office is to liaise with the local embassy for hosting visits of the Exim bank’s top managers (Interview with a policy bank staff, 09/25/2019). In other words, the MFA lacks sufficient administrative authority to shape how the CHEXIM allocates concessional loans.

It is worthwhile to note that MFA’s influence has increased under President Xi. Loh (2019, p.8) indicates this change by referring to both greater diplomatic spending under Xi and a potential shift of decision-making power from MOFCOM to MFA with regard to economic diplomacy. Bloomberg News also reports that the “Foreign Ministry could weaken the very agencies such as the Commerce Ministry that have helped China establish interests around the globe, but the government has decided that it’s worth the risk.”³²

State-owned Assets Supervision and Administration Commission (SASAC)

SASAC is a key institution through which the central government controls China’s huge conglomerates – “by 2010, SASAC accounted for more than half of the capital stock (61%) and almost half of the labor force (43%) of all state run industry” (Naughton, 2015, p.50). SASAC therefore manages the core component of state capitalism in China. This bureaucratic agency usually owns fewer than 200 central SOEs that are widely regarded as “national champions” in strategic sectors. The Chinese Communist Party shares appointment power with the SASAC – “for the fifty-three largest SASAC enterprises, the top manager and chairman of the board are appointed directly by the Communist Central Committee Organization Bureau” (Naughton, 2015, p.60). SASAC can directly appoint top managers of remaining two-thirds SASAC firms (Liou and Tsai, 2016, p.14). Therefore, according to Liou (2014, p.225), “while the CCPOD maintains the formal authority to appoint SOEs’ corporate leaders, its selection is limited to the managerial lists that the SASAC makes.”

In short, SASAC is the “boss” of China’s dominant SOEs. As a result, managerial elites in China’s state-monopolized industries are particularly responsive to the SASAC’s performance evaluation system rather than other ministry-level regulators. The incentive structure designed by the SASAC

³²Bloomberg News, February 7, 2018, “As U.S. Culls Diplomats, China Is Empowering Its Ambassadors” <https://www.bloomberg.com/news/articles/2018-02-07/as-u-s-culls-diplomats-china-is-empowering-its-ambassadors>

consistently prioritizes economic performances instead of other non-economic objectives (Liou and Tsai, 2016, p.14). Before 2009, when Li Rongrong was the head of the SASAC, the evaluation system emphasized “the total profit and the rate of return to net assets”, which is strongly correlated with the size of sales or market share expansion (Liou, 2014, p.225; Liou and Tsai, 2017, pp.1070-1071). After 2009, the SASAC changed the evaluation criteria and began to emphasize firm profits. Therefore, in terms of SASAC’s preferences toward central SOEs’ overseas expansion, there may be a shift from a focus on market share to an emphasis on profitability. These evolving evaluation criteria may therefore reshape investment behavior of Chinese’s central SOEs.

To oversee central SOEs, SASAC established a Supervisory Board system. According to Chen (2018, pp.163-164), “there are 29 supervisory board offices, each consisting of around four or five ‘supervisors’ with high ranking as central government officials...Each one of the 29 supervisory board offices oversees around four or five central SOEs. The Supervisory Board sends a team of permanent officers to the central SOEs of which it is in charge.” In addition to maintaining a Supervisory Board system, SASAC has established three bureaus of supervision that are designated with assisting supervisory board offices to monitor central SOEs (Chen, 2018, pp.161-162).

It seems that SASAC tends to use a “command and control” approach to enforce regulations regarding overseas investments by central SOEs. For example, to improve central SOEs’ overseas CSR practices, since 2008, the SASAC has issued a number of decrees and guidelines to require these SOEs to implement CSR reporting (Tan-Mullins, 2019, p.5 and p.11). In response to SASAC’s policy mandates, “CSR reporting and SOE transparency have increased tremendously” (Tan-Mullins, 2019, p.11), which is reflected in SOEs’ transnational projects in East Africa.

However, despite its administrative authority over central SOEs, SASAC suffers from the same understaffing problem as other central-level regulators. In 2003, when the SASAC was set up, it had 19 different bureaus and departments and a personnel allocation of 555 (Brødsgaard, 2012, p.630). That is, the average size of a bureau was about 29 people. In addition, as shown above, there is a limited number of SASAC staff working in supervisory board offices that carry out daily oversight of central SOEs, which accounts for a substantial proportion of largest business conglomerates around the world. Based on interviews with SASAC insiders, Chen (2018, p.197) indicates that it is a daunting task for the SASAC to fully eliminate the inherent asymmetric information problem. It is thus highly possible that within SASAC, there is a lack of supervisory capacity to deal with environmental and social concerns associated with central SOEs.

China International Development Cooperation Agency (CIDCA)

In April 2018 the MOFCOM DFA staff were transferred into the newly established CIDCA. CIDCA was established to bring coherence to China’s foreign aid policy system, which has been fragmented in ways that limited effectiveness, with MOFCOM and MFA competing to control a system in which a number of agencies at different levels of government played overlapping roles (Rudyak 2019). CIDCA’s objective is to bring coherence to this system by creating harmonized regulations and legislation, collecting systematic data on project implementation, representing China in bilateral and

global development assistance fora, and, critically, deciding on the dispersal of foreign aid in accordance with foreign policy objectives, including BRI.

Despite these ambitions, CIDCA has been relatively slow to impose authority and coherence on the fragmented system that existed before. According to a government official from the State Council, CIDCA has around 100 staff, who are overwhelmed by their workload. The capacity of CIDCA to regulate China's aid programs is limited given that the agency's bureaucratic ranking is a vice-ministerial level entity – such an administrative level is not necessarily higher than other related actors. The CIDCA's relatively weak administrative rank is largely an outcome of bargaining and compromises amongst various central-level actors. The creation of a new regulatory entity inevitably entails a redistribution of resources and influence among relevant bureaucratic organizations, which renders a contestation over the new agency's scope of jurisdiction. Therefore, policy entrepreneurs who advocate the establishment of CIDCA are only able to persuade the potential veto players to support this reform by circumscribing the power of this nascent organization (Interview with a State Council official, 09/22/2019).

Ministry of Environment and Ecology (MEE)

The Ministry of Ecology and Environment (MEE) plays no role in decision-making around BRI projects, but has engaged more broadly in various initiatives around greening BRI, including acting as a convener of BRIGDC.

In a large administrative reform in 2018, the Ministry of Environmental Protection of the People's Republic of China (MEP) was reorganized as the MEE. The new MEE is much larger than its predecessor³³ and has been “given increased authority over policies touching on climate change, previously the purview of the National Development and Reform Commission” (Kostka and Zhang, 2018, p.772). However, this authority does not extend to the activities of Chinese companies abroad. There are a number of offices and centers affiliated with the MEP, which are a type of *shiye danwei* (“service organization”). As Pearson (2005, p.311) indicates, for State Council organizations, the *shiye danwei* designation is used to subvert nominal restrictions on the size of bureaucratic personnel. *Shiye danwei* can circumvent the headcount limits placed on ministerial-level regulatory agencies. In addition to these personnel in Beijing, there are MEP employees in the ministry's regional centers and “a number of contractors who run and maintain the national pollution-monitoring center and other ancillary functions” (McElwee, 2010, p.84).

Although MEE does not play a formal role in the approval of BRI projects, the ministry participates in the BRI by acting as a convener of BRIGDC. BRIGDC was announced in May 2017 by President Xi in the first Belt and Board Forum (BRF) for International Cooperation. BRIGDC was then officially launched in the second BRF in April 2019.³⁴ BRIGDC is a transnational network that encompasses

³³ MEP has about 300 administrative staffs at its Beijing headquarters. Furthermore, there are about 2,000 staff “working in the various national offices and centers affiliated with MEP” (McElwee, 2010, p.84).

³⁴ Hou Liqiang, 2019-04-25, China Daily, “China officially launches green development coalition under BRI,” see <https://www.chinadaily.com.cn/a/201904/25/WS5cc181c5a3104842260b8626.html>

national environmental departments, international NGOs, research institutes, and business communities.³⁵ By the end of 2019, BRIGDC had more than 130 partners.

The ultimate goal of BRIGDC is to incorporate sustainable development, especially the 2030 Sustainable Development Goals, into the BRI by providing a platform that enables international consensus and collective action of various actors around the world. In particular, BRIGDC promotes information sharing, green technology transfer, and policy dialogue among partners.³⁶ These transnational linkages and cooperation may integrate international standards and best practices into the BRI projects in recipient countries.

Thus far, as shown above, MEE are in charge of China's domestic environmental regulations rather than cross-border activities of Chinese economic actors. The head office of the MEE in Beijing focuses on nationwide policymaking while local environmental protection bureaus (EPBs) are directly responsible for implementing pollution control targets, enforcing pollution laws, and reporting environmental data on the ground. In theory, EPBs at the provincial, city, district, and county level are responsive to two leaders. The first is the higher levels of the environmental protection apparatuses, and the second is the local governments where the EPBs reside. However, despite its nominal authority, MEP does not exert a strong *de facto* control over local EPBs. Subnational EPBs receive most of their funding from local governments (Jahiel, 1998). This financial dependence on local governments makes subnational environmental regulators extremely vulnerable to regulatory capture by local governments. As a result, the implementation of various regulations directed by the MEE is severely hampered by this "local protectionism." Local governments have stronger incentives to adopt a less environmentally-friendly approach to promote regional economic development while ignoring the detrimental effects of associated environmental problems (Kostka and Hobbs, 2012). It is thus not surprising to observe considerable subnational variations in environmental law enforcement across different localities in China (Van Rooij et al., 2017).

To tighten its control of local EPBs, MEE uses two measures to alleviate the information asymmetry between the central regulator and local agencies. First, MEP launched a verification program that pushes local EPBs to provide more reliable pollutant emission data. MEP employs a variety of methods including deploying verification teams to conduct on-site inspection (Zhang, 2017). Second, MEP has established six regional supervision centers (SCEP) to supervise the implementation of national environmental policies. For example, the execution of the aforementioned verification program largely relies on the personnel support of MEP regional supervision centers (Zhang, 2017, p.761). A SCEP typically has a staff size of 30 to 65 (Huan, 2011, p.143) and is a type of *shiye danwei* and therefore it is not a formal sub-bureau of the MER. As a result, SCEP cannot issue fines to punish people or firms for breaches of environmental protection regulations (Huan, 2011). The enforcement of environmental policies at the local level remains the task of subnational EPBs.

China Banking and Insurance Regulatory Commission (CBIRC)

³⁵ BRI International Green Development Coalition, "About us," <http://greenbr.org.cn/lsfz/lslmgwym/hzhb/>

³⁶ BRI International Green Development Coalition, <http://greenbr.org.cn/lsfz/lslmgwym/lmjs/>

Through the merging of China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC), the China Banking and Insurance Regulatory Commission (CBIRC) was established in April 2018. CBIRC's primary goal is to prevent a financial crisis, and in recent years it has sought to reign in excessive accumulation of debt throughout the Chinese financial system. Since the most recent detailed information about CBIRC is not available yet and many of the previous behaviors of CBRC and CIRC continue after the merger, we focus on the CBRC and the CIRC in this report.

Two crucial financiers of China's overseas projects – CHEXIM and CDB – are under CBRC's purview. CBRC split off from the People's Bank of China (PBOC) as a separate organization in 2003. Since then, PBOC has been responsible for managing monetary policy whereas CBRC's main responsibility is to oversee the banking system and to exercise prudential regulations (Ping, 2014, pp.51-69). In particular, "CBRC is responsible for supervision of all lending institutions in China and for ensuring that banks have adequate corporate governance, sufficient capital, competent management, and proper risk controls" (Stent, 2016, p.163). CBRC usually issues guidance, notices, and rules to manage regulated banks. In addition, CBRC also uses the Window Guidance, which is "in the form of verbal or telephonic communications" (Ping, 2014, p.65), to steer Chinese banks.

CBRC maintains a vertical organizational structure that spans from the central level to the subnational level. In addition to having a head office in Beijing, the financial authority has "300 sub-bureaus, and 1735 representative offices" across the country (Ping, 2014, p.138). More importantly, unlike EPBs, local CBRC offices are formally only accountable to CBRC affiliates at a higher level. The central government also establishes a centralized personnel and budget system to insulate local CBRC subsidiaries from the influence of local government (Ping, 2014, p.133). Despite such statutory efforts to prevent the interference of local governments, subnational CBRC affiliates still need support from local governments to access crucial information and expertise that are important to their daily operations (Ping, 2014, pp.135-136).

Similar to NDRC and SASAC, CBRC is accountable to the State Council. CBRC acquires its funding, budget, and other expenses from the central government (Ping, 2014, pp.133-134). Instead of acting as a real independent regulator, CBRC strives to accomplish policy goals set up by the State Council (Yazar, 2015). Accordingly, CBRC often has to subordinate its essential risk control duty to the Chinese government's pursuit of credit-driven growth (Ping, 2014, pp.58-62). For example, Yazar (2015, p.154) notes that in the period from 2011-2013, the CBRC failed to use a heavy hand against local governments to control exponential growth of local-government debts. The reason for this failure lies in the central government's accommodation of local governments' credit demands. Through the Organization Department, the Chinese Communist Party has a tight grip on the appointment of CBRC's top leaders, which increases the probability that the agency would be in compliance with the policy preferences of the state. Moreover, the Chinese Communist Party also exercises control over the banking system by appointing the chairmen and CEOs of tier 1 commercial banks via the CBRC (Stent, 2016, p.47).

Like the poor inter-regulatory coordination that characterizes other parts of China's bureaucratic system, there is a constant turf war between CBRC and PBOC over the country's financial regulations (Ping, 2014, pp.113-124). As a consequence, conflict often requires the adjudication or mediation of the more powerful State Council to resolve the contestation between these two financial regulators (Ping, 2014, p.126). Besides the fragmented financial authority that obstructs efficient governance of the banking system, CBRC is liable to regulatory capture because of a routinized rotation of senior managers among Chinese banks and government agencies (Tsai, 2018, pp.66-67). Given tight-knit interpersonal connections between CBRC leaders and heads of Chinese banks that are purportedly regulated by the former, it is doubtful whether the CBRC can undertake an unbiased supervision of banks.

In addition to CBRC, CIRC also matters for our understanding of the decision-making of BRI because the crucial policy insurer – Sinosure – is under the purview of this financial regulator. CIRC was founded in 1998 and the agency was designed to regulate the Chinese insurance products and services market. In 2003, the regulator was upgraded to a ministerial status from a vice-ministerial unit. The CIRC has 16 operational departments, including market regulatory departments (e.g., Life Insurance Department) and functional departments (e.g., International Department) (Chen et al., 2014, p.249). The regulator also has built 35 local branches throughout China to improve its subnational enforcement (Chen et al., 2014, p.249). While the CIRC's Beijing headquarter is in charge of policymaking by promulgating rules, local branches are responsible for the enforcement of these regulations. The CIRC executes a number of important regulatory duties like participating in drafting insurance legislation, carrying out on-site inspections, and control of policy conditions (Chen et al., 2014, p.250, Table 3).

Since 2006, CIRC has implemented nationwide on-site inspections in order to detect irregular operations (Chen et al., 2014, p.255). After the great recession, the CIRC started to exercise more stringent requirements of capital injections to control the solvency risk of insurance companies (Chen et al., 2014, pp.254-255). To further improve the capacity of monitoring solvency, the financial regulator executed a "second-generation" solvency monitoring system. Despite the improvement of the CIRC's regulatory capacity over time, like the CBRC, the insurance regulator is susceptible to regulatory capture. For example, the CIRC's former chairman, Xiang Junbo (2011 – 2017), was jailed for bribery in 2018.³⁷

Policy banks and insurance

China Export-Import Bank (CHEXIM)

Along with the CDB (see below), CHEXIM is a major financier of China's overseas development projects. As of April 2019, CHEXIM has cumulatively provided over 1 trillion RMB to support more

³⁷ Nectar Gan, 14 Jun, 2018, "China's disgraced insurance regulator pleads guilty to taking US\$3 million in bribes", South China Morning Post, <https://www.scmp.com/news/china/policies-politics/article/2150832/chinas-disgraced-insurance-regulator-pleads-guilty>

than 1,800 BRI projects (CDB and UNDP 2019, the Chinese version, p. 25). Following OECD standards, CHEXIM provides both concessional loans and preferential buyer's credit as Official Development Assistance (ODA) and non-concessional loans as Other Official Flows (OOF).³⁸ We view these non-concessional loans as trade finance loans since the primary purpose of these credits is to promote the export of Chinese goods and services. Concessional lending is vastly outweighed by lending at market rates. Because the decision-making procedures vary for the two different types of loans, we take each in turn.

First, concessional loans are issued by CHEXIM's Department of Preferential Loans. Most such loans are funded by the bank's own capital, subsidized by the Ministry of Finance (MOF) (Chen, 2018, p.6). The Department of Preferential Loans also manages preferential buyer's credit – a type of loan not subsidized by the MOF. Most importantly, however, both concessional loans and preferential buyer's credit (referred to as *liangyou* loans) only account for a tiny proportion of CHEXIM's total lending (Chen, 2018, p.9, Figure 1). Importantly, "Chexim's *liangyou* loans are only to governments, i.e. agreements must be signed between MOFCOM/Chexim and a government agency of the recipient country" (Chen, 2018, p.8). These concessional loans are conditioned on considerable usage of Chinese goods and services. In particular, "According to China Exim Bank's concessional loan requirements, Chinese contractors must be awarded the infrastructure contract financed by the loan. Furthermore, in principle no less than 50 percent of the contract's procurement in terms of equipment, materials, technology or services must come from China (China Exim Bank 2008)" (Corkin, 2011, p.69).

When offering concessional loans,

China Exim Bank offers financing at a rate determined by the bank's risk analysis department in conjunction with the Economist Intelligence Unit (EIU), subject to approval by the Ministry of Finance. The base rate is London Interbank Offered Rate (Libor), with an additional percentage added according to the country's sovereign credit rating (if it exists), the political situation, and its economic and financial stability (Anonymous 5). China Exim Bank adds management and commitment fees to cover marginal operational retaining costs (Corkin, 2011, pp.71-72).

This process is under the coordination of the Department of Preferential Loans of the CHEXIM. Within the CHEXIM, the Onlending Department is responsible for non-concessional loan disbursement. The Evaluation Department is tasked with project appraisal. Risk Management Department is technically responsible for formulating schemes that can be used for modelling investment risks (Interview with a policy bank staff, 09/25/2019).

Second, most CHEXIM loans are non-concessional loans at market-based interest rates. For this reason, CHEXIM largely focuses on its own commercial interests instead of achieving China's diplomatic objectives, an orientation confirmed by interviews (Varrall, 2016, p.35). CHEXIM's personnel appointments also suggest commercial interests are primary: "Both its chairman and vice chairman previously worked at the central bank. The chairman of the bank's board of supervisors came from China Banking Regulatory Commission. All five vice presidents came from financial/economic agencies" (Chen, 2018, p.15).

³⁸ According to Chen (2018, p.8), "The CDB's and Chexim's overseas loans are mostly denominated in U.S. dollar, and some are denominated in Renminbi or other currencies."

Although the CHEXIM's global assets are larger than those of the World Bank (Gallagher et al., 2018, p.315), the total number of CHEXIM's staff is much smaller than the World Bank. There are around 1,000 staff members working in CHEXIM's headquarters, and the total number of employees for CHEXIM is about 3,000 (Interview with a policy bank staff, 09/25/2019). This relatively small size limits CHEXIM's ability to supervise projects since the bank lacks staff to conduct on-site assessment and loan operation monitoring.

CHEXIM does not recklessly seek to fund high-risk overseas projects. One illustrative example is the China–Laos railway. The project was first approved by the Laos' national congress. However, CHEXIM refused to credit this project in the first place since Laos could not provide a sovereign guarantee. Only after several rounds of negotiations mediated by the Chinese government did CHEXIM eventually agree to issue loans after Laos committed to resource-based collateral (Interview with a State Council official, 09/22/2019). The fact that CHEXIM tends to act with care is also corroborated by a study on the interaction between the policy bank and the Congolese government (Jansson, 2013). According to a CHEXIM manager, when bad loans occurred because of unexpected political incidents, the policy bank would enjoy punishment immunity at annual evaluations. The Myitsone dam project in Myanmar illustrates this responsibility system. The Myitsone dam project led to mounting local resistance in Myanmar, especially among the afflicted Kachin communities. The increasing opposition eventually prompted the government of Myanmar to suspend the project in 2011 (Jones and Zou, 2017). As a response to this incident, the Chinese developers and CHEXIM successfully convinced the incumbent Chinese leaders that Myanmar's opposition to the dam project was orchestrated by NGOs that were linked to Western "anti-China forces." Consequently, the central government did not punish managers of China Power Investment Corporation and CHEXIM (Interview with an expert on China's global energy investments, 09/25/2019).

Though CHEXIM is a state-owned entity linked to economic ministries, in practice it enjoys significant decision-making autonomy. MOF was the sole "owner" of CHEXIM before 2015. In 2015, Buttonwood Investment Platform (Ltd), which is owned by the State Administration of Foreign Exchange (SAFE, the agency responsible for managing China's vast foreign reserves) became a second stakeholder of CHEXIM. However, since subsidies from MOF only account for a marginal part of CHEXIM's capital, the policy bank possesses considerable de facto autonomy from MOF (Interview with a policy bank staffer, 09/25/2019).

CHEXIM often works closely with MOFCOM to promote projects funded by concessional loans. As Corkin notes,

Based on the recommendation of the resident Chinese Economic Counsellor's office, a given African government applies for a loan. The MOFCOM's two departments, the Department of Foreign Aid and the Department of Economic Cooperation, consider the application in consultation with China Exim Bank. The MOFCOM then studies the list of priority projects submitted with the application, approves a selection and calculates an approved budget (Anonymous 2) (Corkin, 2011, p.71).

This cooperative relationship contrasts strikingly with the interactions between CHEXIM and MFA – "Exim Bank will first go to [the] MOFCOM if it is in difficulties, and then to [the] MFA. [The] MFA are

not so proactive in this regard. The ambassadors generally do not like Exim Bank. There is a lot of miscommunication” (Corkin, 2011, p.74).

China Development Bank (CDB)³⁹

In terms of the size of overseas lending, the CDB is the largest among all finance agencies in China (“By the end of 2016, CDB’s accumulated lending volume in foreign currency took up 30.1% of China’s entire banking sector,” see Chen, 2018, p.6). Between 2000 and 2014, CDB’s loans to foreign countries were more than twice that of CHEXIM in the energy sector (Kong and Gallagher, 2017, p.841). As of the end of 2018, the CDB has cumulatively provided over USD 190 billion for a total of more than 600 BRI projects (CDB and UNDP 2019, p. 32).

Unlike CHEXIM, the CDB essentially only issues non-concessional loans, with very few exceptions in which the CDB is forced by external political actors to provide low-interest loans in order to support certain geopolitically important projects (e.g., Jakarta-Bandung High Speed Railway project, see Chen, 2018, p.6). CDB’s funds are mainly from long-term bonds from the bond market (Chen, 2019). Since the CDB is not subsidized by the Chinese government, it is more market-oriented than the CHEXIM. According to Chen, “CDB loans are more stringent than other policy-bank loans and the bank has a better financial performance than its two peers” (Chen, 2018, p.7). For the CDB, the interest rates it offers are not necessarily lower than commercial banks given that it raises most capital through bond issuance, “which is more costly than raising funds from savings, the usual capital source of commercial banks” (Chen, 2018, p.8). The key advantage of the CDB lies in the size of loans, that is, the ability of issuing large-volume and long-term loans (Chen, 2019).

In addition to its own substantial capital, the CDB can steer commercial banks to co-issue syndicated loans. CDB (and CHEXIM) often co-finance projects with commercial banks that they would otherwise not be willing to invest in given the associated risks (Wang, 2016; Chin and Gallagher, 2019, p.252). According to Zhou et al. (2018, p.12), two Chinese national policy banks and four other major commercial banks “participated in syndicated loans worth \$143 billion for 165 energy and transportation projects in 32 BRI countries” between 2014 and 2017, of which \$130.9 billion went to the energy sector. To put it in perspective, for the energy sector, China’s financial flows to BRI countries that were exclusively financed by CDB and CHEXIM were \$44.7 billion during the same period (Zhou et al., 2018, p.3).

³⁹ “The CDB is a state-owned share-holding corporation and its four shareholders are the Ministry of Finance (MOF), Central Huijin (a sovereign wealth fund), Buttonwood investment platform of the State Administration of Foreign Exchange (SAFE), and the National Council for Social Security Fund” (Chen, 2018, p.24). In terms of personnel appointment, “The CDB has 13 directors (top-level leaders). Three of them are executive directors directly managing the bank, including the head of the bank. All three came from state-owned commercial banks. Four of the directors are government-agency directors from four ministerial-level government organs, i.e. NDRC, MOF, MOFCOM, and the central bank. NDRC has an incentive to implement the state’s industrial policies and securing resources, whereas all other government organs are more concerned with monetary, financial, and economic issues. The other six are equity directors from the four shareholders mentioned above. In addition, the bank has a board of supervisors, whose members are directly pointed by the State Council. But according to the CDB annual report and the State Council’s Regulation on Board of Supervisors of Main Financial Agencies, the main duty of the supervisors is economic, i.e. to make sure that the bank manages state assets well” (Chen, 2018, p.14-15).

Since CDB's main motive is to maximize commercial interests, it needs the borrowing country's sovereign guarantee to finance development projects (Interview with a State Council official, 09/21/2019). A pursuit of material benefits also means that the CDB needs collateral for issuing its commercial loans. In fact, nearly half of the loans lent by China's policy banks are so-called "commodity-backed loans" (Brautigam and Gallagher, 2014) in which recipient countries guarantee repayment in raw commodities of various kinds. This form of resource-secured finance thus lowers the risk for China's policy banks to provide loans to those developing countries without good credit ratings.

Importantly, the CDB's decision-making process is relatively decentralized. The CDB's Enterprise Bureau based at the Beijing head office is responsible for loan management in regard to central SOEs (Chen, 2018, p.51). Other enterprises need to approach corresponding provincial branches to acquire CDB's loans. The CDB has thirty-eight branches, most of which are provincial branches while six of them are located in major port cities (Chen, 2018, p.51). According to Chen (2018, p.51), "if the size of a loan exceeds a certain level," it is necessary to get the approval by the Beijing head office, "but most of the prior assessment work and custom-relation work are done by the branches." For overseas projects, each of CDB's provincial offices is in charge of managing projects located in a sub-set of countries (e.g. the Beijing Branch handles North America and the Chengdu Branch handles Southeast Asia). The supervisory capacity of the CDB to oversee loan operations is limited. For the domestic market, each province only has one or two branches despite the large amount of loans. Oversight gets worse for international than domestic investments (Interview with an expert on China's policy banks, 09/15/2019). For example, CDB has a representative office in Vientiane to oversee local investment projects in Southeast Asia. However, the local CDB office rarely challenges Chinese corporations with regard to environmental and social risks, especially when these corporations are central SOEs. There are two reasons for the office to defer to central SOEs. First, the CDB office does not wish to make SOE managers unhappy since the latter may complain to top CDB leaders back home. Second, the office lacks the technical expertise to assess project-level risks. As long as the host government agrees to a project, the CDB office tends to approve the project rapidly (Interview with a State Council official, 09/22/2019).

The size and nature of CDB's loans also affect its decision-making. The bank tends to invest in large energy and infrastructure projects located in countries characterized by higher economic and political risks. Consequently, it is difficult to assign responsibility for failure to a specific CDB staff member who can be held accountable. As a result, the Onlending Department staff have strong career incentives to issue more loans even if the program would later need approval by the risk management department (Interview with a top Chinese commercial bank's expatriate, 09/14/2019; Interview with an expert on China's policy banks, 09/15/2019). When return on investment falls, the CDB sometimes even adds more loans to dysfunctional projects, because without more infusions of capital, prior loans would become bad debt. When the project receives additional credits, the debtor is at least able to pay back interests to the CDB, which is illustrated by the case of Venezuela. The CDB had lent a substantial proportion of its overseas loans to the government of Venezuela (Sanderson and Forsythe,

2012, pp.123-139). However, since 2014, plummeting oil price rendered a fiscal crisis in Venezuela. The country's deteriorating fiscal condition thus resulted in an increasing default risk that reached an alarming level. As an immediate response to this default risk, the CDB lent more to the government of Venezuela to delay Venezuela's sovereign default (Interview with an expert on China's policy banks, 09/15/2019).

In theory, both CDB and CHEXIM have specific policies to manage environmental and social risks associated with overseas projects. They are also required by CBIRC to follow sustainability guidelines such as the Green Credit Guidelines and report on certain KPIs. However, their formal policies lag significantly those of other national development banks, as well as MDBs (Qi et al. 2019). Qi et al. also find limited interest in ESG standards among top managers at these institutions, with interviews revealing that such standards are thought to limit business opportunities (Qi et al. 2019). Perhaps for this reason, despite formal requirements, policy banks rarely conduct on-site reviews. Supervision is very costly. Western developmental finance institutes engage in fewer projects, and employ more staff, and thus have more resources per project to better control social and economic risks. In contrast, CDB and CHEXIM have invested in a large number of infrastructure projects that offers a low return on investment, for which detailed oversight is too costly (Interview with a State Council official, 09/21/2019). Table 2 presents operational procedure requirements of environmental and social safeguards (ESS) of CHEXIM and CDB based on Qi et al. (2019).

To address these risks, CDB "take a more portfolio approach and finance what they refer to as 'strategic credit spaces' where bundles of loans or lines of credit are issued for an array of coordinated and corresponding projects" (Chin and Gallagher, 2019, p.256). Similar to syndicated loans, such a portfolio approach diversifies the risk associated with any single project. Put differently, "the policy banks eye and cover the total risk/return profile across the entire cluster of projects rather than one by one" (Chin and Gallagher, 2019, p.254). In addition to adopting a portfolio approach to diversify the risk, policy banks also actively coordinate with both relevant Chinese enterprises and borrowing governments to hedge against political turbulence in recipient countries. More specially, they "have set cross-cutting commitments across different projects, where financing for one project is tied to follow-through on another project" (Chin and Gallagher, 2019, p.254). However, such bundled loans (or *dakun daikuan* in Chinese) have been far less frequent after Chen Yuan, who was the former CDB chairman, retired in 2013. Bundled loans require mobilized coordination across a wide array of enterprises and government agencies, which is impossible without strong leadership. Chen is the son of one of the most influential Chinese Communist Party leaders — making him one of the few individuals who has recourse and connections to promote such mobilized coordination. After his departure, the CDB became more cautious after the rapid expansion of overseas businesses before the late 2010s (Interview with an expert on China's policy banks, 09/15/2019). Now, the problem of increasing bad debt has forced the bank to issue far fewer bonds in the bond market (Interview with a top Chinese commercial bank's expatriate, 09/14/2019).

Table 2: Operational Procedure Requirements of ESS of CHEXIM and CDB

(Source: Qi et al. (2019))

	CHIXEM	CDB
Ex-ante environmental impact assessments	Yes. The assessments are outsourced to third-parties	Yes. It is conducted by the Global Cooperation Department and branches.
Project review of environmental impact assessments	Yes. It is conducted by the Credit Review and Approval Department.	Yes. It is conducted by the Project Appraisal Department.
Industry-specific social and environmental standards	No, effective restrains in some industries	No, effective restrains in some industries
Require compliance with host country regulations	Yes. It is conducted by various client departments including the Internal Control and Compliance Department and the Legal Affairs Department.	Yes. It is conducted by the Global Cooperation Department and branches.
Require compliance with international environmental regulations	No. When host country regulations are missing, the related Chinese standards should be implemented.	No. When host country regulations are missing, the related Chinese standards should be implemented.
Information disclosure	Annual reports and sustainable development reports are available. But there is no information access policy.	Annual reports and sustainable development reports are available. But there is no information access policy.
Establishing covenants linked to compliance	Yes.	Yes. The Sustainable Development Goals, UNEP; Equator Principles
Public consultations with affected communities	No. It is conducted by the debtor.	No. It is conducted by the debtor.
Grievance mechanism	No. The claimant should appeal to the host government.	No. The claimant should appeal to the host government.
Independent monitoring and review	No, the monitoring and review are conducted by the banks' internal departments.	No, the monitoring and review are conducted by the banks' internal departments.
Ex-post environmental impact assessments	Yes. It is conducted by various client departments.	Yes. The international Finance Department is responsible for this procedure.

SINOSURE

China Export Credit Insurance Corporation (SINOSURE) is a state-funded policy-oriented insurance company that aims to promote China's trade development and international economic cooperation. Sinosure plays a critical role in many large infrastructure projects under BRI, providing political and business risk insurance for Chinese companies selling equipment or investing abroad.

Sinosure is directly managed by a board of directors, which is under the oversight of a board of supervisors (Development Research Center of the State Council, 2017, p.86). The board of directors is composed of thirteen people, including 4 people from ministry-level units led by the State Council (NDRC, Ministry of Finance, MOFCOM, and PBOC), and 6 shareholder representatives from the Ministry of Finance and the China Investment Corporation (i.e., the Chinese sovereign wealth fund). The Ministry of Finance and the China Investment Corporation are the two shareholders of Sinosure (Development Research Center of the State Council, 2017, pp.87-88). Sinosure is directly accountable to the Ministry of Finance and subject to the financial regulation by the China Insurance Regulatory Commission (CIRC). Now, since the merger of CBRC and CIRC, the insurance company is under the purview of the CBIRC. The top leaders of Sinosure are appointed by the CCP's Organization Department and the company also possesses an administrative rank at the vice-ministry level.

According to the then CEO of Sinosure, Wang Yi, the company had insured more than \$280 billion worth of domestic and internal trade and foreign investments by the end of 2016, including over \$106 billion in exports toward emerging markets, \$13 billion of overseas-project subcontracting and complete sets of equipment exports, and \$21 billion of foreign investments.⁴⁰ Between 2014 and 2016, there were around \$3.4 billion worth of trade and investments insured by Sinosure went to 64 BRI countries.⁴¹ Since 2013, Sinosure has insured \$712 billion worth of exports and investments that flowed to BRI countries (CDB and UNDP 2019, p. 37).

In 2018, the insured amount of medium and long-term export credit insurance, overseas investment insurance, and short-term export credit insurance was \$562.85 billion.⁴² The insured amount of short-term export credit insurance was \$481.4 billion. The number for investment insurance and medium and long-term export credit insurance was \$58.1 billion and \$23.3 billion, respectively.⁴³ During the same year, the insured amount of China's exports to and investment in the BRI countries was \$150.36 billion.⁴⁴

Sinosure offers insurance against political and commercial risks. Political risks include currency and remittance restrictions, expropriation and nationalization, sovereign breaches of contract, and political turmoil (e.g., riot, revolution, and war). Business risks encompasses debtor default, delinquent payment, and bankruptcy of the issuing bank. In particular, Sinosure provides three types of insurances for Chinese commercial actors' international businesses (Zhang, 2015, pp.7-8). The first type is short-term export credit insurance, which typically has a coverage with a duration of less than one year.⁴⁵ The second type is medium- and long-term export credit insurance,⁴⁶ which covers subcontracting or bidding for overseas large-scale infrastructure projects and exports of complete sets of equipment (e.g. machinery for an entire plant), and has a coverage that is greater than one year.

⁴⁰ Hexun, 2016, <http://insurance.hexun.com/2016-12-18/187390197.html>

⁴¹ Ibid.

⁴² China Export and Credit Insurance Corporation, Annual Report 2018, p.3, see

<http://www.sinosure.com.cn/images/xwzx/ndbd/2019/08/27/57A3F560967E4067210EB4BAA2AD33D6.pdf>

⁴³ Ibid, p.23.

⁴⁴ Ibid, p.25.

⁴⁵ See ST Export Credit Insurance, <http://www.sinosure.com.cn/en/Insurance/steci/index.shtml>

⁴⁶ Ibid.

The latter mainly serve industries such as telecommunications, electricity, railways, and shipbuilding.⁴⁷ In 2018, of \$23.32 billion insured under medium- and long-term export credit insurance, \$10.23 billion was for exports to Asian countries and \$8.9 billion was for exports to African countries.⁴⁸ The third type is overseas investment insurance.⁴⁹ Instead of covering export-related losses, overseas investment insurance is set up for covering risks associated with China's outward direct investments. In 2018, of \$58.1 billion insured amount under overseas investment insurance, \$39 billion was for investments in Asia.⁵⁰ Until 2013, Sinosure had monopolized the business of these three types of insurances in China. Since 2013, the market of the short-term export credit insurance has been opened for other Chinese insurance companies (Zhang, 2015, p.1).

Among these three types of insurance, medium- and long-term export credit insurance needs to be approved by a set of central-level ministries. Sinosure enjoys discretion to approve projects worth less than \$30 million. For projects worth more than \$30 million but less than the country limit (a ceiling that varies by country), the Ministry of Finance controls approval. For projects valued at more than the country limit but less than \$100 million, the Ministry of Finance needs to consult the Ministry of Foreign Affairs and the MOFCOM before the State Council gives the final say. For projects valued at more than \$100 million,⁵¹ the MOFCOM needs to consult the Ministry of Foreign Affairs and the Ministry of Finance before the State Council makes the final decision. Since 2012, overseas investment insurance that is designated to cover political risks has also been subject to the jurisdiction of the same group of central bureaucratic agencies that manage medium- and long-term export credit insurance (Development Research Center of the State Council, 2017, pp.84-85).

Sinosure plays an important role in greening the BRI. Take the exports of Chinese coal power plants as an example.⁵² Since the service of insuring overseas coal-fired power projects falls under medium- and long-term export credit insurance, Sinosure monopolizes this specific type of insurance market in China. As of the end of 2018, this policy insurer has underwritten “28 gigawatts of coal power capacity worldwide,”⁵³ which is “more than the capacity of all but eight countries.”⁵⁴

⁴⁷ See http://www.chinainvestment.com.cn/type_qycy/5609.html

⁴⁸ China Export and Credit Insurance Corporation, Annual Report 2018, p.30, <http://www.sinosure.com.cn/images/xwzx/ndbd/2019/08/27/57A3F560967E4067210EB4BAA2AD33D6.pdf>

⁴⁹ <http://www.sinosure.com.cn/en/Insurance/oii/index.shtml>

⁵⁰ China Export and Credit Insurance Corporation, Annual Report 2018, p.33, <http://www.sinosure.com.cn/images/xwzx/ndbd/2019/08/27/57A3F560967E4067210EB4BAA2AD33D6.pdf>

⁵¹ This number has been updated to 300 million dollars since the early 2018. See <http://wms.mofcom.gov.cn/article/zcfb/ax/201803/20180302719149.shtml>

⁵² Peter Bosshard, “Will China follow leading global insurers and withdraw from coal power?” *China Dialogue*, 17 December 2019, <https://www.chinadialogue.net/article/show/single/en/11737-Will-China-follow-leading-global-insurers-and-withdraw-from-coal-power->

⁵³ Danqing Li, Apr 25, 2019, “China’s export insurance giant is taking a risk on coal,” see <https://medium.com/resource-china/chinas-export-insurance-giant-is-taking-a-risk-on-coal-fbc7b5c81238>

⁵⁴ Peter Bosshard, Dec 17, 2019, “Will China follow leading global insurers and withdraw from coal power?” see <https://www.chinadialogue.net/article/show/single/en/11737-Will-China-follow-leading-global-insurers-and-withdraw-from-coal-power->

State owned enterprises

SOEs play a pivotal role in China's overseas investments, especially compared to the country's private sector.⁵⁵ Li and Zeng (2019) shows that SOEs are more likely to express a willingness to participate in the BRI although they are similar to private firms in terms of perceived risks and challenges to participation. Therefore, it is particularly useful to examine the incentives underlying SOEs' pursuit of international operations, especially in developing countries where macroeconomic and political risk is high. To what extent does transnationalization result from policy mandates imposed by the Chinese state as opposed to the business interests of SOEs themselves?

For many SOEs, overseas investment is largely driven by the over-capacity crisis in the domestic market (Huang, 2016). Chinese SOEs occupy the bulk of heavy industry, which suffers a pervasive overcapacity problem and an increasingly diminish returning of profits ("Overcapacity exceed 30% in the iron, steel, glass, cement, aluminum, and power generation industries," and "Many SOEs faced a major profitability crisis, with returns on domestic infrastructure turning negative," see Jones and Zeng, 2019, p.8). Compared with their private sector counterparts, SOEs have much easier access to bank loans given the state ownership of major Chinese banks. According to Tsai (2015, p.66), "SOEs receive over 85 percent of loans extended by state-owned commercial banks, and account for over 60 percent of publicly listed businesses in China's stock markets." Furthermore, "major SOEs received effective interest rates far below the 5.36 percent national average between 2009 and 2010" (Li and Zeng, 2019, p.12). This systematic bias towards SOEs in terms of capital allocation thereby encourages overinvestment by these firms. Overinvestment, in turn, "leads to falling prices of finished products" in SOE-dominated industrial sectors (Hung, 2008, p.167), which in turn significantly erodes the profitability of SOEs. According to National Bureau of Statistics, the rate of return on industrial assets for SOEs plummeted dramatically from more than 6% in 2007 to about 2% in 2016 (Naughton, 2017, p.288).

In addition, the overinvestment problem is exacerbated by the soft budget constraints in China's state sector. The state has strong political incentives to prevent SOEs from going bankrupt. Inefficient market behavior and financial losses can thus be tolerated as long as state subsidies are maintained. Between 1985 and 2005, large SOEs received more than \$300 billion in government subsidies (Haley and Haley, 2013), distorting SOEs' sensitivity to market forces and encouraging inefficient outcomes like over-investing in production capacity (Liou, 2014).

Finally, in many competitive sectors, because of a highly fragmented and decentralized state ownership of asset, rents created by government interventions (i.e., subsidies) engender overinvestment by attracting more local SOEs to enter the sector to capture rents (Hung, 2008, p.159). However, rents often eventually dissipate with the increase in the number of entrants rather than being fully captured by the intended beneficiaries (Huang, 2002), further undermining the

⁵⁵ That said, the private sector is hardly irrelevant, with private companies making up 50 percent of OFDI stock in 2017 (Oh and No 2019). As Oh and No (2019) argue, private companies sometimes align with state actors to achieve their goals, occasionally forming tight partnerships, meaning that the boundaries between SOEs and private firms can be blurred.

profitability of these sectors. It is important to note that such rent-seeking competition is more controlled in strategic sectors like oil and electricity – which are central to economic and national security – where the market is better protected by the central government (Naughton, 2015).

The over-capacity problem that plagues Chinese SOEs has been further aggravated because of the 2008 global financial crisis (Jiang, 2015). As a response to this crisis, the Chinese government carried out a \$586 billion stimulus package, increasing SOEs' capacity to overinvest (Pettis, 2013). As this worsened the overinvestment problem, it is therefore unsurprising that Chinese SOEs had strong incentives to compete for market share abroad since the Great Recession. In this way, BRI seeks to advance not just to the geopolitical requirements of the Chinese state, but also serves as a critical “escape valve” for China's overcapacity, especially in the SOE sector. Put differently, BRI creates a way for individual SOEs to exploit the policy opportunity provided by the Chinese state for their own commercial benefit. This “moral hazard” challenge can be exacerbated in SOE's engagement abroad. Chinese companies often make their investments abroad despite the associated risks by strategically leveraging BRI as both a rationale for expansion and a signal of implicit state backing even for economically risky projects (Liao 2019). In most cases, the company's decision is not orchestrated by the strategic calculation of the Chinese government for diplomatic objectives (Interview with an expert on China's global energy investments, 09/25/2019). Many risky infrastructure projects were initially formulated by the host government and then Chinese companies bid for government tenders, invest, construct, and operate the projects (Interview with an expert on China's global energy investments, 09/25/2019).

Besides the over-capacity crisis, increasingly stringent domestic environmental regulations in China have pushed more Chinese SOEs to seek international markets. For example, many coal-fired power plants have expanded their overseas business because of increasing restrictions on domestic plant construction. Moreover, as latecomers, most Chinese companies cannot compete with more advanced western counterparts in developed countries, especially given the higher environmental and social protection standards in these places. As a consequence, they have decided to concentrate on developing countries (Interview with a State Council official, 09/22/2019).

Although more and more SOEs are engaging in overseas expansion, the state's regulatory ability to oversee trans-nationalization of Chinese SOEs is circumscribed. The Chinese state's insufficient supervisory ability of monitoring overseas investments manifest in the state's limited knowledge about these cross-border activities. For example, Tang (2015) observes that the number of Chinese firms in Africa registered on MOFCOM's list is much smaller than the number shown on the list of the host government's regulatory agencies. Due to their circumscribed supervisory capacity (see above), Chinese regulatory agencies like NDRC and SASAC are more likely to employ *ex post* regulations rather than *ex ante* surveillance. The oversight mechanism is more likely to be activated when there is a clear signal of the occurrence of undesired outcomes. For example, “In 2006, China initially established a similar 10% cap for central SOEs on foreign investments made beyond their core business. However, in 2012, the government issued a new set of regulations prohibiting any new foreign investments by central SOEs in non-core business areas unless they receive special

authorization” (Li, Cui, Lu 2014, p.990). Regulators were alarmed by increasing international money laundering and real estate speculation associated with a boom of Chinese companies’ overseas investments at that time. Therefore, they tightened controls over cross-border investments as an *ex post* regulation (interview with a State Council official, 04/28/2019).

In addition to the deficient supervisory capacity of the Chinese state’s central regulators, the party-state’s ability to retain the authority over SOEs is further complicated by the incomplete “corporatization” of Chinese public industries. The reform of central SOEs in the late 1990s and early 2000s was essentially a process of “corporatization.” In the context of China during the late 1990s, corporatization refers to the establishment of a system of corporate governance that is a hallmark of market-based economies, which includes holding shareholder conferences, maintaining a board of directors, and creating a board of supervisors (Wang, 2015, pp.610-612). The most thorough reform option is to list a SOE as a joint stock company on the stock exchange, which would expose it to disclosure requirements and pressures from private investors to maximize shareholder value (Lazonick and O’Sullivan, 2000). However, the extent to which a SOE has been corporatized or been listed in stock markets varies considerably across different industries. By the end of 2017, about a fifth of SASAC firms had not even be corporatized (Naughton, 2017, p.293). By the end of 2008, only around 14% of SASAC top-level firms had been 100% listed on stock exchange (Naughton, 2015). This incomplete corporatization of central SOEs results in a dual-system that characterizes the relationship between large SOEs and the Chinese state. On one hand, most so-called “parent” firms of central SOEs are still wholly state-owned even if they have been corporatized – in other words, they are not listed in stock markets (Yeo, 2013). On the other hand, many subsidiaries of these parent firms have been listed in stock markets and thus are responsible for a board of directors who are elected by shareholders – their transactions of corporate equities are through the stock market (Chen and Chen, 2019). For example, the China Petroleum Corporation (CNPC) is parent firm of the PetroChina, which has been “listed on the New York (PTR), Hong Kong (857), and Shanghai (601857) stock markets” (Chen and Chen, 2019, p.5). The CNPC retains ultimate control over its listed subsidiary PetroChina by holding a high percentage of its shares. As a listed company, PetroChina is accountable to its shareholders since it is listed on the stock markets and thus are available for private investors to buy. Put differently, PetroChina acts as a profit-seeking commercial unit. However, as PetroChina’s largest controlling stakeholder, the CNPC is wholly owned by the state and is directly supervised by the SASAC. Therefore, the CNPC “has highly politicized goals, such as to guarantee a stable supply of energy, while its listed company, PetroChina, focuses more on business performance” (Chen and Chen, 2019, p.10). While the listed subsidiaries are responsive to shareholders’ interests, the parent firms are primarily accountable to the SASAC. Given this partial corporatization reform, central SOEs’ managerial evaluation is not entirely linked to enterprise values of their listed subsidiaries, which are determined in the stock market. Instead, the SASAC sets up a complicated evaluation scheme that incorporates a number of indicators, and can punish those managers who do not obey policy decisions made by top political leaders. Therefore, for a majority of large Chinese SOEs, this dual system creates a complex institutional structure where SOE managers strive to strike a balance between economic performance and political goals. Consequently, there is a three-layer incentive structure in regard to

central SOE firms: wholly state-owned enterprises are most susceptible to political priorities imposed by the Chinese state whereas fully listed Chinese SOEs are least somewhat liable to political interventions by the state. The incomplete liberalized central SOEs lie in the middle between the two extremes.

Provincial governments

In theory, provincial governments should not be engaged in foreign policy initiatives. In practice, provincial level officials have a significant role in shaping many BRI projects both in China and abroad, especially smaller projects. Indeed, Summers (2016) notes how elements of the BRI build on longstanding patterns of trans-border connections by Chinese provinces. This influence occurs in several ways.

First, as noted above, provincial branches of NDRC, MOFCOM, and CDB are all key players in approving and financing projects. For NDRC and MOFCOM, projects under a certain threshold fall to provincial regulators to approve or reject. CDB, in turn, has distributed responsibility for key countries to its regional branches. While province-level NDRC, MOFCOM, and CDB officials are formally subject to control from Beijing, they are also embedded in province-level policy networks which means they are influenced also by local interests. For example, local branches of policy banks and economic ministries work closely with provincial SOEs, which are often connected to other province level policymakers and interest groups.

Second, the process to create BRI generated significant inter-province competition over who would receive resources from the central government. After the December 2014 Central Financial and Economic Conference, provincial governments lobbied heavily for their own priorities and projects to be included in the initiative (Yu 2018). For example, in 2015 the NDRC announced a plan to increase China-Europe rail traffic by subsidizing certain routes. The subsidies were so generous that many local governments sought to have their train lines included, even if a strong commercial rationale did not exist (Ma 2019). In this way, the national imperative for developing inland areas and the international imperative to enhance BRI created an opportunity for local governments to exercise agency in seeking economic benefits (Tjia 2020). Such lobbying can occur through formal channels, but also through networks in which central government officials with ties to certain provinces (most often because they were formerly stationed there) are called upon to help advance the province's interests. This informal lobbying can be particularly effective when provincial governors or heads of SOEs outrank officials in central ministries in the Party hierarchy (Yu 2018).

Based on above discussions, Table 3 summarizes key actors (political leadership, primary bureaucratic regulators, financiers and insurer, enterprises, and provincial governments), their functions, and interests around the decision-making process of the BRI.

Table 3: Key Actors and Their Interests and Functions in China

Actor	Role	Functions	Primary interests
BRI Leading Small Group	Political Leadership	<ul style="list-style-type: none"> High-level coordinating central-level agencies with regard to all the BRI-related activities. Generally does not decide on specific projects In practice, it does not meet frequently. Task of inter-ministerial coordination has been delegated to the NDRC. 	Ensure BRI is advancing leadership's strategic and economic policy goals
NDRC	Primary bureaucratic regulator	<ul style="list-style-type: none"> Leading central agency designated to guide and oversee the BRI. Approval of significant projects Primarily a domestic institution, NDRC needs support of other agencies with more experience in foreign policy. 	Given that NDRC's primary interest is in the domestic economy, the agency has a strong motive to support the overseas expansion of China's central-level SOEs, seeing international engagement through the prism of China's domestic macroeconomic and industrial policies.
MOFCOM	Bureaucratic regulator	<ul style="list-style-type: none"> MOFCOM plays the most direct role in managing China's overseas projects among all central ministries. Like the NDRC, MOFCOM is in charge of approving large-scale projects abroad. 	The main goal of MOFCOM is to promote the export of China's goods and services. Therefore, policy preferences of MOFCOM are largely aligned with commercial interests of Chinese companies.
MFA	Bureaucratic Regulator	<ul style="list-style-type: none"> Primarily reactive and troubleshooting Marginal role in formulating and implementing most BRI projects. Tends to become involved only when a diplomatic problem associated with a specific project occurs and requires diplomatic assistance. Inter-ministerial competition between the MFA and the MOFCOM in overseas infrastructure investment and financing. 	Promoting China's diplomatic interests and achieving the country's geopolitical goals.
MEE	Bureaucratic Regulator	<ul style="list-style-type: none"> No formal role in BRI project approval Coordinates BRI Green Development Coalition Climate policy shifted from NDRC to MEE in 2018. 	Domestic environmental protection
SASAC	Bureaucratic Regulator	<ul style="list-style-type: none"> Appoints top managers of China's largest SOEs with the Chinese Communist Party's Organizational Department. Policy guidance for SOEs, including regarding conduct abroad 	In charge of ensuring alignment of SOEs with government objectives, but in practice focuses on the profitability of China's central SOEs.
CBIRC	Bureaucratic Regulator	<ul style="list-style-type: none"> Supervises all policy banks and Sinosure, as well as private banks and insurance companies in the central government. 	Minimize financial risk
CIDCA	Bureaucratic Regulator	<ul style="list-style-type: none"> Established in 2018 to bring coherence to China's foreign aid policy system. Capacity limited given the agency's vice-ministerial status 	Alignment of overseas aid with policy goals
Actor	Role	Functions	Primary interests

CHEXIM	Financier	<ul style="list-style-type: none"> Provides both concessional loans and preferential buyer's credit as Official Development Assistance (ODA), backed by the Ministry of Finance, and non-concessional loans as Other Official Flows (OOF). 	CHEXIM strives to accomplish two contrasting goals simultaneously: advance diplomatic objects by providing ODA and foster commercial benefits through OOF. Since most CHEXIM loans are non-concessional loans at market-based interest rates, the main interests of CHEXIM lie in increasing profitability.
CDB	Financier	<ul style="list-style-type: none"> Primary loan provider for BRI projects Unlike the CHEXIM, CDB essentially only issues non-concessional loans, with very few exceptions in which the CDB is forced by external political actors to provide low-interest loans in order to support certain geopolitically important projects. 	CDB's main motive is to maximize commercial interests. Since the CDB is not fiscally subsidized by the Chinese government, it is more market-oriented than the CHEXIM.
SINOSURE	Insurer	<ul style="list-style-type: none"> Only Chinese insurer that is able to issue medium- and long-term export credit insurances and investment insurances covering political risks for transnational economic activities, which primarily serves the interests of Chinese developers of large-scale infrastructure and energy-related projects. 	As a state-funded policy-oriented insurance company, SIONSURE's main goal is to promote China's export and overseas investments.
SOEs	Enterprise	<ul style="list-style-type: none"> Develop and implement projects 	SOEs face conflicting goals, responding to political directives, the need to maximize revenue and investment (not necessarily profits), and market pressures. "Parent" firms of central SOEs are wholly state-owned and subject to the direct purview of the SASAC. However, many subsidiaries of these parent firms have been listed in stock markets and thus are responsible for a board of directors who are elected by shareholders.
Provincial Governments	Provincial Government	<ul style="list-style-type: none"> There are 20 provinces identified as participants in BRI by the main policy document issued by the central government in 2015. Provincial governments take advantage of the BRI as an opportunity to attract investments and implement regional infrastructure projects that are mainly shaped by pre-existing local policy goals. 	Local economic growth, including commercial interests of provincial SOEs abroad

To what extent do sustainability considerations enter decision-making processes?

To what extent do the actors and processes highlighted above allow sustainability considerations to enter BRI decision-making?⁵⁶ We consider two elements in detail: coal financing and social responsibility.

Committed Chinese investments in coal-fired power plants in BRI countries exceed \$1 billion (Christine et al. 2019). By the end of 2016, China had been involved in 240 coal power plants across 25 countries (Ren et al., 2017). This dramatic increase of coal power exports has a profound impact on global climate change. For example, the proposed Lamu Coal Power Station in Kenya, which is developed by a Chinese corporation, would lead to a sixfold increase in greenhouse gas emissions for Kenya (Interview with a representative of an EU-based eNGO, 09/16/2019). Given the significant environmental influences caused by China's overseas investments in coal-fired power (Alkon et al., 2019), it is important to understand how BRI decision-makers view the issue.

We argue that the drastic globalization of China's coal power industry in recent years is driven by two factors. First, there is a lack of consensus among the country's major regulatory and financing agencies with regard to the necessity of regulating the exports of coal-fired power plants. This lack of consensus contrasts with the domestic domain, where increasing constraints on coal power have reduced coal's share of China's power supply. Although coal has been discouraged in China's *domestic* electricity market (although the recent economic slowdown has reduced this pressure), the State Council has not clearly prohibited its *overseas* expansion (Jin, 2019, pp.102-106). Jin finds that the divergence between domestic and international markets partly reflects the extent to which Chinese decision-makers have reached an agreement on the adverse consequences of a specific energy policy. The strong coordination between the NDRC, line ministries, and other financial agencies in terms of domestic environmental regulations has resulted in stricter restrictions over the approval of coal-fired projects (Alkon and Wong, 2019). Despite the resistance of local interests, the central government was still able to exert relatively effective control over the construction of new coal-fired power plants at the local level (Alkon and Wong, 2019, pp.15-16). Studies on China's industrial energy policy also demonstrate that when top leaders strive to achieve certain policy goals and manage to pull together central-level ministries, top-down mandates often result in relatively efficient policy outcomes (Heilmann and Oliver, 2013).

On the other hand, when there is a lack of consensus toward certain policy goals among central-level decision-makers, a concerted effort to implement these policies is impossible. The globalization of coal-fired power stations illustrates this mechanism clearly. As we have discussed above, MOFCOM and NDRC are two paramount actors in managing Chinese overseas investments. In addition, the support of Chinese policy banks is crucial as well since they provide the bulk of capital to credit investments in China's cross-border coal-fired power station (Kong and Gallagher, 2019). Jin (2019, p.91 and p.107) indicates that the MOFCOM supports coal power plant exports since they are driven

⁵⁶ For a general overview of China's regulatory structure for environmental impacts of overseas investments, see Gallagher and Qi (2018). The authors document the weakness and vagueness of supervising agencies and their issued environmental codes.

by the demands of import countries and the objective of the ministry is export promotion. In addition, Jin (2019, p.107) further finds that the NDRC holds a neutral attitude towards the export of coal-fired power plants. Jin notes that NDRC's intra-agency dynamics makes this supra-ministry organ difficult to implement a coherent policy in regard to overseas coal power stations – “different interviewees expressed vastly diverse opinions regarding overseas coal exports” (Jin, 2019, p.106). According to an official of the NDRC's National Energy Administration (NEA), the NDRC does not consider the issue of China's overseas coal power plants to be important. This NEA official thinks this issue is unimportant because the rapid expansion of China's renewable energy industries will force the traditional coal electricity sector to dwindle naturally (Interview with an expert on China's global energy investments, 09/25/2019). The NEA generally expects coal-fired power plants to expand only in a small number of countries with coal endowments. In contrast to the NEA, several other NDRC bureaus hold an opposing view on coal-fired power plant exports (Jin, 2019, p.107). Since top decision-makers hold an ambivalent stance on the globalization of China's coal power plants, they do not issue clear guidelines on this issue. Because there is no clear instruction to financial agencies, Chinese banks such as CHEXIM have a considerable degree of autonomy in terms of whether to lend to overseas coal power plants. Indeed, policy banks have strong incentives to credit these projects given the apparent commercial interests (Interview with a policy bank staff, 09/25/2019).

Second, the absence of effective restrictions over coal-fired power plant exports also stems from the way most Chinese regulators and banks understand “greening” BRI. “Green Development” is sufficiently vague to allow different policy interpretations by various actors. From the European perspective, the Green BRI should be closely associated with China's committed efforts to address global climate change. In other words, “green” means stricter regulations on greenhouse gas emissions. According to this perspective, when Chinese companies expand their business internationally, the Chinese government should incorporate climate change considerations in its general regulatory framework. On the other hand, Chinese policymakers tend to understand greening BRI as the application of more technologically advanced coal power generation to mitigate the impact of air pollution. During our interviews with State Council officials, policy bank staff, and researchers affiliated with the central government, interviewees clearly indicated that as long as the Chinese coal power plants produce lower toxic emissions (*not* the greenhouse gas emissions), these projects should be regarded as “green” (Interview with a representative of an EU-based eNGO, 09/16/2019; Interview with a think tank researcher affiliated with the People's Bank of China, 09/18/2019; Interview with a representative of an eNGO, 09/19/2019; Interview with a State Council official, 09/22/2019; Interview with a policy bank staff, 09/25/2019). In other words, policymakers focus on the advantage enjoyed by China's overseas investment in coal-fired power stations with regard to pollution intensity rather than the potential negative influence on climate change (Li, Gallagher, Mauzerall, 2018).

Turning to corporate social responsibility abroad, enforcement remains inadequate despite piecemeal improvements. As Zou and Jones put it (2019, p.5), “A recent government survey of Chinese firms in BRI countries found that half were neglecting social impact assessments, a third were not conducting environmental impact assessments (EIAs) and ignorance of local regulations was widespread,

revealing an extensive violation of basic Chinese laws.”⁵⁷ Similarly, as shown in another UNDP report, among the 483 surveyed firms in BRI countries, 58 percent have not released CSR reports for their cross-border operations.⁵⁸ This bleak picture is a result of three institutional factors:

First of all, as we have described above, China’s overseas involvement in development projects is weakly regulated by a fragmented system (Tan Mullins et al., 2017). Overseas enterprises are subjected to a number of bureaucratic agencies that often have conflicting policy agendas and varying levels of capacity to monitor economic activities abroad. This “common agency” problem is well documented in the principal-agent literature (Bernheim and Whinston, 1986). For agents supervised by multiple principals, this specific governance structure thus creates a space that enables agents to game the system. They can pit one principal against another and take advantage of the collective action problem afflicting the principals. Since the success rate for the principals to coordinate with each other decreases as the number of principals increase, a highly fragmented regulatory environment creates strong incentives for agents to pursue opportunistic self-interested behavior.

Second, Chinese investments tend to concentrate in developing countries that lack strong governance and enforcement capacity (Tang and Sun, 2016). For example, the environmental impact assessment in Myanmar is largely proforma because Myanmar’s environmental protection agency suffers from resource scarcity – the office does not have adequate personnel, expertise, or budget to scrutinize and conduct on-site reviews of environmental impact assessment (EIA) reports submitted by involved enterprises. In fact, the office is full of unread EIA reports (Interview with an expert on China’s infrastructure investments in Southeast Asia, 09/21/2019). Such lax regulatory environments cannot deter poor corporate social responsibility by Chinese companies, which are wary of the costs of compliance.⁵⁹ For instance, Tang and Sun (2016, p.80) report cases in which many Chinese investors indicate that environmental officials in host African countries where they work are more interested in taking bribes than carefully reviewing the environmental impacts of projects. These Chinese firms therefore pay bribes instead of investing resources in improving environmental influences.

Third, China’s financiers and regulators have not fully institutionalized and enhanced their supervisory ability to enforce social inclusion and environmental sustainability for overseas enterprises. A brief investigation of Chinese banks’ attitudes toward environmental and social safeguards illustrates these limitations. As of the end of 2015, both CHEXIM and CDB have not integrated climate change concerns into their safeguard policies (Gallagher and Yuan, 2017, p.257). The CDB does not “have a detailed document regarding the themes in environment assessments” (Gallagher and Yuan, 2017, p.257). A majority of Chinese banks “still do not have professional staff working on environmental issues, which increase the difficulties in implementation” (Gallagher and Yuan, 2017, p.263). On the

⁵⁷ See CAITEC et al. *2017 Report on the Sustainable Development of Chinese Enterprises Overseas* (Beijing: CAITEC, 2017), pp. 54, 85, 97,

<https://www.cn.undp.org/content/china/en/home/library/south-south-cooperation/2017-report-on-the-sustainable-development-of-chinese-enterprise.html>

⁵⁸ China Center for International Economic Exchanges (CCIEE) and United Nations Development Program (UNDP), *The Belt and Road Initiative: A new means to transformative global governance towards sustainable development*, 2017, <https://www.undp.org/content/dam/china/docs/Publications/UNDP-CH-GGR%202017.pdf>

⁵⁹ On the other hand, in countries with relatively strong state capacity, Chinese companies are more likely to abide by local regulations. See the comparison between the involvement of a Chinese hydropower company in Ghana and Cambodia (Hensengerth, 2013; Urban et al., 2015).

regulatory side, despite a wide array of announced policy briefs, suggestions, guidelines, and notifications (Kirchherr et al., 2017, p.534), the whole regulatory framework remains weak and ineffective. Policy documents are vague and general, and few of them specify the mechanisms through which firms would be punished and how managers would be held responsible for wrongdoing (Tang and Sun, 2016, p.84). This lax institutional environment therefore encourages a lack of awareness of these policies among Chinese companies. In fact, a recent study shows that among Chinese firms doing businesses in Africa, in terms of their knowledge of related Chinese guidelines and notifications, “55 percent of the interviewees showed a complete lack of awareness (‘never heard of them’), while 30 percent reported some awareness (‘heard of them but were not familiar with them’)” (Tan Mullins, 2019, p.11).⁶⁰

While recognizing that there are many drawbacks with regard to environmental and social safeguard norms in China’s overseas economic conduct, piecemeal reforms have been taken. Incremental improvements may gradually lead to a shift from a weak enforcement to a stricter implementation of sustainability. For instance, Kirchherr et al. (2017, p.532) shows that respondents in Myanmar, Laos, and Cambodia hold the view that Chinese-led dam projects will be more likely to adhere to international social safeguards in the future. The authors find that Chinese dam developers have learned a lesson from a previously failed dam project – the Myitsone Dam in Myanmar – and they increasingly recognize the downsides of not taking environmental and social safeguards seriously. In particular, the learning experience is related to how the adoption of international social safeguards will ultimately bring more material benefits to the Chinese developers than non-adoption. The same learning curve can be observed in the context of Chinese corporate social responsibility practices in Myanmar (Zou and Jones, 2019, p.14) and East Africa (Tan Mullins, 2019, pp.5-9). Despite this progress, it is notable that Chinese companies tend to adopt a paternalistic approach (i.e. the company seeks to appear to be a good caretaker of its stakeholders) towards environmental and social responsibility by prioritizing philanthropy, environment, and employee welfare while paying relatively little attention to transparency, anti-corruption, and participation of local stakeholders in decision-making (Wang and Hu, 2017; Tan Mullins, 2019).

⁶⁰ Weng, Xiaoxue, and L. Buckley (2016), Chinese businesses in Africa: Perspectives on corporate social responsibility and the role of Chinese government policies, see <https://pubs.iied.org/pdfs/17581IIED.pdf>

3. BRI DECISION-MAKING IN RECIPIENT COUNTRIES

Following the “reverse two level games” framework, decision-making on BRI projects may be just as influenced by actors and processes in recipient countries as in China. Given the “bottom up” nature of many BRI projects and the paucity of resources Chinese regulators possess to steer individual projects, dynamics in recipient countries are typically critical for determining which projects are proposed. Indeed, this “demand-led” aspect of BRI projects is frequently cited by Chinese actors as a defining feature of the BRI, and some argue that this model represents a different and more balanced approach than the “conditionality” framework favored by Western lenders.⁶¹ There is no doubt that local laws and regulations can be determinative of outcomes. However, the bulk of BRI projects take place in contexts where local laws and enforcement are weak, particularly on sustainability questions. Observers note how “outsourcing” project origination to recipient countries may expose Chinese entities to higher risks, including political, environmental, and social disruptions. Certainly, close attention to the actors, interests, and politics of recipient countries is key to understand outcomes around the BRI.

The great diversity of BRI countries confounds attempts to generalize about decision-making processes. The heterogeneity of actors, interests, and processes we observe in China is multiplied across the dozens of countries in which BRI projects take place. This variation is then further exacerbated by the diversity of processes within recipient countries across different sectors, types of financing, and between different political leaders. Given this complexity, our objective is to outline the most important common patterns, not to provide a comprehensive overview of each country’s unique circumstances. To do so, we review decision-making on BRI projects in five recipient countries: Malaysia, Pakistan, Kenya, Kazakhstan, and Indonesia. These five were chosen both because of their substantive importance and because of their geographic and political diversity. For each country, we review four elements: its bilateral relationship with China, the key actors and their interests vis-à-vis BRI projects, the decision-making processes they follow, and the extent to which sustainability considerations enter decision-making outcomes. We refer to specific projects in each country as salient examples, but do not provide detailed descriptions of the projects as a whole.

⁶¹ CDB and UNDP 2019; Jiang 2019.

Malaysia

Economic and diplomatic relationship with China

Today, Malaysia is China's largest trading partner in Southeast Asia and China has been Malaysia's top trading partner since 2009 (Koh, 2018). Trade between Malaysia and China increased nine times from approximately \$12 billion in 2000 to approximately \$108 billion in 2014, the year that marked the 40th anniversary of Sino-Malaysian diplomatic ties (Wei et al., 2016).

In addition to this strong economic link, the relationship between Malaysia and China is shaped by the South China Sea, which is an important shipping route, an area suitable for the fishing industry, and is claimed to contain a vast amount of natural resources like oil and gas (Bustelo, 2005; Beckman, 2012). Despite territorial disputes over South China Sea, relations between Malaysia and China have remained relatively warm since the establishment of diplomatic ties in 1974 and "the dissolution of the Communist Party of Malaya (CPM)" which was allegedly influenced and supported by the Chinese Government (池島大策, 2010). More recently, disputes around the Spratly Islands have introduced tensions. China sustains its claims over these territories. In response, other allies of Malaysia consolidated their "efforts to boost the maritime capabilities of Malaysia."⁶²

Relations are further influenced by ethnic politics in Malaysia, where ethnic Chinese make up a significant and economically privileged minority. In 2018, ethnic Chinese made up about 23% of the Malaysian population based on an estimate by the Department of Statistics Malaysia,⁶³ but contribute about "60 to 70 percent of its economy" (Koh, 2018). Since independence, Malaysian political elites have governed on the premise of raising the standard of living and political power of the ethnic Malay population. At times this has led political leaders to foment or capitalize on popular resentment of ethnically Chinese economic interests. At the same time, the Chinese Malaysian community wields significant influence in addition to its economic heft through bloc voting, sometimes playing "the role of 'kingmaker'" in deciding the winning side (Khalid and Loh, 2016).

Key actors and their interests

While numerous actors in Malaysia are relevant to BRI, perhaps the most important roles are played not by government agencies but by the Prime Minister's office, the state-owned enterprise sector, the Malaysian Chinese business community, and state-owned enterprises. The latter are often closely linked to subnational political elites. Amongst government agencies, the Ministry of Finance is key.

First, there is not a single agency specifically tasked with coordinating the oversight of BRI projects. However, the Economic Planning Unit of the Prime Minister's Department oversees coordination of all major infrastructure projects in Malaysia, BRI or not. During his term of office, former Prime Minister Najib (2009-2018) took advantage of Chinese-funded projects to advance both his own

⁶² Joshi, M. (2016). The South China Sea Disputes: Territorial Claims, Geopolitics, and International Law. *ORF Occasional Paper*, [online] 97 (August 2016). Available at: https://www.orfonline.org/wp-content/uploads/2016/08/ORF_OccasionalPaper_97.pdf [Accessed 5 Aug. 2019].

⁶³ Department of Statistics Malaysia (2019). *Current Population Estimates, Malaysia, 2018-2019*. Putrajaya: Department of Statistics Malaysia.

political agenda and personal material interests (Liu and Lim, 2019). This political decision created favorable conditions for BRI projects, but also came with significant political risk. Indeed, the centralization of decision-making to the executive branch makes Chinese firms especially vulnerable to leadership turnover. When Mahathir took power following the 2018 election, several of the most prominent Chinese-financed projects were suspended or renegotiated.

Second, there is not a bureaucratic agency tasked with inter-state coordination between Malaysia and China with regard to China-funded projects. Again, this prerogative has been held in the Prime Minister's office, with some line ministries not even learning about projects until agreements had already been drawn up. However, there is an entity known as the Malaysia-China Business Council (MCBC) that serves as a liaison between Chinese investors and Malaysia. The Prime Minister typically appoints a political figure as the Prime Minister's Special Envoy to China. The Chairman of MCBC and the Special Envoy have been the same persons for the past two terms, but this is not always the case. The Special Envoy to China and Chairman of the Malaysia-China Business Council are typically Malaysians of Chinese descent.

Third, the Malaysian government tends to use a mechanism called a Special Purpose Vehicle (SPV) as a policy tool to engage in the development of infrastructure projects, with each major project getting its own SPV (see below). The Ministry of Finance is usually a key stakeholder since SPVs are typically wholly owned by the Ministry of Finance. For instance, the Ministry of Finance set up a subsidiary Suria Strategic Energy Resources (SSER) to undertake the Multi-Product Pipeline (MPP) and Trans Sabah Gas Pipeline (TSGP) projects, two large recent BRI projects.

Fourth, the primary Malaysian commercial entities engaged with BRI projects are state owned enterprises or nominally private companies with informal political linkages (Lim, 2015). These state-owned conglomerates control the most strategically important sectors of the country's economy (Gomez and Lafaye De Micheaux, 2017; Carney, 2018, pp.157-213), as well as the construction and infrastructure industries.

Finally, local political leaders play a significant role, with the heads of the 11 states and 2 federal territories possessing significant authority over infrastructure planning, as well as substantial informal influence with the business community. Nine of the 13 subnational entities are hereditary monarchies. These dynamics create significant state-federal contestation over the flows of Chinese capital. In the example of the Forest City, while local elites welcomed the construction of this real estate megaproject that allegedly benefits local economy, it has become a contentious political issue because it was used by the federal opposition party to invoke anxiety regarding the influx of Chinese immigrants (Liu and Lim, 2019, p.226).

What decision-making processes, formal and informal, govern different aspects of BRI projects?

We can differentiate the process around most projects in Malaysia by the identity of the initiator. First, in many projects the Malaysian government uses Chinese funds to support an infrastructure project

that was previously discussed but not yet implemented. An illustrative example is the East Coast Rail Line (ECRL), which was proposed domestically long before the participation of Chinese investors. A feasibility study was completed by a regional statutory body in Malaysia, the East Coast Economic Region Development Council (ECERDC), before seeking external Chinese investments. However, the project was put on hold because it required massive investment that would be hard to find from external funders. For the ECRL, the Malaysian government directly approached a Chinese consortium to explore funding because of the latter's ability to provide funding at a low internal rate of return.⁶⁴

Second, other projects are proposed jointly by Chinese corporations and the Malaysian government. This category of projects is more difficult to parse, and it is often unclear if the underlying negotiations are government-to-government or corporation-to-government. Recent examples of this type include the Multi-Product Pipeline (MPP), Trans Sabah Gas Pipeline (TSGP), and Randar Malaysia. The current Malaysia government and courts are currently investigating the extent to which such projects were characterized by corruption. The opaqueness around them suggests that rent-seeking may have been an important motivation.

The financing, implementation, and monitoring of a developmental project is largely contingent on the type of contract modality. Because SOEs play a paramount role in Malaysia's energy and construction sectors, they often acted as owner of the projects. On the other hand, Chinese corporations serve as the providers of engineering, procurement, construction and commissioning (EPCC). Under most circumstances, EPCC entails the involvement of Chinese banks as major financiers. In the cases of the ECRL, the MPP, and the TSGP, CHEXIM provided 85% of the funds.

The highly centralized decision-making processes around the Prime Minister's office means that few channels exist for independent scrutiny of implementation. The other side of this is that accountability is concentrated at the top, making BRI projects a subject of electoral contestation. Indeed, the current Prime Minister, Matahir, ran his 2018 campaign by criticizing alleged corruption by the incumbent around Chinese-backed projects. Although the negotiation between Chinese project developers and the Malaysian government typically lacked transparency for a variety of projects, the opposition bloc in Malaysia was able to leverage a relatively free press to disclose more detailed relevant information.

How and to what extent do sustainability considerations influence decision-making?

Sustainability considerations rarely influence decision-making in Malaysia but an Environmental Impact Assessment (EIA) is required for every project.⁶⁵ However, regulatory agencies in Malaysia are quite lax in implementing environmental regulations and they do not have adequate capacity to

⁶⁴ The Daily Star, November 27, 2016. *Exclusive Interview: Najib on China, Trump and GE14*. [video] Available at: <https://www.thedailystar.net/world/watch-malaysias-najib-china-trump-and-ge14-1321180> [Accessed 7 Aug. 2019].

⁶⁵ Chan, H. (2019). Ensure environmental sustainability of the ECRL. The Sun Daily. [online] Available at: <https://www.thesundaily.my/opinion/ensure-environmental-sustainability-of-the-ecrl-XL814909> [Accessed 10 Dec. 2019].

assess projects.^{66,67} The project developers often simply fail to comply with local regulations. For example, Multi-Product Pipeline (MPP) and Trans Sabah Gas Pipeline (TSGP) did not receive appropriate approvals from the regulatory agencies on land and fossil fuel rights, but proceeded anyway.⁶⁸ In general, the government does not emphasize the importance of sustainability considerations when it plans and reviews projects.

In 2014, Azhar Mohamed, a Federal Court Judge in Malaysia commented on the enforcement capacity of Malaysia's environmental regulatory agencies. He said: "Even though various environmental laws have been introduced, the problem here as I see it is in the enforcement of these laws. The enforcement agencies do not have sufficient trained officers and tools, and many cases are not brought before the court."⁶⁹ Malaysia has one principal piece of environmental legislation known as the Environmental Quality Act 1974, along with 33 other laws, rules and regulations.

As recently as 2019, environmentalists and activists in Malaysia have urged the government to strengthen environmental regulations as the Environmental Quality Act 1974 "is inadequate to deal with offenders and that better enforcement is needed against those who cause damage to the environment."⁷⁰ The Environmental Quality Act 1974 provided for "a maximum fine of RM500,000 and maximum jail term of five years." In response to the calls by environmentalists and activists, Energy, Science, Technology, Environment and Climate Change Minister Yeo Bee Yin said "The government aims to replace the Environmental Quality Act 1974 with a new act, which would see greater enforcement powers and stiffer punishments meted out to those who pollute the environment."⁷¹ Such a proposal remains unrealized thus far.

⁶⁶ The Star (2019). Bans alone won't reduce plastic usage, say environ groups. [online] Available at: <https://www.thestar.com.my/news/nation/2019/06/09/bans-alone-wont-reduce-plastic-usage-say-environ-groups> [Accessed 10 Dec. 2019].

⁶⁷ Clean Malaysia (2019). Malaysia's Lax Enforcement is failing Endangered Species. [online] Available at: <https://cleanmalaysia.com/2016/02/13/malysias-enforcement-is-failing-endangered-species/> [Accessed 10 Dec. 2019].

⁶⁸ Lim, I. (2019). Finance Ministry discovers no land, no Petronas greenlight in RM9.4b oil project scandal. Malay Mail Online. [online] Available at: <https://www.malaymail.com/news/malaysia/2018/06/11/finance-ministry-discovers-no-land-no-petronas-greenlight-in-rm9.4b-oil-pro/1640767> [Accessed 10 Dec. 2019].

⁶⁹ Ahmad, R. (2014). Enforce environmental laws. The Star Online. [online] Available at: <https://www.thestar.com.my/news/nation/2014/12/13/enforce-environmental-laws-judge-shortage-of-trained-officers-hinders-cases-being-brought-to-court> [Accessed 19 Dec. 2019].

⁷⁰ Aris, N. (2019). Stiffer penalties needed, activists say on environmental law. Free Malaysia Today. [online] Available at: <https://www.freemalaysiatoday.com/category/nation/2019/03/13/stiffer-penalties-needed-activists-say-on-environmental-law/> [Accessed 19 Dec. 2019].

⁷¹ New Straits Times (2019). Minister: Harsher punishment under new environmental law. [online] Available at: <https://www.nst.com.my/news/nation/2019/05/485108/minister-harsher-punishment-under-new-environmental-law> [Accessed 19 Dec. 2019].

Pakistan

Economic and diplomatic relationship with China

Pakistan's section of the Belt and Road Initiative is referred to as the China-Pakistan Economic Corridor (CPEC). Officially launched in 2015, CPEC comprises over \$60 billion in Chinese loans, investments, and grants for infrastructure and energy projects linking western China to the strategic Gwadar port in Pakistan's southwestern Balochistan province, as well as special economic zones and other areas of agricultural and industrial cooperation (International Crisis Group, 2018). The largest single-country series of Belt and Road Initiative investments, it has been hailed as the "flagship project" of the BRI (Small, 2017).

China and Pakistan established diplomatic ties in 1951 after Pakistan became one of the first countries to recognize the PRC,⁷² and each side is often referred to as the other's sole "all-weather friend" (Small, 2015). Pakistan remained a "steadfast ally" of China through the latter's isolation during the 1960s and 1970s – including through a border war with India in 1962 – and the two countries signed a formal trade agreement in 1963. This was followed by a comprehensive free trade agreement signed in 2008.⁷³ China has been Pakistan's leading arms supplier since the 1990 imposition of U.S. sanctions on the country. These sales include short- and medium-range ballistic missiles, Chinese and jointly-produced aircraft, and various types of nuclear assistance. The wider collaborative relationship also includes "personnel training, joint military exercises, intelligence sharing, and counterterrorism efforts."⁷⁴

Despite campaigning on a platform that criticized the previous government's links to China, Pakistani Prime Minister Imran Khan has visited China twice since his election. According to secondary sources, these meetings focused on reviewing and announcing CPEC projects and addressing Pakistan's financial difficulties and "dwindling foreign exchange reserves."⁷⁵ The Pakistani military, long seen as the central political power broker and dominant economic interest group in the country, has maintained consistently strong relations with China over time.

China-Pakistan relations are heavily conditioned by both countries' relationship with India.⁷⁶ Scholars argue that the relationship has primarily had an "India centric approach" by which "China provided military arms to Pakistan in order to enable it to act as a suitable and dependable counterweight against India."⁷⁷ For Pakistan, China serves as a "China is a high-value guarantor of security against India."⁷⁸ However, they also posit a potential shift in recent years toward a relationship motivated more centrally by pragmatic and (especially economic) westward-looking

⁷² Afridi, Jamal, and Jayshree Bajoria. "China-Pakistan Relations." *Council on Foreign Relations* 6 (2010): 27-46. Available at: <https://www.cfr.org/backgrounder/china-pakistan-relations>

⁷³ See above.

⁷⁴ See above.

⁷⁵ See above.

⁷⁶ Garlic 2018.

⁷⁷ Rohi Wahid, Book review of "China-Pakistan Axis: Asia's New Geopolitics," 2017, <https://hrcak.srce.hr/file/276675>, p.201.

⁷⁸ Afridi, Jamal, and Jayshree Bajoria. "China-Pakistan Relations." *Council on Foreign Relations* 6 (2010): 27-46. Available at: <https://www.cfr.org/backgrounder/china-pakistan-relations>

reasoning.⁷⁹ This, they argue, is in part due to China's transition into an aspiring regional stabilizer focused on economic issues – a situation in which instability, including in the Sino-Indian relationship, could threaten economic goals.⁸⁰ Among these westward-looking reasons, according to experts, is strategic access to the Persian Gulf. This is facilitated by the Gwadar Port, which is “just 180 nautical miles from the Strait of Hormuz,” the shipping lane for “40 percent of globally traded oil.”⁸¹ This carries economic and geostrategic benefits for both Pakistan and China.⁸²

Key actors and their interests

Decision-making around infrastructure projects in Pakistan is highly institutionalized, though informal interactions and bargains can also be important determinants of outcomes. The Executive Committee of the National Economic Council (ECNEC) is the agency that oversees expensive federal projects (more than 3 billion Rs, or about \$19 million) or those that include foreign firms. Projects are initially developed and proposed by the national Planning Commission⁸³ and reviewed and approved, if below the monetary value above, by the Central Development Working Party (CDWP).^{84, 85} If the projects are worth more than 3 billion Rs, they are submitted to ECNEC for final approval. ECNEC has included, since 2017, the Prime Minister, the Minister for Finance, Revenue, and Economic Affairs, the Minister for Interior, the Minister for Industries and Production, the Minister for Commerce & Textile, and several regional ministers.⁸⁶ There is also a bureaucratic agency tasked with inter-state coordination between Pakistan and China with regard to China-funded projects – Joint Cooperation Committee (JCC). Project approval is nominally the responsibility of CPEC's JCC, which is co-chaired by Pakistan's Minister of Planning, Development, and Reform (PDR) and China's Vice Chairman of the National Development and Reform Commission (NDRC).^{87, 88} The JCC is itself composed of distinct joint working groups for planning, energy, transport infrastructure, the Gwadar port, security, industrial parks/special economic zones, and social and economic development.

Decision-making within these bureaucratic structures is influenced by national and regional political competition. Since Pakistan is an ethnically divided federal state, internal frictions between various ethnic groups – Punjab, Sindh, Pashtun, and Baloch – affect how to allocate Chinese-financed

⁷⁹ Rohi Wahid, Book review of “China-Pakistan Axis: Asia's New Geopolitics,” 2017, <https://hrcak.srce.hr/file/276675>, p.202.

⁸⁰ Rohi Wahid, Book review of “China-Pakistan Axis: Asia's New Geopolitics,” 2017, <https://hrcak.srce.hr/file/276675>, p.203.

⁸¹ Afridi, Jamal, and Jayshree Bajoria. “China-Pakistan Relations.” *Council on Foreign Relations* 6 (2010): 27-46. Available at: <https://www.cfr.org/backgrounder/china-pakistan-relations>

⁸² Nisar Ahmed Khan. “Geopolitical Significance of Gwadar Port: Challenges and Prospects.” *Journal of Security and Strategic Analysis* (Vol. IV, No. 1): 86-107. <https://thesvi.org/wp-content/uploads/2018/01/Nisar-Ahmed-Khan.pdf>

⁸³ The Planning Commission includes, at the top level, the Prime Minister and Minister of Planning, Development, and Reform as well as an advisory board from academia, the private sector, and civil society, among other members.

⁸⁴ A technical clearinghouse housed by the Planning and Development Division of the Planning Commission.

⁸⁵ Planning and Development Board, Government of Punjab, http://www.pndpunjab.gov.pk/dev_projects

⁸⁶ Minister for Planning and Development, Balochistan; Minister for Finance, Government of Khyber Pakhtunkhwa; Minister for Finance, Government of the Punjab; and Minister for Planning and Development, Government of Sindh.

⁸⁷ The JCC first met on July 20, 2013.

⁸⁸ CPEC Watch. *Explainer: What is Joint Cooperation Committee?* October 2, 2017. <https://cpec-watch.com/article/406>

projects across regions (Ahmed, 2019, pp.407-408). In Pakistan, many political parties, particularly at the subnational level, are polarized along ethnic lines – politicians mainly appeal to ethnic identities in electoral competition. In particular, two major parties – the Pakistan Muslim League and the Pakistan People Party – represent the Punjabis and the Sindhis, respectively (Ahmed, 2019, p.406). For example, the construction of the Port Qasim power plant invested by PowerChina has been afflicted by poor coordination between the federal government and the provincial government of Sindh due to their different ruling parties (Sayed, 2019, p.131). Baloch elites are especially dissatisfied with the CPEC and accuse it of mainly benefitting Punjab (Ahmed, 2019, p.408). To mitigate the detrimental impact of insurgent groups in Balochistan on the Gwadar port, the Chinese government had lobbied its Pakistani counterpart to adopt a constitutional amendment that grants Balochistan more autonomy that eases the tension in the region – which allegedly creates a safer ground for the construction of the Port (Boni, 2016).

However, alongside this electoral contestation, the military remains at the center of Pakistan’s politics and economy. Pakistani military elites share a consensus to support CPEC as a strategic balance vis-à-vis India. Boni (2016, p.510) notes that Pakistan’s foreign policy is largely controlled by its military officers. In addition to participating in determining the country’s foreign policy, the Pakistani military plays a paramount role in providing security for CPEC projects. The Special Security Division, comprising of 15,000 troops, created by interior ministry to provide security to Chinese workers, engineers, and managers (Verma, 2019, p.14). The protection of the Pakistani military is especially important for Chinese firms given frequent attacks by various militant and terrorist organizations on CPEC projects in Pakistan.

Recently, the military has stepped in to play a greater role in BRI coordination, with a retired Lieutenant General appointed Chairman of a new CPEC authority. This move aims to insulate CPEC from the civil government headed by Imran Kahn, which was perceived to be unreliable. It remains to be seen, however, how much practical control can actually be exercised.⁸⁹

Finally, unlike the cases of Indonesia and Malaysia, Pakistan does not deploy specific policy vehicles to organize cooperation with Chinese firms, nor does it rely on state owned enterprises to deliver CPEC projects. Pakistan implemented a set of large-scale privatizations during the first decade of this century. Consequently, in contrast to Indonesia and Malaysia, SOEs do not account for a lion’s share of Pakistan’s national economy (Munir and Naqvi, 2017). For example, by the end of 2007, over 80% of the banking industry had been put under the control of private-owned enterprises. Likewise, Husain (2009, p.10) indicates that “goods and services produced, traded, and distributed by the private sector amount to 90 percent or more of the national income.” Commercial engagement between Chinese firms and their Pakistani counterparts is thus more organic.

⁸⁹ Findlay and Bokhari, “Pakistan Revises Belt-and-Road projects under Chinese pressure,” *Financial Times*, December 11, 2019.

What decision-making processes, formal and informal, govern different aspects of BRI projects?

According to a former Chinese ambassador to Pakistan, CPEC was initially proposed by General Pervez Musharraf to the Chinese leadership (Ahmed, 2019, p.404) around the year 2002. The first bilateral formal discussions on the CPEC were held in 2013 and it was officially initiated during Xi Jinping's first visit to Pakistan in 2015. This proposal fits well with the Chinese government's two geopolitical purposes – ensuring energy security and hedging vis-à-vis India (Lee, 2005; Garver, 2006; Small, 2015). In this way, unlike many other Chinese-funded projects in Southeastern Asia and Eastern Africa driven by commercial considerations, we should see CPEC overall, and some of the key projects within it, largely as a top-down economic statecraft program that serves China's diplomatic and strategic interests. However, it is also important to note that many projects within CPEC are of relatively little strategic value. Decision-making differs around strategic versus non-strategic projects, with the former much more likely to emerge through the JCC, and the latter to instead be driven by local or commercial interests in Pakistan, mediated through electoral competition. Sayed (2019, p.126) points out the nature of the CPEC as a considerably fragmented system in which every project has “different terms and conditions as each is executed by a different Chinese state-owned enterprise and is independent from other CPEC projects.”

The core of the CPEC is to build a route linking Kashgar (a major city in the southern Xinjiang province of China) and Pakistan – including a 2000-mile Kashgar-Gwadar railway track, the Gwadar port and associated airport, pipelines that supply oil and gas to Kashgar, and a 125-mile tunnel connecting two countries. The non-core part of the CPEC encompasses a variety of energy projects (Sayed, 2019, p.127, Table 1 and 2) and improving preexisting highways across Pakistan. While the core element directly caters to China's geopolitical interests, the non-core part complements these strategic considerations by promoting Pakistan's economic development. The Chinese investments in non-core infrastructure projects like power plants, roads, and highways allegedly facilitate economic growth that can lead to a more prosperous Pakistan, which can dampen the increasing risks of Islamic radicalization within the country (Verma, 2019). Therefore, non-core projects can be viewed as a means to create safer ground for construction and operation of the core projects.

As in Malaysia, while CPEC projects have been portrayed as a comprehensive package planned jointly by the two countries, many of the central projects gestated for decades prior to Chinese involvement. By the time CPEC was officially launched, many projects had already received Pakistani government approval and contracting firms had been selected. CPEC provides an opportunity for Pakistan to attract Chinese investments to sustain these programs. China's geopolitical interests are congruent with the Pakistani government's motive of developing domestic economy and delivering patronage to constituencies.

In terms of government regulation, CPEC projects are under the supervision of an array of Pakistani agencies, as described above. In addition, many CPEC projects are subject to a highly localized regulatory environment because of Pakistan's entrenched regional and ethnicity-based divisions. This fragmented and decentralized regulatory structure, which can make the efficiency of supervision

suffer, can be illustrated by the example of the energy sector. For instance, the Thar Engro Coal Power Plant is co-supervised by the Private Power and Infrastructure Board (PPIB) and the Thar Coal Energy Board (TCEB). The provincial government of Sindh is a third major player in regulating this power plant. Another example is the Quaid-e-Azam Solar Park, which is conjointly monitored by the Punjab Power Development Board (PPDB) and the federal Alternative Energy Development Board (AEDB).

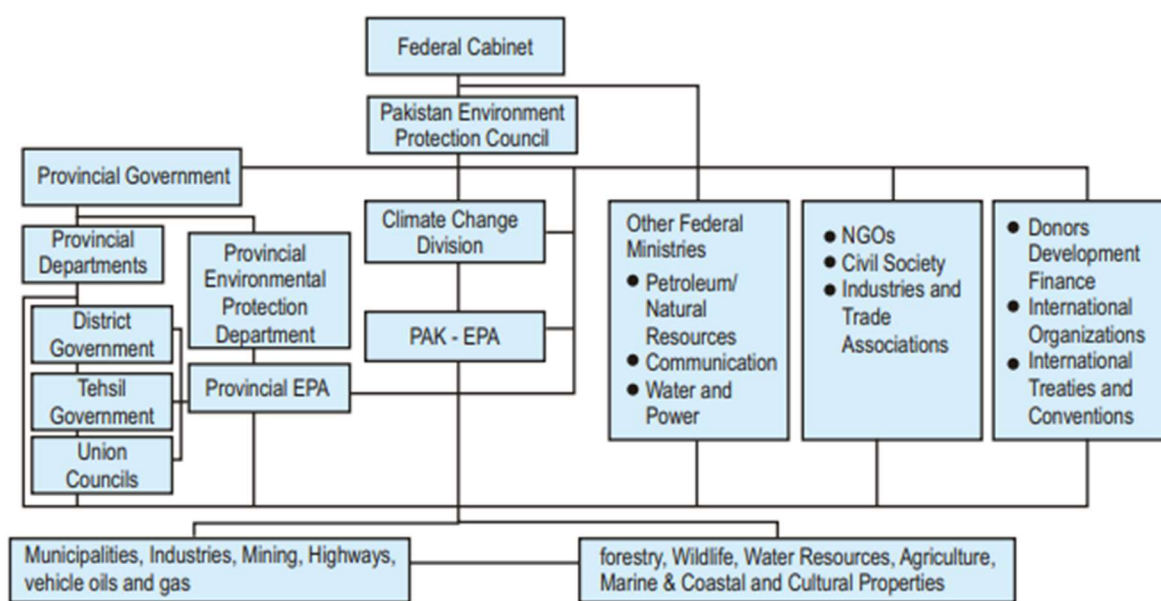
How and to what extent do sustainability considerations influence decision-making?

A report by Pakistan’s Ministry of Climate Change describes the formal responsibilities and capabilities of Pakistan’s Environmental Protection Agency (EPA). As it describes,

the major tasks of the agency included the administration of the Environmental Protection Ordinance of Pakistan. The agency would also carry out surveys, surveillance and monitoring as well as publish an annual report on the state of the environment in the country, and disseminate information to the public on environment related matters. The process of Environmental Impact Assessment mentioned in the ordinance was also to be used as a powerful tool to stop the environmental degradation in the country. Two provincial EPAs were also established, the Punjab EPA in 1987 and Sindh EPA in 1989.⁹⁰

A diagram of this institutional arrangement is reproduced below.⁹¹

Figure 4: Structure of Environmental Institutional Framework (adapted from Pakistan EPA)



(Adopted from PAK-EPA Presentation, 2006)

The Pakistan EPA (PEPA) is responsible for the review of environmental impact assessments (EIA) and, in 2000, issued “comprehensive regulations” for EIA reports.⁹² A series of reports, prepared by ministries of Pakistan’s government and outside entities such as the World Bank, document weak institutional capacities across this institutional framework but especially for PEPA and the Provincial

⁹⁰ Ministry of Climate Change, the Government of Pakistan, <http://www.moccl.gov.pk/moccl/userfiles1/file/MOC/Events/Chapter-o8.pdf>, p. 186.

⁹¹ Ibid, p. 191.

⁹² Ibid, p. 195.

EPAs.⁹³ For instance, a 2006 World Bank report found that the EIA system was significantly hindered by lagging institutional capacity:

Lack of capacity and institutional coordination were the main hurdles. It was noted that the quality of EIA-reports varied depending upon the size of the project, and capacity and quality of the consultant. Moreover, due to the absence of a coordination system between development departments, other project approving authorities and EPAs regarding identification of projects, many small but environmentally hazardous projects remain un-noticed. It was further pointed out that low quality IEE/EIA reports got approved due to the low level of social accountability, political pressure, and absence of a panel of experts in the EPAs. Monitoring activities after the issuance of NOC (No Objection Certificate) were also rarely executed by EPAs. In fact, EPAs capacities for field monitoring were found to be weakest of all.⁹⁴

More broadly, the report notes that these institutional factors are central to the limitations of the environmental protection system:

Key performance constraints are not primarily a consequence of inadequate legislation or insufficient funding, but rather are the result of a few key weaknesses in institutional design combined with low capacity to apply available resources. In particular, the assessment concludes that the lack of guidelines for oversight of environmental authorities delegated from Federal to provincial agencies is an important missing link in the institutional design.⁹⁵

A UN Environment Program report from 2015 does not significantly update or alter this understanding of the capabilities of Pakistan's EPAs, noting the continuation of "inadequate capacity."⁹⁶ It does not describe any major shifts in the EPAs' capabilities. On the other hand, it does describe a major institutional shift in 2011, by which the Federal Ministry of Environment was abolished and "its associated subjects were either devolved or assigned to other Federal Government Ministries."⁹⁷ The report calls this shift a "major setback to the cause of environment" in Pakistan.⁹⁸

⁹³ Ibid, p. 202.

⁹⁴ Ibid, p. 203.

⁹⁵ Ibid, p. 201.

⁹⁶ UN CC:Learn, 2015, <https://www.uncclearn.org/sites/default/files/inventory/unep25082015.pdf>, p. 9.

⁹⁷ Ibid, p. 188.

⁹⁸ Ibid, p. 206.

Kazakhstan

Economic and diplomatic relationship with China

Kazakhstan is the largest landlocked country in the world and used to depend on the Soviet Union for international trade (Melet, 1998). The dissolution of the USSR pushed Kazakhstan to approach China as a trade partner not just because of its enormity as a market and its vicinity as a neighbor, but its flourishing economic growth combined with tight social and political controls, appealed to the authoritarian Kazakh regime. China has now replaced Russia as the largest trading partner of Kazakhstan (Laruelle, 2018). The trade volume between China and Kazakhstan stood at \$28.9 billion while that between Russia and Kazakhstan was \$23.5 billion. Even before the launch of BRI, China had invested \$19 billion in Kazakhstan in the first two decades after Kazakhstan's independence, mainly in the energy sector. China is one of Kazakhstan's major markets for crude oil and in 2015 the Chinese imported 1.3 million tons through pipelines. Kazakhstan is especially important for China as it is one of its external sources of energy that is not subject to potential interference from the US, unlike the Middle East (Guo, 2006).

Like other BRI countries, China and Kazakhstan's economic closeness exists in parallel with border disputes.^{99, 100} The countries signed border demarcation treaties in 1994, 1998 and 1999 to end centuries of border disputes spanning 1,700 kilometers (Peyrouse, 2016). While border disputes are no longer the main concern for the relations between China and Kazakhstan, the separatist movements by the Uyghur Muslims in the Xinjiang Uyghur Autonomous Region has the potential to threaten the existing warm relations (Davis, 2008; Alff, 2016). Islamic militants exploit the porous borders between China and Kazakhstan to smuggle explosives and firearms into China while establishing training camps outside China beyond the reach of the Chinese state apparatus. Infrastructure between these two countries like railways and gas pipelines could easily be targeted.

Key actors and their interests

The Kazakh state is a neopatrimonialist regime where the ruling family – former president Nazarbayev and his immediate family members – enjoys unchecked executive power (Cummings, 2005; Isaacs, 2011). Nazarbayev became president following the collapse of the Soviet Union, and in 2019 stepped down to chair the newly empowered Kazakhstan Security Council, but he remains the country's supreme leader. Neopatrimonialism in Kazakhstan blurs the line between public authority and private interests. The decision-making power is controlled by a complex and malleable web of personal ties across three circles – the ruling family, oligarchs, and technocrats based in central-level bureaucratic agencies (Peyrouse, 2012). Nazarbayev and the new president Tokayev support building cooperative relations with China as a strategy to bolster domestic legitimacy and as a means of

⁹⁹ Levinsson, C. and Svanberg, I. (2000). Kazakhstan-China Border Trade Thrives After Demarcation Treaty. *CACI Analyst*, Available at: <http://www.cacianalyst.org/publications/analytical-articles/item/7264-analytical-articles-caci-analyst-2000-2-16-art-7264.html> [Accessed 28 Sep. 2019].

¹⁰⁰ Shen, W. (2012). China and its Neighbors: Troubled Relations. *EU Asia Centre*, [online] 2012(March 1st). <http://drtktopecollege.in/pol/sites/default/files/university%20question%20papers/China%20and%20its%20Neighbours%20troubled%20relations.pdf> [Accessed 28 Sep. 2019].

balancing against Russia's regional hegemony (Clarke, 2014; Kembayev, 2018). Ultimate decision-making on any major project lays with the president.

The primary institutional mechanism for decisionmaking is the Kazakh-Chinese Coordination Committee on Industrial and Investment Cooperation (CCIIC). The committee is co-chaired by Kazakhstan's Ministry for Investments and Development and China's National Development and Reform Commission (NDRC). In particular, "The CCIIC is responsible for preparing a list of joint investment projects and organizing overall coordination of the activities between the involved organizational structures" (Bitabarova, 2018, p.162). The CCIIC is complemented by another platform – the Kazakh-Chinese Business Council (KCBC). KCBC focuses on building connections between business communities of the two countries. KCBC is "co-chaired by Kazakhstan's National Welfare Fund "Samruk-Kazyna" (Samruk-Kazyna, a sovereign wealth fund beholden to the president) and China Council for Promotion of International Trade" (Bitabarova, 2018, p.163).

Once a project is approved, similar to Malaysia and Indonesia but unlike Pakistan, the Kazakh government tends to use ad-hoc, project-specific vehicles as a means to engage in business cooperation with Chinese partners. The Kazakh government has centralized control over assets through large state corporations after the 2007-2008 banking crisis (Pomfret, 2019, pp.88-91). This control is exercised through Samruk-Kazyna, the backbone of the country's state capitalism, which "holds full or partial ownership stakes in more than 400 subsidiary companies, national institutes, and legal entities, with a total value of US\$78 billion in assets, or almost 60 percent of Kazakhstan's GDP" (Peyrouse, 2012, p.356). Samruk-Kazyna "has a large stake in oil and gas, electric power, metals, mining, chemicals, communications, transportation, financial development, corporate banking, and real estate" (Peyrouse, 2012, p.356). Since BRI projects concentrate in infrastructure and energy industries, Samruk-Kazyna is the most crucial Kazakh stakeholder in these projects. For example, the Beineu-Shymkent gas pipeline is operated by a Kazakh-Chinese joint venture, which is partly owned by the KazTransGas/KazMunaiGas – the Kazakhstan's gas pipeline monopoly itself is further under the control of Samruk-Kazyna.

Finally, it is worth noting the role of the Astana International Financial Center (AIFC). The Astana International Exchange (AIX),¹⁰¹ Shanghai Stock Exchange, and the Silk Road Fund are major participants of the AIFC. AIFC has set up a "Belt Economics Department," which works with various financial institutions to develop investment models for BRI projects in Kazakhstan and beyond. One major AIFC initiative is the establishment of the AIFC Court, an independent commercial dispute resolution court for companies registered with the AIFC.¹⁰²

¹⁰¹ According to a Xinhua article, "A key innovation of AIX is the establishment of 'Belt and Road market,' in which the RMB is the most important trading currency." See Ren, J and Zhang. (2019). Spotlight: Kazakhstan's financial center gearing up to become BRI regional hub. Xinhua, 2019-09-24, http://www.xinhuanet.com/english/2019-09/24/c_138418521.htm [Accessed 28 Sep. 2019].

¹⁰² According to a Bloomberg article, "The court is based on the rules of English common law, and is staffed by experienced judges from the U.K., to create a familiar environment of trust and transparency." See Arif Durrani and Gabe Kirchheimer, 2018. *Why Invest in Kazakhstan?* Bloomberg Media Studios.

What decision-making processes, formal and informal, govern different aspects of BRI projects?

The government has linked BRI to Kazakhstan's own major domestic developmental program – *Nurly Zhol* (BP). The BP plan was first announced by Nazarbayev in 2014 as a large-scale government program of infrastructure investment (Bitabarova, 2018, p.162). In particular, the CCIIC is tasked with the responsibility of BP-BRI coordination. However, observers face difficulties monitoring the decision-making process around this coordination due to the opaqueness of these institutions. (Sternberg et al., 2017, p.8). It is difficult to discern the interests that drive projects, though it seems reasonable to conclude that the economic interests of the regime and its clients predominate. Several salient infrastructure projects were identified by Nazarbayev during a 2018 interview as a part of the *Nurly Zhol* government program – “a railway from Alashankou [in China] to Europe through Kazakhstan, the Khorgos Gateway dry port, and a new railway line that connected the country's south with Europe.”¹⁰³ However, a full list of BP projects planned by the Kazakh government remains unclear.

BRI projects tend to concentrate in pipelines, highways, railways, and other energy sectors, areas of the economy dominated by Samruk-Kazyna. The dominant presence of the country's core economic interest group shapes the pattern of financing and implementation with regard to BRI projects since Chinese firms are often required to partner with a subsidiary of Samruk-Kazyna to build up a joint venture as the owner of the proposed project. For this reason, neither EPCC nor BOT is the most popular type of contract modality for involved Chinese companies. Instead, they operate at arm's length.

For example, the Beineu-Shymkent Gas Pipeline LLP, a joint venture of a Chinese firm and the KazTransGas JSC, is the owner of the Beineu-Bozoi-Shymkent gas pipeline. This pipeline provides Kazakhstan's southern regions gas produced in the western regions of the country. Another illustrative case is the Khorgos Gateway. It is a \$250 million dry port (a massive railway terminal and shipping logistics center) on the border between Kazakhstan and China, linking the two countries by rail.¹⁰⁴ It was constructed by Kazakhstan's national railway company, Kazakhstan Temir Zholy (KTZ). KTZ holds a 51% ownership stake in the project,¹⁰⁵ while a 49% percent ownership stake was then sold to the Chinese state-owned firm COSCO Shipping in 2017.¹⁰⁶

How and to what extent do sustainability considerations influence decision-making?

Kazakhstan has restructured its environmental ministry several times in recent years. In 2013, the Ministry of Environment Protection of Kazakhstan became the Ministry of Environment and Water

https://sponsored.bloomberg.com/news/sponsors/aifc/why-invest-in-kazakhstan/?adv=19268&prx_t=hSIEAA AAAAFEANA

¹⁰³KazInform, 2018, *Kazakh President Lauds China's Silk Road Initiative*.

<https://www.indepthnews.net/index.php/newsbriefs/1680-kazakh-president-lauds-china-s-silkroad-initiative>

¹⁰⁴ South China Morning Post, Khorgos: the biggest dry port in the world,

<https://multimedia.scmp.com/news/china/article/One-Belt-One-Road/khorgos.html>

¹⁰⁵ Ben Mauk, 2019, Can China Turn the Middle of Nowhere Into the Center of the World Economy?

<https://www.nytimes.com/interactive/2019/01/29/magazine/china-globalization-kazakhstan.html>

¹⁰⁶ Reuters, May 14, China's COSCO to invest in Kazakhstan border project as part of Silk Road drive,

<https://www.reuters.com/article/china-silkroad-cosco-idUSL8N1IG0EJ>

Resources.¹⁰⁷ In August 2019, it became the Ministry of Ecology, Geology and Natural Resources, tasked with environmental protection and “developing the country’s Environmental Code,” among other functions.¹⁰⁸ Secondary sources suggest that environmental protection has not typically been given high political priority within Kazakhstan (especially relative to infrastructure development).¹⁰⁹ This may be marginally shifting in recent years, as a 2018 Deloitte Legal analysis for the oil and gas industry indicates that, consistent with the Kazakhstan-2050 Strategy and broader “transition to a green economy,” the government has reformed and strengthened its regulatory approach, including by raising the likelihood of criminal liability and tax penalties.

¹⁰⁷ Tengrinews, 2013, Kazakhstan transforms Ministry of Environment Protection into Ministry of Environment and Water Resources,

https://en.tengrinews.kz/politics_sub/kazakhstan-transforms-ministry-of-environmentprotection-23702/

¹⁰⁸ The Astana Times, August 8, 2019, New Kazakh ministry will focus on environment, preventing poaching and managing water resources,

<https://astanatimes.com/2019/08/new-kazakh-ministry-will-focus-on-environment-preventingpoaching-and-managing-water-resources/>

¹⁰⁹ see OECD, 2017, Towards better environmental regulations in Kazakhstan,

https://www.oecd-ilibrary.org/development/multi-dimensional-review-of-kazakhstan/towards-better-environmental-regulations-in-kazakhstan_9789264269200-8-en

Kenya

Economic and diplomatic relationship with China

As part of BRI, Kenya signed 17 multi-billion deals with China in 2014.¹¹⁰ China is currently Kenya's largest largest trade partner (Gu and Qiu, 2019, p.94). In addition to trade, there are about 400 Chinese enterprises in Kenya accounting for nearly 130,000 jobs.¹¹¹ The bulk of Chinese investments are in the construction sector (Gu and Qiu, 2019, pp.96-97). Chinese companies also invest in a diverse range of energy-related projects in Kenya, including power plants, cross-border transmission lines, local distribution networks, smart meters, and bio-gas appliances.

Kenya is an important partner for China's BRI ambitions and is often considered a model for China-Africa cooperation.¹¹² Along with growing investments and loans to promote energy development in Kenya, China's soft power in Kenya also continues to grow, especially through investments in media and education. These investments help promote positive stories, and thus drown out negative opinions and stories, in areas such as people-to-people exchanges, healthcare, environment, education, etc. This includes the establishment of the China Global Television Network, a broadcast and communication station in Nairobi, Confucius Institutes across the region, the awarding of scholarships for African students to study in China, and the introduction of Chinese-language courses in schools.

In addition to media and education, on July 15, 2016, the Kenyan and Chinese governments launched direct cash exchange between the RMB and Kenyan Shilling in Kenya, an important step in expanding the renminbi's influence and promoting the internationalization of the renminbi. The first bank to provide this service is the Cfc Stanbic Bank in Kenya, which will simplify the foreign currency transaction between RMB and Kenyan Shillings by providing RMB directly rather than having to undergo multiple foreign transactions. The Industrial and Commercial Bank of China (ICBC) holds a 20% stake in Cfc Stanbic Bank's parent company, Standard Bank, which will also help facilitate Chinese companies and tourists to more easily access funds in Kenya.

Key actors and their interests

The president is by far the most powerful figure in Kenya due to the well-entrenched neopatrimonial nature of the state (Hassan, 2015). The success of BRI projects thus crucially depends on the support of the incumbent president. For example, to implement the Standard Gauge Railway (SGR), one of the most important infrastructure megaprojects in Kenya, President Kenyatta orchestrated an array of related ministries to create a highly hierarchical network of agencies to "settle disputes or to override other government levels to ensure implementation" (Wissenbach, 2019, pp.337-338). Such top-down inter-ministerial coordination is mainly through the Presidential Delivery Unit.

Under the president, central ministries are critical decisionmakers in the Kenyan system. Interestingly, many ministries have received direct budget support in the form of loans issued by Chinese banks. In

¹¹⁰ Ongiri, I. [2014]. Kenya signs 17 multi-billion deals with China. *Business Daily*. [Accessed 10 Aug 2019].

¹¹¹ Ying, T. [2018]. China, Kenya successfully follow up on 2015 FOCAC. *China Daily*. [online] Available from: <http://www.chinadaily.com.cn/a/201808/26/WS5b824e20a310add14f387cbc.html> [Accessed 10 Aug 2019].

¹¹² Ibid.

2015, the Chinese government gave a total of KSH 20.6 billion (\$200.6 million) in loans for development expenditure for the fiscal year ending in 2015. The largest share, KSH 12 billion (\$120 million), went to the Ministry of Energy and Petroleum, with KSH 5.6 billion (\$56 million) going to the Ministry of Transport and Infrastructure, and KSH 2.5 billion (\$25 million) to the Ministry of Information, Communications and Technology (ICT).¹¹³ The Ministry of Energy and Petroleum amount includes a large geothermal loan from CHEXIM.

Unlike some other BRI countries, local interests and civil society hold moderate but sometimes consequential power over final outcomes, especially when they are able to successfully appeal to the country's relatively independent judiciary. Land expropriation and compensation are major issues for infrastructure projects, and BRI projects are not exceptions. The land issues are related to local politics, which is inexorably pertinent to ethnic divisions in multi-ethnic societies like Kenya (Kramon and Posner, 2011). Disputes around compensations and land ownership drastically lift the costs of infrastructure projects like SGR. Local communal elites, supported by various opposition party leaders, often make land compensation claims that pose significant obstacles to project construction (Wissenbach and Wang, 2017, pp.17-18; Wissenbach, 2019, pp.338-341). Similarly, Kenya's civil society, including business associations, manage to exert influence on the implementation of BRI projects. For example, Kenyan cement manufacturers successfully lobbied the government to reverse its agreement with the Chinese actors to import cement from China. After the lobbying, cement used for the project was supplied by the Kenyan cement industry (Wissenbach and Wang, 2017, p.16).

Finally, Kenya's environment and energy regulatory agencies play a key role in monitoring BRI projects. With regard to the Lamu coal-fired power station, Kenya's Energy Regulatory Commission (ERC) rejected the application for Lamu's power generation license in June 2015. Subsequently, project developers submitted the environmental project report in September 2015 and the environmental and social impact assessment was submitted in July 2016. In June 2018, the ERC recommended a slow-down in construction plans of the power plant and to reduce its capacity by about half. These regulatory decisions were prompted and supported by a vibrant local civil society campaign that formed transnational linkages to outside groups, raising the profile of the issue internationally.

What decision-making processes, formal and informal, govern different aspects of BRI projects?

As in other countries, BRI projects in Kenya can be divided into two types based on who initiates them. Some are planned by the Kenya government in advance of Chinese participation but not implemented, while others are largely driven by Chinese actors. The SGR falls into the first type since it was proposed by the government of Kenya before the participation of Chinese investors (Wissenbach, 2019, pp.327-329). Like the case of the East Coast Rail Line (ECRL) in Malaysia, the Chinese company that was subsequently awarded the contract to build the SGR gained the procurement without a tender process. The SGR project was then criticized for suspected corruption partly because of the

¹¹³ Wass, S. [2018]. Kenya & China: A love-hate relationship? *Global Trade Review*. [online] Available from: <https://www.gtreview.com/supplements/gtr-africa-2018/kenya-china-love-hate-relationship/> [Accessed 12 Aug 2019].

opacity of this contracting arrangement. However, such non-competitive arrangements are not always how such contracts occur, and many Chinese companies win project contracts through an open tender process. For example, in August 2017, a bidding consortium of Yantai Jereh Petroleum Equipment Technology Co., Ltd. and local Kenyan companies won the bid for the 61MW Olkaria wellhead geothermal power plant project to design, procure and construct the wellhead geothermal power station.¹¹⁴

The second type of project – those initiated by Chinese firms and financiers – includes a number of energy-related projects. Chinese electrical companies are currently working with Kenya Power, the government-owned power company, to establish 33 power lines in five Kenyan towns: Kitale, Awendo, Konza and Kutus. In 2018, Kenyatta commissioned the City Centre 220KV Gas Insulated Sub-Station, a \$132 million dollar project with CHEXIM.¹¹⁵ In the Garissa region of Northeast Kenya, China has established a 50,000 KW grid-connected solar energy station, recognized as one of the largest solar energy power stations on the continent. CHEXIM provided preferential loans for the project.

Given the lack of technological capacity in Kenya, a common contract modality for BRI projects in the country is BOT rather than EPC. For instance, Kenya Railways, the national company in charge of the railway system, outsourced the management to Chinese partner since “no railway had been built in a hundred years” (Wissenbach, 2019, pp.334).

It should also be noted that the Kenyan government has not established a robust mechanism to hold companies accountable for the awarded projects. For the SGR project, Wissenbach shows that “due diligence was exercised in a rather casual way, through a short study visit to China” (Wissenbach, 2019, p.338). The accountability issue of many BRI projects becomes entangled with lawsuits against Kenyan government agencies and Chinese project developers involved in the project.¹¹⁶

Interestingly, though BRI projects were not necessarily planned as tools of economic statecraft, they can be used as such. The construction of the second phase the SGR from Naivasha to Kisumu has been at the center of a dispute over fish.¹¹⁷ In Kenya, the fishing industry supports over 100,000 people directly and 800,000 indirectly.¹¹⁸ However, according to the Kenya National Bureau of Statistics

¹¹⁴ Reuters. [2010]. China Exim Bank lends Kenya \$97 mln for geothermal. [online] Available from: <https://www.reuters.com/article/ozabs-kenya-energy-idAFJJOE63C05H20100413> [Accessed 15 Aug 2019].

¹¹⁵ Xinhua. [2018]. Kenyan president opens Chinese-built electricity station. *China Daily*. [online] Available from: <http://global.chinadaily.com.cn/a/201805/31/WS5b0f6518a31001b82571d6b6.html> [Accessed 12 Aug 2019].

¹¹⁶ Nedopil Wang, Christoph. [2019]. Green development and investment in the Belt and Road Initiative. International Institute of Green Finance, CUFE. https://green-bri.org/author/christoph_nedopil_wang [Accessed 26 Sep 2019]; Kazungu, K. [2018]. Lamu coal plant hits snag as court reinstates stop orders. *Business Daily*. [online] Available from: <https://www.businessdailyafrica.com/news/counties/4003142-4789624-format-xhtml-g606j9z/index.html> [Accessed 8 Sep 2019].

¹¹⁷ Oruko, M. [2018]. China threatens to stop SGR funding after Kenya bans Chinese fish imports. *Tuko*. [online] Available from: <https://www.tuko.co.ke/290469-china-threatens-stop-sgr-funding-kenya-bans-chinese-fish-imports.html#290469> [Accessed 10 Aug 2019].

¹¹⁸ Daily Nation. [2018]. Take fish row seriously. [online] Available from: <https://mobile.nation.co.ke/blogs/editorial/Take-fish-row-seriously/3112610-4831400-55p12/index.html> [Accessed 8 Sep 2019].

(KNBS), Kenya was spending \$22.17 million on fish imports in the first 11 months of 2017.¹¹⁹ In 2018, local fish farmers began to complain about a flood of Chinese fish in the Kenyan domestic market, which caused Kenya's President Uhuru Kenyatta to call for a halt on imports of Chinese tilapia.¹²⁰ The Chinese government responded by threatening sanctions and threatening to defund the SGR. Kenya's Department of Fisheries banned fish imports commencing in November 2018 to protect the local industry, but subsequently lifted the ban in January 2019 to ease a fish shortage that resulted from the ban.¹²¹

How and to what extent do sustainability considerations influence decision-making?

Environmental permitting is the subject of significant contestation in Kenya. Though the Kenyan National Environmental Management Authority (NEMA) often permits the construction of controversial projects, civil society groups such as deCOALonize or the Save Lamu Coalition, are able to mobilize opposition against BRI projects they see as having negative influences on the local environment. These environmental organizations often claim that NEMA's environmental impact assessment (EIA) has not been carefully implemented and thus the EIA has not fully evaluated the potential adverse impacts. The Kenyan National Environmental Tribunal has been delegated the judicial power to adjudicate disputes between project developers and NGOs. Given the availability of a legal solution to disputes, environmental NGOs can sue NEMA for due diligence failures.

For example, in 2019, local NGOs Natural Justice and Save Lamu took the NEMA to court, with the National Environmental Tribunal ruling in June 2019 that NEMA had not taken into account the adverse effects of the Lamu power plant on local farming and fishing industries.¹²² Along with other partners, including Save Lamu and Katiba Institute, deCOALize continued anti-coal mobilization and advocacy efforts to oppose proposed coal plants in Kenya.¹²³ NEMA also failed to inform the public about the likely health effects of the effluence emitted from the plant which, it said, could trigger breathing difficulties, premature deaths and acid rain that could poison the soil and kill fish.¹²⁴ The tribunal ordered project developers to conduct a new environmental impact assessment with appropriate public participation before the project can move forward.

¹¹⁹ Olingo, A. [2019]. Why you should worry about Chinese fish. *Daily Nation*. [online] Available from: <https://www.nation.co.ke/news/Chinese-fish-in-Kenya/1056-4971848-qolgae/index.html> [Accessed 10 Aug 2019].

¹²⁰ Einashe, I. [2018]. China in Africa: An increasingly uneasy marriage of interests. *Pulitzer Center*. [online] Available from: <https://pulitzercenter.org/reporting/china-africa-increasingly-uneasy-marriage-interests> [Accessed 8 Sep 2019].

¹²¹ Andae, G. [2019]. Kenya lifts China fish ban to boost supply. *Daily Nation*. [online] Available from: <https://www.nation.co.ke/business/Kenya-lifts-China-fish-ban-to-boost-supply/996-4986328-cvnjw3/index.html> [Accessed 8 Sep 2019].

¹²² BBC News. [2019]. Kenya halts Lamu coal power project at World Heritage Site. <https://www.bbc.co.uk/news/world-africa-48771519> [Accessed 10 Aug 2019].

¹²³ Heinrich Boell Stiftung. [2019]. Tribunal halts construction of Amu coal power plant in Kenya. [online] Available from: <https://ke.boell.org/2019/06/28/tribunal-halts-construction-amu-coal-power-plant-kenya> [Accessed 8 Sep 2019].

¹²⁴ Ibid.

Indonesia

Economic and diplomatic relationship with China

China-Indonesia relations date back to the early 1950s, after the establishment of the PRC. However, bilateral cooperation was suspended due to China's involvement in an October 1965 abortive coup which led to the murder of key Indonesian politicians, the ousting President Sukarno, and the beginning of the Suharto regime. Upon the shift in administration, China was deemed a political and security threat and diplomatic relations were frozen until 1990. In 2005, China and Indonesia signed a Strategic Partnership during President Hu Jintao's state visit and further elevated the relationship to Comprehensive Strategic Partnership in a Jakarta 2013 meeting with President Yudhoyono of Indonesia and President Xi Jinping of China. A nation and market of 270 million people with rich resources, Indonesia is seen an important trading partner. Moreover, Indonesia is strategically located on the sea lines below China, and also important as the largest Muslim nation in the world.

An area of contention is the South China Sea. In 1992, China's National People's Congress signed the Territorial Law of the Sea which authorized the annexation of the entire South China Sea, including the Natuna Islands, belonging to Indonesia. The Natuna Islands have abundant natural resources including liquefied natural gas. China's Foreign Ministry has since claimed that Indonesia and the PRC do not have territorial disputes but rather overlapping claims on "maritime rights and interests."¹²⁵

Indonesia is the world's largest Muslim-majority country but has not taken a clear position on the Chinese government's policies in Xinjiang. In the past, Indonesia's Foreign Ministry has been consistent in giving support to countries or certain groups within nations that are faced with prolonged conflicts involving Muslims, such as Palestine, Afghanistan and Rohingya Muslims in Myanmar, but Indonesia has strategically chosen to avoid being vocal about China's alleged treatment of Muslims in Xinjiang which is important because of Indonesia's strength in the region.

Key actors and their interests

Despite Indonesia's substantial economic decentralization since 2001 (Pepinsky and Wihardja, 2011), the central government, and the president in particular, still enjoys a large amount of power to maneuver the allocation of resources. After President Joko Widodo (Jokowi) came to power in 2014, he initiated a number of infrastructure projects to promote the industrialization of Indonesia's economy (Sumner, 2018). The BRI fits well with Widodo's domestic economic agenda that emphasizes development projects. The support of the Widodo administration is crucial for the implementation of BRI projects in Indonesia, especially given domestic resistance toward the government's aggressive mobilization of resources for a state-centric development strategy (Kim, 2019a, 2019b). President Widodo has included projects he prioritized and listed them in the National Strategic Projects (PSN) list. The list typically is revealed by the Coordinating Minister for Economic

¹²⁵ Indonesia says natuna islands in south china sea belong to country.(2016, Jan 8,). *BBC Monitoring Asia Pacific*, Retrieved from <https://search.proquest.com/docview/1754485143>

Affairs at the request of the administration. It is called the Presidential Regulation (Perpres) and issued yearly. In addition, the Committee for the Acceleration of Priority Infrastructure Provision is set up to coordinate various ministries for the implementation of priority projects. This committee is headed by the Coordinating Minister for Economic Affairs, and the Committee is composed of the Minister of Finance, Minister of PPN (National Development Planning)/Head of Bappenas (National Development Planning Agency), and Minister of Agrarian Affairs and Spatial Planning.

Regarding the BRI specifically, the *Coordinating Minister for Maritime Affairs* is tasked with overseeing Belt and Road projects in Indonesia.¹²⁶ Indonesia had offered China involvement in 28 projects worth around \$91 billion, with the expectation that at least a few of them would be approved. Recently, China signed a Cooperation Plan on Promoting the Regional Comprehensive Economic Corridors with the Coordinating Ministry of Maritime Affairs in Indonesia.¹²⁷

Like in Malaysia, the Indonesian government relies extensively on partially state-owned enterprises to promote the development of infrastructure projects (Kim, 2019c). The privatization of Indonesia's SOEs has never been fully implemented since the late 1990s and the inauguration of Jokowi, as the President supports the further promotion of state activism in the national economy (Kim, 2019b, pp.5-13). Due to the predominant role of SOEs as agents of development under Jokowi, SOEs are the dominant economic interests in BRI projects. For example, the Fast Track Program is a megaproject that aims at meeting the country's increasing electricity needs. Under this plan, Perusahaan Listrik Negara (PLN), a SOE and Indonesia's sole provider of electricity (Jarvis, 2012), signed a contract with Chinese firms for the construction of 22 coal-fired power plants. Officially, Indonesia's Ministry of State Owned Enterprises is responsible for overseeing these companies, though in practice they have significant autonomy. On the other hand, the SOE-centered investment boom is "kept in check by the Ministry of Finance" whose purpose is to limit budget deficits due to legal requirements (Kim, 2019b, p.21).

Unlike in many BRI countries, domestic financial institutions play a significant role in BRI projects. The Indonesian government employs national development financial institutions (NDFIs) to co-fund many BRI projects with Chinese financiers. These Indonesian public entities are designated as financiers for numerous developmental projects. The Jokowi administration prefers to use NDFIs rather than the central government's four state banks as major development financiers because "state banks have been partially privatized and listed on the stock exchange," and are more sensitive to profit generation than NDFIs (Kim, 2019a, p.10). One of these NDFIs, Sarana Multi Infrastruktur (SMI), is particularly related to BRI projects because it focuses on financing infrastructure projects (Kim, 2019a, pp.15-18). It should be noted that unlike SOEs under the Ministry of SOEs, NDFIs are controlled by the Ministry of Finance (Kim, 2019a, p.13).

¹²⁶ Maikel Jefriando, & Wilda Asmarini. (2019, Jul 3,). Indonesia asks China for special fund under belt and road: Ministers. *Reuters*, Retrieved from <https://www.reuters.com/article/us-indonesia-china-beltandroad/indonesia-asks-china-for-special-fund-under-belt-and-road-ministers-idUSKCN1TY1DU>

¹²⁷ <https://thediplomat.com/2019/07/where-is-indonesia-on-chinas-belt-and-road-initiative/>

Finally, the Indonesian state must contend with a wide array of political and local interests and civil society groups when building infrastructure. BRI projects can face domestic resistance from several groups of political actors. Given the responsibility of reviewing the government budget, the elected legislature exerts pressure on the government's SOE-centered approach of development. Such pressure resulted in "a much smaller state capital injection" in 2017 and thus presumably limits the Jokowi administration's ambition of enlarging BRI investments. In addition, concerns about the quality of the projects make a few of BRI projects that prioritize costs and the speed of construction unfavorable to some streamlined ministries such as the Ministry of Transportation and Ministry of Public Works and Public Housing (Kim, 2019b, p.21).

What decision-making processes, formal and informal, govern different aspects of BRI projects?

Since Indonesia has huge demand for infrastructure projects (Oh, 2018, p.542), the Widodo administration extensively uses state-owned enterprises (Kim, 2019c) and development financiers (Kim, 2019a) to formulate and implement a number of priority projects. It remains unclear what proportion of projects are driven directly by Chinese companies, but it seems that most Chinese actors participate in infrastructure projects through competitive tenders. For instance, for both the Jakarta-Bandung High Speed Railway Project and the Batang Toru Hydropower Plant Project, Chinese project developers won contracts through a bidding process.

Because SOEs and national developmental financial institutions play a paramount role in implementing and financing development projects, they often act as owners of these projects. Take the Jakarta-Bandung High Speed Railway Project as an example: Indonesia's Minister of State-Owned Enterprises established a consortium of four Indonesian state-owned enterprises. PT Kereta Api Indonesia (KAI), PT Wijaya Karya (WIKA), PT Perkebunan Nusantara VIII, and PT Jasa Marga, that held 60% of the project shares. On the other hand, Chinese corporations serve as the providers of EPCC. Under most circumstances, EPCC entails the involvement of Chinese banks as major financiers. In the cases of the Jakarta-Bandung High Speed Railway, China Development Bank (CDB) is financing 75% of the project, which is estimated to cost a total of \$5.5 billion. CDB provided a \$3.94 billion loan, with the remaining financing to be raised via equity by Indonesian consortium partners.¹²⁸

In terms of accountability, BRI projects are under the supervision of an array of Indonesian actors. Since the construction of coal-fired generation plants as a part of the Fast-Track Program megaproject, Chinese contractors have been subject to criticism of alleged low-quality construction. Domestic civil society groups and media have been key players in identifying these issues, often seeking to link them to transnational advocacy campaigns. Problems such as bidding processes, land acquisition, and poorly written environmental impact assessment were at the center of many controversies. President Joko Widodo reportedly requested the return of Chinese engineers to fix some of the issues with nine

¹²⁸ Anton Hermansyah, Nov 10, 2016, Jakarta-bandung high speed railway to get chinese loan. *The Jakarta Post*. Retrieved from <https://www.thejakartapost.com/news/2016/11/10/jakarta-bandung-high-speed-railway-to-get-chinese-loan.html>

stations on Java that were running far below capacity. Furthermore, the elected House has taken a fiscally conservative attitude towards the aggressive expansion of infrastructure projects that significantly constrains the Widodo administration's space to maneuver (Oh, 2018, p.543; Kim, 2019b, p.20).

How and to what extent do sustainability considerations influence decision-making?

The Indonesian government is currently considering a reform to its environmental impact assessments.¹²⁹ In practice, consultants who are responsible for the EIA are often hired by the project developer. Therefore, a conflict of interest undermines the legitimacy of many environmental impact assessments. In addition, “in many cases, developers begin operating illegally before an AMDAL has been completed — particularly in the palm oil and mining industries — giving rise to the very problems the assessment is meant to prevent.”¹³⁰ Moreover, environmental regulators at both the central and local levels face an understaffing problem, which significantly hinders their monitoring capacity.¹³¹ Given that there are many loopholes that project developers can exploit to evade relevant environmental regulations, many projects funded by Chinese consortia are liable to environmental and land disputes. For example, the high-speed rail line in Indonesia was subject to the poor management of environmental impact studies and conflicts with local zoning plans.¹³² Environmental concerns arise from a dam project supported by the Bank of China and Sinohydro.¹³³ China's Huadian Engineering project in Bali illustrates how Indonesia's environmental civil society responds to BRI projects. Huadian Engineering Project was accused of providing inadequate compensation for land acquisition, causing damage to local livelihoods and health, and harming the environment on land and at sea, according to a report published by Greenpeace in 2018. In January 2018, local residents launched legal action to stop the plant's expansion, but the case was rejected by the Denpasar State Administrative Court. The decision was upheld on appeal at the Surabaya High Court but an appeal at the Supreme Court was also rejected in July 2019.

¹²⁹ Basten Gokkon. (24 January 2018) Indonesia to strengthen environmental impact assessments through process review. *Mongabay*. Retrieved from <https://news.mongabay.com/2018/01/indonesia-to-strengthen-environmental-impact-assessments-through-process-review/>

¹³⁰ Ibid. Analisis Mengenai Dampak Lingkungan (AMDAL) is Indonesia's environmental impact assessment (EIA) system.

¹³¹ Ibid.

¹³² John Cannon, 2018, A Small Hydroelectric Dam Could Be The Beginning Of The End For The World's Rarest Ape, see <https://psmag.com/environment/save-the-tang>

¹³³ According to a Pacific Standard article, “China's hydropower authority, has been widely criticized for threatening the only known habitat of the world's rarest great ape, the Tapanuli orang-utan.” See Gokkon (2018), <https://psmag.com/environment/environmental-concerns-over-chinese-infrastructure-projects>

4. CONCLUSION: KEY FINDINGS AND RECOMMENDATIONS

Key findings

The cases reveal important variation in decision making processes across countries, sectors, and projects. Several key patterns emerge.

First, there are differences between those projects that are of strategic importance for the Chinese state and those that are not. We find most of this variation occurs at the project and sector level, not the country level. For example, Pakistan is a longstanding military ally. However, certain projects in Pakistan are clearly of strategic importance, such as the Gwadar port, while others are not, such as power plants. The latter type of projects, which account for the majority, are typically initiated by domestic economic interests, though economic actors in China also seek to benefit from them. Overall, we find no evidence that many of the most environmentally damaging projects, such as coal plants, are driven by strategic questions, though they do sometimes correspond to the economic interests of powerful Chinese actors. The main exception are oil and gas pipelines, which are characterized by both strategic and commercial interests. In this way, for most of the projects of environmental interest, we expect domestic actors in recipient countries to be the primary initiators, and therefore the decisive actors in determining the “supply” of BRI projects.

Second, capacity limitations seriously undermine the ability of all actors involved in BRI to design, monitor, implement, and hold actors accountable for high quality projects. Strikingly, *none* of the key decision-makers in China or recipient countries possess sufficient personnel with adequate knowledge to measure or monitor environmental risks. These capacity limitations are compounded by significant fragmentation of decision-making processes, resulting in profound information asymmetries that further undermine the capacity of actors to anticipate and prevent risks, monitor implementation, or hold actors accountable. In the BRI, the adage that “personnel is policy” very much applies.

Third, overall, we find very few actors in China or in recipient countries who advocate for environmental priorities at any stage of project development. In most of the countries considered, domestic environmental regulations are weak and poorly enforced. Even when regulators are relatively more effective (such as in Kenya or Indonesia), they often lack power compared to other domestic political actors. This is particularly true in the project planning and proposal stages. Given this widespread and systematic bureaucratic weakness, by far the most important actors for injecting environmental considerations into decision-making are local civil society groups and media organizations. We only find significant changes of approach when these groups exist (such as in Kenya and Indonesia) and are able to make in impact due to, inter alia, independent judiciaries to which they may appeal, transnational linkages that strengthen their hand by garnering international attention, or when their cause is picked up by opposition parties.

Fourth, the nature of domestic institutions in recipient countries obviously shapes decision-making. Three particular patterns emerge from the cases with important implications for greening BRI. One,

in several countries, the primary actor is the office of the president or prime minister (Malaysia, Kazakhstan, Indonesia, Kenya). Political leaders in these countries are primarily responsible for selecting projects to be supported by BRI (though in Indonesia a wider range of bureaucratic actors is also relevant). The “high politics” nature of decision-making means that environmental concerns are difficult to raise, since few national leaders in the countries selected have incentives to prioritize such concerns.

Two, in the two largest countries — Indonesia and Pakistan (and to a lesser extent Malaysia) — competition between different elements of the national bureaucracy, and between central and regional governments, is also relevant. In Pakistan, overall leadership is contested between the military and the Prime Minister. But because the military’s primary interest is likely in strategic projects, we can expect local dynamics to dominate the many non-strategic projects.

Finally, in Indonesia, Malaysia, and Kazakhstan the role of dominant domestic economic groups (SOEs, in each case) is particularly relevant. In each of these countries, state-run (or quasi-state run) corporations hold significant influence over sectors that attract BRI support. The Kazakh case is most extreme. In these countries, it is domestic economic interests that play the greatest role in project selection, potentially giving them significant leverage vis-à-vis Chinese firms.

In addition to cross-country variation, it is interesting to consider to what extent BRI decision-making processes in China and recipient countries have changed over time. In general, we observe more continuity than change, a finding that stands in contrast to the common narrative that sees BRI itself emerging as a “new” initiative in 2015 and subject to various “backlashes” and adjustments both in China and in recipient countries in more recent years. While we should certainly see BRI as a dynamic process, it is interesting to note that these temporal trends have not led to significant changes in which actors are relevant for decision-making.

As noted above, one key source of variation over time is change in political leadership in recipient countries. Notably, three of the case study countries have held elections since the inception of the BRI (Pakistan, Malaysia, and Indonesia) and in the first two cases opposition leaders defeated incumbents on platforms that included critiques of the incumbents’ close relationship to Chinese business interests, alleging corruption had undermined national interests. However, since coming to power, both insurgents have done relatively little to reshape the way their countries engage in the BRI. Both suspended a number of projects and renegotiated various agreements, in some cases securing significantly more favorable terms. However, neither has fundamentally changed the decision-making processes in their country around BRI projects. Indeed, in Pakistan the elected leadership is arguably increasingly sidelined by the military, at least on strategic issues.

Within China, we also observe relatively little substantive change in decision-making processes over time. While a large number of new standards and principles have been promoted and official rhetoric has emphasized “greening BRI” and other good governance measures, we can detect no real changes, formal or informal, in how projects are approved and financed. The largest institutional change is the creation of the MEE-led greening BRI coalition. But as noted above, this network and MEE in general, have little practical effect on the decisions of SOEs, policy banks, MOFCOM, or NDRC.

In many ways, the lack of substantive institutional changes in BRI decision-making, despite rhetorical and regulatory attention to the issue, makes sense. Standards and rhetoric can easily be changed by high-level political directives. The underlying interests of bureaucratic and economic actors in the Chinese system are far harder to shift. By embracing the “greening” of BRI, the Chinese government can draw attention to the issue without forcing political difficult choices between divergent domestic interests. More substantive changes will require the emergence of a sufficiently strong political coalition in the Chinese system that can decisively push through changes that other bureaucratic and economic actors will resist. Given broader economic and political challenges facing the country, it is unlikely that the top leadership will choose to expend political capital on this issue unless it is forced to. The question thus becomes, how can actors that favor further greening BRI build a sufficient coalition of domestic interests to advance more substantive changes?

Recommendations

By focusing on decision-making around BRI, this report has drawn attention to the key actors who actually have the ability to green BRI — or not — and assessed their interests. We argue that any successful strategy to green BRI will need to be sensitive to how to influence the incentives these actors face to engage in green behavior. As noted above, “greening BRI” has been popular in part because it has been articulated at a very high level of abstraction. This allowed a wide range of actors to interpret it as consistent with their interests. Building a wide consensus on “greening BRI” was useful as a first step. However, going forward, more difficult choices will likely need to be made.

In the last few years, many observers and policymakers have advocated for, and promulgated, standards for greening BRI (CDB and UNDP 2019). For example, the Green Investment Principles seek to give Chinese financial institutions, as well as recipient countries, a common framework for assessing their environmental risks. Such standards can be an important tool for building awareness around the importance of sustainability, enhancing actors’ capacity to prevent environmental risks and exerting normative pressure on recalcitrant actors to improve their performance. However, the above analysis suggests that they are unlikely, on their own, to promote dramatic changes in behavior when green standards run contrary to the core interests of key actors. At worst, green standards can be formalistic fig leaves — greenwashing — that do little to reshape the reality on the ground.

Our recommendations below seek to reshape the incentives BRI decisionmakers face to consider sustainability. Ultimately, such a project will require the backing and support of the top political leadership. Because we do not expect the leadership to invest political capital in this project in the short to medium term, given other political and economic priorities, we instead focus our recommendations on how the coalition of actors supporting substantive steps to green BRI can be expanded. Building a strong coalition of bureaucratic and economic actors that support further greening BRI will make it easier for the top leadership to throw its weight behind more concrete measures to advance that goal. Specifically, we argue that it might be plausible to build such a coalition from MEE, CBIRC, and some departments of the NDRC and MFA. The latter can be expected to support further steps to green BRI to the extent it allows BRI projects to better manage financial and reputational risks. External actors, particularly BRI recipient countries and multilateral

institutions, can play an important supporting role. Moreover, such a coalition will find that its space and influence increases to the extent environmental risks associated with BRI are salient in the media or recipient countries and within China. We should not expect these kinds of changes to be immediate or easy. The experience of CIDCA, noted above, provides a cautionary tale. Despite a high-level political decision to bring greater control and coherence to foreign aid policymaking, bureaucratic interests have resisted these shifts and undermined the efficacy of the move. Any attempt to shift incentives around the much larger and more complex overseas investment apparatus will likely be even more prone to such dynamics.

Our recommendations can be grouped in “three Cs” — capacity, coordination, and control. For each, we seek to specify which actors can make or influence which decisions, in order to clarify exactly the steps that might be taken.

Increase capacity

- Build the capacity of policy banks, SOEs, and local companies, and regulators to measure and understand environmental considerations:
 - Policy banks and Sinosure need MDB-style expertise and Paris alignment policies. This requires Chinese financiers to cultivate professional staff working on environmental issues. Carrying out more joint-financing projects with MDBs and seconding staff to MDBs for 6-12 month stints could provide valuable concrete experience. Such decisions will need to be made by top-level managers at CDB, CHEXIM, and Sinosure, and can be supported by guidance from CBIRC.
 - SOEs need trained staff to measure and implement environmental risks. SOE CEOs must decide to invest substantially more in training staff to carry out these functions, including through in-house programs, sending staff to executive education programs, and recruiting junior positions from relevant career paths. SASAC can play an important role by guiding SOE head to build capacity in this way.
 - To help SOEs build capacity, SASAC needs capacity to regulate and guide SOEs effectively. In particular, SASAC can provide more financial and personnel support to the Bureau of International Cooperation to guide SOEs on their conduct abroad. Other SASAC supervisory board offices can enhance cooperation with the Bureau of International Corporation to improve oversight of overseas activities of major SOEs.
 - NGOs and bilateral and multilateral donors already have a number of capacity building and knowledge exchange programs engaging with these actors. This kind of information exchange and training is a good example of where such external actors can provide constructive input. Such efforts should be expanded and particularly should target more senior officials with bespoke arrangements for certain organizations or departments. Policy banks and SOEs can partner with NGOs to conduct joint trainings.

- NDRC, MOFCOM, and CBIRC need more staff and expertise to play their overall regulatory functions, which could include specific Paris alignment procedures (see below).
 - NDRC needs to create specific mechanisms to monitor overseas investment projects beyond a limited number of countries of strategic importance to China (e.g., Pakistan). NDRC can also increase the number of staff working in departments that are directly in charge of many necessary bureaucratic approvals of projects. Such decisions will need to be advocated for by the relevant vice-ministers responsible for the departments in question and approved at ministerial level. Such a decision would likely need to be taken at the level of the BRI Leading Small Group.
 - MOFCOM can improve its regulatory capacity over overseas commercial activities of Chinese actors by provide training to Domestic Economic and Commercial Counsellor (ECC) officials. Such training allows ECC officers to acquire necessary development expertise. This makes ECC officers better aware of how “greening BRI” mitigates the risk of backlashes associated with environmentally damaging projects. Again, this decision will need to be advocated for by the relevant department heads and vice-ministers, and ultimately elevated to the Leading Small Group.
- The CCP Central Organization Department (responsible for training and promotion of Party officials) is a critical decision-maker and enabler (or blocker) around the above recommendations. Because it shapes personnel policy across ministries, policy banks, and SOEs, the COD possesses a unique capacity to take a holistic approach to building capacity for greening BRI across the entire set of BRI-related actors. The COD can organize trainings that bring these actors together to learn from experts and from each other, building a network of high-capacity personnel across the entire system. It can partner with Chinese and foreign universities to design an integrated, world-class curriculum for greening BRI.
- While building capacity within China, it is equally important to support recipient countries to develop a pipeline of sustainable development projects they can offer to China as BRI projects. Given that most BRI project are originated in host countries, improving the capacity of the “project originators” in these countries to develop green infrastructure is perhaps the single most important factor toward “greening BRI.”
 - Domestic actors in recipient countries are the primary initiators of many projects, especially those that are not of strategic importance for China. These projects have been planned by host governments before the engagement of Chinese developers, and the BRI provides an opportunity for recipient countries to attract Chinese investment on these projects.
 - Bilateral and multilateral donors have supported a wide range of “project development” programs over the years with mixed success. While not a silver bullet, a BRI green project development fund could be a step in the right direction. However, it must be recognized that increasing host countries’ ability to originate green

infrastructure projects requires long-term engagement and is dependent on a broader set of factors (for example the ability of host countries to put in place supportive policy frameworks).

- Again, building capacity in recipient countries in one of the areas where donors, international organizations, and NGOs can make a strong contribution, and indeed are already significantly engaged.
- Such efforts should also aim to strengthen local civil society groups as a key part of the larger policy ecosystem needed to sustain green infrastructure. Local civil society groups can provide the relevant information to government agencies and political parties, especially environmental risks of proposed projects and concerns of constituents who may be potentially adversely affected by these projects. They can also advocate for strong policies and hold decision-makers to account.

Increase coordination

- Beijing-based central offices and regulators should embrace and support local civil society and media in recipient countries as a way to overcome the information asymmetry that is inherent in the Principal-Agent problem they face. The MEE-led BRIGDC could be one useful platform for engaging with such actors and linking them to decision-makers in Beijing. Holding dialogues, conferences, and other forms of platforms between local civil society in recipient countries and Beijing headquarters/regulators can overcome information stove-piping. The existence of such an information-sharing mechanism can expose malfeasance of Chinese project developers to Chinese regulators before the occurrence of investment blowback. These decisions would need to be taken by top decisionmakers at policy banks and regulators, and supported and championed by MEE.
- Further coordinate BRI activities within key provinces and link them to national reporting structures
 - Provincial governments should create BRI coordination task forces that bring together local SOEs, provincial branches of CDB, and provincial offices of the NDRC and MOFCOM. Such provincial groupings should be linked to nationally led coordination efforts like the BRIGDC.
- Increase coordination in recipient countries:
 - The Leading Small Group should declare a policy of designating a central BRI contact team focal point “on the ground” in recipient countries. They should have capacity to monitor all ongoing projects in the country
 - NDRC can coordinate with MOFCOM’s ECC and MFA’s in-country embassy to maintain a BRI contact team in recipient countries. Such a central team can create a more integrated management system that alleviates detrimental competition

between MOFCOM and MFA, facilitates information sharing, and enhances supervisory capacity of projects.

Increase control

- Give a substantive role to MEE in project approval for larger projects in environmentally sensitive sectors. Such projects should be required to get an approval certificate from MEE, just as they currently need NDRC and MOFCOM approval.
 - The criteria for approval should include alignment with globally agreed goals, including the Paris Agreement and the SDGs, and national policies, like NDCs.
 - NDRC and MOFCOM may lack necessary expertise to evaluate potential environmental damages of proposed BRI projects.
 - EIAs approved by recipient countries with a weak regulatory capacity may not be sufficient to fully reveal these risks. Therefore, the participation of China's MEE can better manage environmental risks.
 - ESG standards should be at least as good as China's domestic standards. Given MEE's role in defining and enforcing these domestically, it is natural and efficient to extend that role to cover major projects abroad.
- Building on the emerging body of standards and principles, CBIRC and SASAC should incorporate concrete sustainability benchmarks into their oversight mechanisms for SOEs and policy banks. SASAC can incorporate sustainability benchmarks into the performance evaluation system for the SOE management teams. This will create an incentive structure that links top SOE managers' career prospects to the extent to which the SOEs fulfill environmental and social safeguards.
- National regulators should perform in-country inspections at random. Cross-ministerial teams from NDRC, MOFCOM, and MEE should visit BRI countries to inspect SOEs' compliance with environmental and social safeguards.

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About ISEP

The Initiative for Sustainable Energy Policy (ISEP) is an interdisciplinary research program that uses cutting-edge social and behavioral science to design, test, and implement better energy policies in emerging economies.

Hosted at the Johns Hopkins School of Advanced International Studies (SAIS), ISEP identifies opportunities for policy reforms that allow emerging economies to achieve human development at minimal economic and environmental costs. The initiative pursues such opportunities both pro-actively, with continuous policy innovation and bold ideas, and by responding to policymakers' demands and needs in sustained engagement and dialogue.



About BSG

Our vision is of a world better led, a world better served and a world better governed. We are a global school committed to improving the quality of government and public policymaking worldwide, through three routes:

- Teaching current and future leaders: our education combines deep expertise with practical skills, equipping individuals to tackle this century's most pressing policy challenges.
- Research with impact: our independent, evidence-based research addresses real-life policy needs, from improving education to reducing corruption.
- Engagement with governments and practitioners: we use our convening power to bring people together across disciplines and sectors to share knowledge, exchange ideas and create solutions.



About ClimateWorks Foundation

ClimateWorks helps climate leaders and philanthropists come together to be more strategic, efficient, and effective in their response to global climate change. They are a collaborative team of researchers, strategists, and grantmakers committed to the mission of mobilizing philanthropy to solve the climate crisis and ensure a



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