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# Cooperation with Chinese actors on anti-corruption: Environmental governance as a pilot area

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Engagement with Chinese actors on anti-corruption is possible but depends on trust-building efforts and suitable windows of opportunity. Environmental governance is the field where the overlap between Chinese and Western interests appears highest and the potential for cooperation most encouraging. We suggest three pathways: trilateral development cooperation, promotion of integrity standards along transnational supply chains, and building on public mobilisation or environmental litigation in host countries of corruption-prone projects.

## Main points

- The opacity of China's development finance system and the lack of binding standards create vast opportunities for bribery and embezzlement, which harm both host countries and Chinese lenders.
- China's legal framework to control corruption and environmental risks in Chinese projects overseas remains weak, but policy commitments and soft regulations have been stepped up.
- We identified environmental governance as the field where the overlap between Chinese and Western interests appears highest, making this a promising area for Sino-Western cooperation.
- Trilateral development cooperation offers a pathway for mutual learning and gradual raising of standards. Cooperation offers should build on an understanding of bottlenecks in the Chinese system and donors' candid appraisal of their own leverage.
- Promotion of integrity standards along transnational supply chains is a shared global responsibility. The European Union has significant leverage if it is willing to combine its market regulation power with dialogue and capacity-building mechanisms to raise governance standards.
- Another strategy is to build on instances of public mobilisation or even environmental litigation in host countries of corruption-prone projects. Instead of using backlashes as supposed proof of Chinese failure, U4 partners can initiate dialogue with stakeholders to strengthen preventive governance mechanisms.

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## Abbreviations

ACFIC – All-China Federation of Industry and Commerce 中华全国工商业联合会

AMAC – Asset Management Association of China 中国证券投资基金业协会

BRI – Belt and Road Initiative 一带一路

CAITEC – Chinese Academy of International Trade and Economic Cooperation  
商务部国际贸易经济合作研究院

CAPIC – China Association for the Promotion of International Agricultural  
Cooperation 中国农业国际合作促进会

CBA – China Banking Association 中国银行业协会

CBRC – China Banking Regulatory Commission 中国银监会 (Since 2018: China  
Banking and Insurance Regulatory Commission 中国银行保险监督管理委员会.)

CCCMC – China Chamber of Commerce of Metals, Minerals & Chemicals

Importers & Exporters 中国五矿化工进出口商会  
CCP – Chinese Communist Party  
CHINCA – China International Contractors Association 中国对外承包工程商会  
CIDCA – China International Development Cooperation Agency 国家国际发展合作署  
CITES – Convention on International Trade in Endangered Species of Wild Fauna and Flora  
CNIE – China NGO Network for International Exchanges 中国民间组织国际交流促进会  
CNTAC – China National Textile and Apparel Council 中国纺织工业联合会  
DAC – Development Assistance Committee of the OECD  
ESIA – environmental and social impact assessment  
FECO – Foreign Environmental Cooperation Office (Ministry of Ecology and Environment) 环境保护部环境保护对外合作中心  
FoN – Friends of Nature (Chinese NGO) 自然之友  
GEI – Global Environmental Institute (Chinese NGO) 永续全球环境研究所  
GFC – Green Finance Committee of China Society for Finance and Banking 中国金融学会绿色金融专业委员会  
IAC – Investment Association of China 中国投资协会  
MEE – Ministry of Ecology and Environment of the PRC 生态环境部  
MEP – Ministry of Environmental Protection of the PRC (until 2018)  
MFA – Ministry of Foreign Affairs of the PRC 外交部  
MOA – Ministry of Agriculture and Rural Affairs of the PRC 农业农村部  
MOFCOM – Ministry of Commerce of the PRC 商务部  
MoU – memorandum of understanding  
NDRC – National Development and Reform Commission 国家发展和改革委员会  
NGO – non-governmental organisation  
OECD – Organisation for Economic Co-operation and Development  
PBOC – People’s Bank of China  
PRC – People’s Republic of China  
RCRE – Research Center for Rural Economy (Ministry of Agriculture) 农业农村部农村经济研究中心  
SCIO – State Council Information Office 国务院新闻办公室  
SDG – Sustainable Development Goals  
SFA – State Forestry Administration 国家林业和草原局 (Since 2018: State Forestry and Grasslands Administration 国家林业和草原局)  
SOA – State Oceanic Administration 国家海洋局  
SOE – state-owned enterprise  
UNCAC – United Nations Convention against Corruption  
UNDP – United Nations Development Programme

## China's global footprint: Perceptions and on-the-ground realities

China's global presence has become a major consideration for U4 partners striving to strengthen anti-corruption and integrity systems in developing countries. The Belt and Road Initiative (BRI) – short for 'Silk Road Economic Belt' and '21st Century Maritime Silk Road' – was launched by President Xi Jinping in 2013. This massive project aspires to promote connectivity between the People's Republic of China (PRC) and the rest of the world in glorious reminiscence of the ancient silk roads spanning Eurasia. Yet the BRI has come to be seen, particularly in United States policy debates, as a Chinese stratagem for achieving political, economic, and even military dominance worldwide. Due to the increasingly open rejection of Western-style democracy in official Communist Party discourse, the BRI is also interpreted as a means of spreading an alternative, authoritarian 'China model' of development, one that is opposed to democratic checks and balances and also to institutional safeguards against corruption and other abuses of power.<sup>1</sup> Grand corruption cases such as those in Malaysia and Sri Lanka have led to debates about whether China strategically pursues debt-trap diplomacy. While China scholarship has found no plausible evidence of such a deliberate strategy,<sup>2</sup> academic research substantiates credible concerns about the negative impact of Chinese overseas investment on anti-corruption norms in developing countries.<sup>3</sup> This is particularly true of loan-for-oil deals associated with corruption, environmental damage, and human rights violations.

In a geopolitical context characterised increasingly by perceptions of 'systemic rivalry' or even a new cold war between China and the West, Chinese actors overseas are readily seen as an indistinguishable mass of Communist Party agents who recklessly 'weaponize graft' to undermine the public interest in other countries, regardless of global norms.<sup>4</sup> However, such views grossly simplify the complex nature of China's global presence today, notably the plurality of Chinese actors with diverse and sometimes contradictory interests. While challenging and preventing politically motivated high-level bribery and co-optation is clearly important, public criticism by Western pundits and political

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1. Zelikow et al. (2020).

2. Acker, Brautigam, and Huang (2020).

3. Isaksson and Kotsadam (2018).

4. Zelikow et al. (2020).

leaders is unlikely to sway the Chinese government towards more decisive measures to prevent corruption in the BRI.

On-the-ground realities in most developing countries look quite different. Many official development donors and internationally operating non-governmental organisations (NGOs) from Western countries have actively sought opportunities to cooperate with Chinese actors in recent years. Several trilateral cooperation projects with Chinese partners have been launched in third countries.<sup>5</sup> These are based on the understanding that bringing together Chinese technology and technical input with the Western understanding of aid delivery and development effectiveness could create added value for recipients and facilitate joint learning and horizontal relationships between Chinese and Western actors. This in turn could help promote convergence between Chinese and Western development cooperation approaches and more effective programme delivery to achieve meaningful progress towards the United Nations (UN) Sustainable Development Goals, which underpin international development cooperation.<sup>6</sup>

Accountability and anti-corruption are crucial transversal issues for U4 partners. As members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), they have agreed on a set of common related standards. These issues remain difficult to address in cooperation with Chinese counterparts, but, as we explain below, there are promising pathways through which it can be done. Under the right conditions, we believe there is scope for U4 partners to cooperate with various Chinese actors, including official development institutions and state-owned enterprises as well as industry associations, private companies, and, increasingly, NGOs and philanthropic foundations active overseas.

## About this U4 Issue

### Engagement based on the SDGs

The premise for this project is the existence of a common Sino-Western commitment to the UN Sustainable Development Goals (SDGs), notwithstanding different priorities, diverging approaches, and severe

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5. Buckley (2017).

6. Rudyak and Lang (2021).

shortcomings in implementation. The Chinese government and DAC donors traditionally hold very different views as to whether development finance and assistance should be conditioned on integrity standards in the host countries where development projects take place. However, the need for effective governance mechanisms that ensure policymaking in the public interest and prevent the abuse of public funds for illicit private profiteering is agreed in principle.

It is important to acknowledge that contemporary corruption, particularly grand corruption in poorer countries, is primarily a *transnational* phenomenon that all too often eludes national controls and enforcement. Transnational corruption typically involves local and national public office holders, multinational corporations and businesses from different countries and their local subsidiaries, and intermediaries along complex global value chains.<sup>7</sup> Corruption undermines public decision making and policy implementation and comes with severe negative externalities, particularly for vulnerable communities and the environment. Effective governance integrity systems and coordination across national borders are thus indispensable for tackling many of the major challenges in international development policy today.<sup>8</sup>

A short version of this paper is available in Mandarin.

## Research question and methodology

A preceding U4 Issue provided a state-of-the-art review of challenges and prospects for engagement with China in global integrity-building efforts.<sup>9</sup> It discussed current obstacles to productive Sino-Western engagement, mainly due to different governance approaches, lack of mutual trust and understanding, and Chinese reluctance to interfere in the ‘internal affairs’ of recipient countries. It also identified areas of potential cooperation and highlighted the ‘need for practically exploring what works and what does not in engaging Chinese actors (both state and private) in integrity-building efforts’.<sup>10</sup> Building on this analysis, the current publication addresses the resulting policy dilemma in practical terms. How can U4 partners build trust and promote pragmatic engagement with Chinese actors on integrity-building mechanisms

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7. Cooley and Sharman (2017).

8. Rubio and Andvig (2019).

9. Lang (2019).

10. Lang (2019).

without compromising their own standards regarding transparency, accountability, and development effectiveness?

This report results from an action-oriented research project.<sup>11</sup> Accordingly, we do not attempt to provide a comprehensive analysis of China's impact on corruption or on environmental integrity in the global South.<sup>12</sup> Instead, our research deliberately focused on an area where we expected to identify the greatest potential for meaningful cooperation with Chinese actors on issues related to anti-corruption and integrity building. Compared to other areas of development with integrity risks, environmental governance remains the field where the overlap between Chinese and Western concerns and interests appears highest. That makes this area the most promising for establishing positive precedents of Sino-Western cooperation at a time when 'extreme competition' rhetoric dominates high-level policy debates.

Looking specifically at this field, we ask: Who are the most promising Chinese counterparts, and what are the most effective entry points and mechanisms for Western development actors? What are the relevant pitfalls and limitations? Under what conditions can engagement be most fruitful? And, finally, to what extent can lessons gained in the field of environmental governance be applied in other fields?

Considering the increasingly polarised political discourse regarding China policy in Western countries, we also feel it is important to emphasise that cooperation and open criticism are not – and should not be! – mutually exclusive when it comes to dealing with the Chinese party-state and Chinese actors overseas. From a civil society perspective, we are guided by the substantive goal of advancing inclusive and effective multi-stakeholder approaches to tackling transnational corruption. There is a need for, on the one hand, confrontational campaigning or litigation to hold governments and transnational corporations accountable wherever they undermine the cause of transparent and clean governance in the public interest; and on the other hand, low-key engagement and advocacy activities that promote honest dialogue and work towards (better) common integrity standards in transnational business and development aid.

To complement our own expertise on China's international development cooperation and Chinese non-state actors' involvement in the Belt and Road Initiative, we conducted semi-structured interviews with stakeholders from

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11. See the recommendations in a previous U4 Issue by Lang (2019).

12. Several previous studies which aspired to do this are discussed in the literature review in Part 1.

China, Europe, and the United States.<sup>13</sup> These interviews mainly served to specify the gaps and existing potential in current Sino-Western cooperation efforts. An anonymised list of interviewees is presented in Annex 1. Initial results of our research were presented and enriched with feedback and suggestions from a group of stakeholders working in European development agencies as well as Chinese and European civil society organisations in a forum organised by U4 in December 2020.

## Structure of the report

Part 1 of this study presents the empirical background for engagement. We seek to understand where substantive improvements are most likely to occur and how progress could be spurred. Examining the role of anti-corruption in Chinese development policies and discourses, we find significant overlaps between concerns about integrity risks (leading to inflated project costs and financially unsustainable projects) and environmental risks (reflecting negatively upon China's national image in BRI target countries). In both areas, we identify a growing awareness of the problem among Chinese stakeholders, along with a sizeable gap between policy commitments and implementation. Our core proposition is that linking the two areas through the concept of environmental governance can provide new entry points for meaningful exchanges around anti-corruption and integrity building in development cooperation more broadly.

Building on this analysis, Part 2 discusses what we term three 'pathways to cooperation'. Based on our policy analysis and stakeholder interviews, we discuss mechanisms involving different Chinese stakeholders. These pathways usually involve trust building and engagement as well as strategies to build pressure and leverage, albeit to different degrees. We suggest processes rather than ready-made solutions.

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13. Given the travel restrictions imposed in the wake of the Covid-19 pandemic, we had to abandon our initial plans to do fieldwork and organise stakeholder workshops in China and third countries. Instead, we resorted to remote interviews.

## Part 1. Corruption and anti-corruption concerns in Chinese development policy

The Chinese government explicitly promotes its Belt and Road Initiative as a contribution to the SDGs and seeks to improve its international reputation by showcasing the positive impact of BRI projects in this regard.<sup>14</sup> At the same time, corruption is coming to be recognised – albeit slowly and reluctantly – as a major risk factor for BRI investments in Chinese debates.<sup>15</sup> The language of ‘integrity building’ and ‘clean governance’ has been gradually adopted in Chinese policymaking and has entered China’s development cooperation discourse since around 2017. In substance, however, Chinese anti-corruption efforts remain a far cry from the institutionalised, prevention-focused, multi-stakeholder governance approaches envisaged by DAC donors and civil society actors. Despite lofty declarations, Beijing’s willingness to further align with institutional anti-corruption norms in intergovernmental negotiations (such as by signing on to the World Trade Organization Agreement on Government Procurement) has been limited. Instead, the leadership refers to ‘international anti-corruption cooperation’ mainly to push its own bilateral extradition and mutual legal assistance agenda to facilitate the repatriation of Chinese Communist Party (CCP) cadres who have fled overseas to avoid prosecution. Albeit important in principle, such an exclusive focus on extradition remains unsatisfactory from a public integrity perspective while also posing various rule-of-law challenges.<sup>16</sup>

To advance an integrity-building agenda in development policy, we propose a different and complementary approach, which is to bring an integrity-building focus into cooperation with various Chinese actors in a field where cooperation is already happening and is most likely to be expanded in the future. The best place to start, we argue, is with efforts to strengthen environmental governance integrity systems. Below, we explain this choice and highlight some terminological challenges to talking about ‘corruption’ and ‘governance’ in a Sino-Western context (1.1). We then explain why weak governance and integrity systems and the environmental degradation they facilitate are a major risk factor in the Belt and Road Initiative in its current shape, both for local communities and eventually for the BRI as a whole (1.2). Following an overview of existing Chinese policy frameworks to address these problems and their lack

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14. See, for example, the United Nations Environmental Programme’s China-sponsored Belt and Road Initiative International Green Development Coalition.

15. Lang (2018).

16. Eder, Lang, and Rudolf (2017).

of implementation to date (1.3), we present a mapping of different Chinese actors who may be able to address the challenges in the future (1.4).

## 1.1 Environmental governance and integrity building: Sino-Western engagement as a prerequisite for sustainable improvements

### The pollution-corruption nexus

The surge in Chinese overseas development finance over the past two decades has given rise to two largely separate controversies in the English-speaking world. One is the allegation that China's development cooperation approach undermines international efforts to promote good governance or is directly responsible for exacerbating political corruption in recipient countries.<sup>17</sup> The other concerns the problematic environmental impacts of Chinese investment projects, particularly in the context of externalising pollution through the Belt and Road Initiative.<sup>18</sup> However, both problems are closely linked in what can be termed a *pollution-corruption nexus* in development finance.

Addressing the intersection of integrity building and environmental protection is a pressing issue because corruption significantly contributes to the degradation of renewable natural resources worldwide.<sup>19</sup> Environmental damage caused by overseas investment is closely connected to deficient integrity systems.<sup>20</sup> Where the incentives and opportunities for grand corruption and collusion between investors and regulators are high, negative externalities such as environmental degradation and negative repercussions on local communities are more readily neglected. For instance, soil degradation and water pollution from illegal contamination typically affect the most vulnerable populations in the world's poorest countries; illegal deforestation is another corruption-enabled problem with massive repercussions for the global climate crisis. In addition, a lack of transparency and limited access to information reduces the possibilities for external scrutiny of investment plans, making insider deals at the expense of the environment more likely.

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17. Dreher and Fuchs (2015).

18. Tsimonis et al. (2019).

19. Transparency International (2007).

20. Tacconi and Williams (2020); Roe, Parry-Jones, and Williams (2016).

Thus, integrity building is an important aspect of efforts to reduce environmental risks in overseas investments in general and in state-backed development finance in particular. By ‘integrity building’ we mean building stronger integrity systems by raising standards, improving accountability mechanisms, and taking preventive measures. This does not require fully fledged cooperation on anti-corruption investigations or enforcement, a much more challenging prospect. While it is not necessary to renounce use of the term ‘corruption’ altogether, it is helpful to centre efforts around a common concept of ‘integrity’, which is used in both Chinese and Western political and corporate discourses (on use of language, see Box 2 below).

### Environmental governance as an integrity-building pilot area

According to Xi Jinping’s September 2020 pledge to the United Nations, China aims to achieve carbon neutrality by 2060. At the UN General Assembly meeting on 21 September 2021, Xi Jinping declared that China will support ‘other developing countries in developing green and low-carbon energy, and will not build new coal-fired power projects abroad.’<sup>21</sup> Environment and climate change are also focal points in China’s quest for international status: Chinese policymakers have identified global efforts against climate change and environmental degradation as central areas where China can establish itself as a ‘responsible power’.<sup>22</sup> Consequently, the Chinese leadership has invested enormous academic and diplomatic resources into framing the Belt and Road Initiative as an important contribution to the United Nations 2030 Agenda for Sustainable Development.<sup>23</sup> The Chinese government has devised several guidelines that should help create a ‘Green BRI’ (see section 1.3), though they are mainly non-mandatory, voluntary guidance. Furthermore, China has managed to engage the United Nations Development Programme (UNDP) and the United Nations Environment Programme as cooperation partners; both agencies have been primary targets of Chinese diplomatic efforts in the past. In a context of scarce funding for their institutional budgets from other sources, both have readily accepted substantial additional funding from the Chinese government. In return, official endorsement by UN agencies is a crucial element of the Chinese leadership’s efforts to increase ‘international discourse power’ (国际话语权) and legitimise Chinese policies at a global level, which is achieved

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21. Xi Jinping (2021).

22. Gao Xiaosheng (2018), among others, has argued that ‘external perceptions of China’s role in climate negotiation are significant for China’s domestic policymaking process and international climate efforts.’

23. See, for example, China Council for International Cooperation on Environment and Development (CCICED) (2019).

through the mainstreaming of Chinese terms such as ‘green development’ or ‘ecological civilisation’ in the UN context.<sup>24</sup>

Chinese projects overseas are frequently faced with local protests on environmental issues (see section 1.2). In the eyes of the central government in Beijing, such protests cause reputational damage to China and to the BRI.<sup>25</sup> A survey conducted by the Chinese Academy of International Trade and Economic Cooperation (CAITEC), a think tank under the Chinese Ministry of Commerce, and the State-owned Assets Supervision and Administration Commission of the State Council jointly with UNDP China found in 2015 that most Chinese companies did not consider corruption or environmental issues to be of high relevance to their operations.<sup>26</sup> A 2017 follow-up survey confirmed that while about two-thirds of the interviewed companies carried out environmental impact assessments (EIAs), only about one-fifth said they had implemented all the EIA’s recommendations.<sup>27</sup>

The Chinese government has explicitly recognised the need to better monitor overseas projects as part of its BRI risk management strategy. While voices within China’s political system indicate that the government does not believe it is feasible to control the activities of Chinese companies abroad,<sup>28</sup> the perception of risk can create a new policy space for Chinese non-state actors. Analysts in Chinese think tanks are discussing the idea that Chinese non-state actors should monitor environmental conduct and provide ‘guidance and supervision’ to Chinese companies operating abroad.<sup>29</sup> Moreover, given a lack of international experience among Chinese non-state actors, the government has suggested that they cooperate with international organisations to strengthen their relevant capacities – a notion that is explicitly discouraged in many other sectors of civil society exchange. An action plan published in 2017 by the state-

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24. A notable example is the 15th meeting of the Conference of the Parties to the UN Convention on Biological Diversity, hosted by China in 2021, which includes the term ‘ecological civilisation’ in its title. For background on the efforts to increase China’s international discourse power, see the introduction to the Decoding China Dictionary, <http://www.decodingchina.eu>.

25. Measures for the Supervision and Administration of the China Development Bank (国家开发银行监督管理办法), issued by the China Banking Regulatory Commission in 2017, links reputational risks (声誉风险) to environmental and social risks (环境与社会风险) quite explicitly, urging the bank to strengthen its environmental and social risk assessment.

26. Chinese Academy of International Trade and Economic Cooperation (CAITEC), SASAC Research Centre, and UNDP China (2015).

27. Chinese Academy of International Trade and Economic Cooperation (CAITEC), SASAC Research Centre, and UNDP China (2017).

28. Statement by a senior government official in Beijing made during a personal conversation in December 2018.

29. Wei Qingpo (2014).

backed China NGO Network for International Exchanges (CNIE, 中国民间组织国际交流网) called upon ‘social organisations’ from China and BRI countries to step up their cooperation to promote ‘people-to-people exchanges’ along the Belt and Road and jointly address a limited range of policy issues, including ‘biodiversity and environmental protection’.<sup>30</sup>

Environmental protection is the field with the highest diversity of Chinese actors operating transnationally. They include non-state actors like NGOs, industry associations, social enterprises, think tanks, and university institutes, which work on improving the ‘sustainable development’ conduct of Chinese companies abroad. Thus, environmental governance may be seen as a comparatively large policy space for productive exchanges and joint projects with a range of Chinese actors, and one that has potential to create positive precedents for future cooperation in other fields. Not least, although the Biden administration is rejoining the Paris climate accords, the United States’ devastating withdrawal from normative leadership on environment and climate under President Donald Trump has already shown that leaving the multilateral field to China or expecting developing countries to choose sides would be self-destructive for Western countries. Instead, building multi-stakeholder alliances that also measure the Chinese government by its commitments to environmental integrity and a Green BRI is the more promising – and pragmatic – path.

## 1.2 Environmental governance deficiencies as a major risk factor in China’s Belt and Road Initiative

### What’s at stake: Reducing the environmental footprint of the BRI

The BRI is widely regarded as the most ambitious global infrastructure undertaking in history. Spanning Asia, Africa, Europe, and Latin America, it offers many developmental promises for countries in desperate need of foreign investment, trade, and infrastructure development expertise. The application (and potential withdrawal) of the ‘BRI’ label by Chinese authorities has developed flexibly over the years. It has been applied to massive connectivity endeavours such as the China-Pakistan Economic Corridor or the Nairobi-Mombasa Madaraka Express; to strategic port acquisitions and developments from Sri Lanka to Greece to Nigeria; as well as to various individual power

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30. China NGO Network for International Exchanges (CNIE) (2017).

plants, dams, roads, factories, government buildings, and other overseas investment projects that enjoy governmental endorsement.<sup>31</sup>

Nonetheless, the current roll-out of many BRI projects is based on opaque bidding processes and limited involvement of local stakeholders, and threatens to have substantial negative impacts on the environment as well as local communities. Many planned routes pass through ecologically fragile regions and key biodiversity areas. High-resolution spatial analysis data shows that 17% of these key areas are within 50 kilometres of proposed BRI roads, and 60.6% are within 50 km of proposed rail routes.<sup>32</sup> Africa is particularly at risk of new routes intersecting protected areas. Risks of deforestation are high, too, as 66.4% of the area within 50 km of roads and 24.5% within 50 km of railroads is forested.<sup>33</sup> Projects can have direct impacts on ecosystems and wildlife along with indirect effects such as attracting logging, poaching, and settlement.<sup>34</sup> The BRI may also contribute to the increase in greenhouse gas emissions through investment in coal-fired power plants and accelerate the extraction of natural resources, as many routes are planned to facilitate access to extractive resources in project countries.<sup>35</sup> These problems are neither exhaustive nor exclusive to the BRI, but it is clear that Chinese-financed investment projects can cause direct and indirect environmental repercussions without effective mitigation.

### **Local resistance to Belt and Road based on project governance and environmental concerns**

While Western criticism is dismissed as hypocritical by the Chinese side, challenges to Chinese investment projects emanating from the host countries of important BRI projects can have an impact. Particularly in countries with space for civil society activism, Chinese projects face increasing scrutiny of their environmental performance, which has led in some cases to local criticism and clashes with civil society. Chinese actors are gradually learning to factor in and adapt to these pressures coming from below. Box 1 describes BRI projects in Kenya, Malaysia, and Peru that have encountered local challenges related to environmental governance concerns.

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31. Besides the infrastructure component, other important pillars of the BRI include ‘policy coordination’, ‘unimpeded trade’, ‘financial integration’, and ‘people-to-people bonds’, as well as the Digital Silk Road that is rapidly gaining in importance.

32. Hughes (2019).

33. Hughes (2019).

34. Teo et al. (2019).

35. Coenen et al. (2021).

## Box 1. Case studies of local resistance against Belt and Road projects

Local civil society opposition has led to several setbacks to Belt and Road projects. Three illustrative cases come from Kenya, Malaysia, and Peru.

### Kenya

Construction of a massive coal-fired power plant with 1,050 MW capacity located in Kwasasi, Lamu County, was contracted out to a Kenyan-Chinese consortium in September 2014. The project involved two subsidiaries of the PowerChina group (Sichuan Electric Power Design and Consulting and Sichuan No. 3 Power Construction Company) along with the China Huadian Corporation power generation company. Substantial financial support came from the Industrial and Commercial Bank of China. While a court challenge to the bidding process was unsuccessful, the developers' disregard for the environmental and social costs of the project has led to large-scale local mobilisation since 2015, led by the Save Lamu coalition and DeCOALonize.

The project was halted in June 2019 due to successful environmental litigation. The Kenyan National Environment Tribunal revoked the previous environmental and social impact assessment (ESIA) licence and called for a new impact assessment, sharply criticising the developers for overriding local community interests.

From a local civil society perspective, one crucial issue in the early mobilisation against the Lamu project was the complete opaqueness and remoteness of the Chinese investors. They 'often use Kenyan nationals as opaque proxies on the ground,' a local NGO activist noted, 'which means we did not know at all who is actually responsible and who makes the decisions.' The problem is 'a combination of high-level MoU political corruption and lower-level petty corruption ... Accountability is not in the Chinese system.'

Interestingly, the Chinese ambassador to Kenya agreed to meet with activist groups immediately after the court ruling and publicly acknowledged concerns around sustainable development and the Lamu project's problematic role in light of Kenya's national renewable energy strategy.

### Malaysia

The Melaka Gateway project is a massive land reclamation and port development project initiated in 2014 under Malaysia's former prime minister Najib Razak. The

project, estimated to cost US\$ 10.5 billion, received financial support from PowerChina International. It was presented as a flagship Belt and Road project in Southeast Asia during a visit to Malaysia by Chinese premier Li Keqiang.

From its inception, the project was embroiled in corruption allegations related to the epic 1MDB slush fund scandal, which eventually led to the ouster of the pro-Chinese Najib government in 2018. In addition, the environmental damage related to the massive land reclamation plans spurred local resistance by fishermen and environmental activists.

Following mounting anti-Chinese rhetoric under Najib's successor Mahathir Mohamad in 2018, the project was meant to continue with a local 'rebranding'. But the main local developer, KAJ Development, was eventually forced to relinquish the project in late 2020 after another series of governance problems.

## Peru

The Amazon Waterway (*Hidrovia Amazónica*) project aims to dredge the Amazon River and three tributaries to facilitate transportation and commerce between Peru and neighbouring Brazil. In 2017 the Cohidro consortium between Chinese engineering firm Sinohydro Corp Ltd and the local construction company Construcción y Administración S.A. (CASA) was contracted to develop the project, which was planned to become operational by 2022. It is seen as a cornerstone of Peru's national infrastructure development. Accordingly, the Peruvian government has been eager to attract foreign investment for the project, and has allegedly done so by silently agreeing to substantial exceptions from Peruvian environmental laws.

The waterway was rebranded as part of the BRI after Peru officially endorsed the Chinese initiative in 2019, but it has been met with strong opposition from indigenous groups for its potential impact on fisheries and local culture. The Peruvian consortium member Casa became entangled in high-level corruption scandals in 2019, further increasing public opposition to the controversial development project. The president of the NGO FundAmazonia described the project as an 'economic and ecological disaster' in the making. Peruvian environmental groups have consistently called for international support in their fight against environmental degradation through unsustainable waterway development.

The project's future is uncertain. The leftist candidate Pedro Castillo won the presidential election in April 2021 on a platform of supporting unions and

indigenous communities against foreign investors, and there is a pending lawsuit brought by two indigenous federations in 2018 before the Peruvian Supreme Court.

Among these examples, definite proof of large-scale corruption emerged only in the Malaysian case. This was mainly due to the international dimension of the 1MDB scandal, with the US investment bank Goldman Sachs playing a leading and nefarious role. However, there is a common pattern of collusion between Chinese state-owned enterprises (SOEs) and host country politicians to circumvent procurement standards, due diligence mechanisms, and rigid social and environmental impact assessments. As in the Kenyan case, Chinese embassies often tend to take a rather hands-off approach initially and only get involved once real obstacles emerge. This approach forces them into the role of having to clean up the (financial and reputational) mess created by other actors.

Still, a common attitude among Chinese development planners is that corruption is primarily a domestic problem in recipient countries, one that is best addressed through those countries learning from China's domestic crackdown.<sup>36</sup> Additionally, the risk of corruption in Chinese aid is supposedly reduced because in turnkey projects, only a small share of Chinese loans ever leaves the Chinese system. This is on top of the fact that a systemic corruption problem could hardly be openly discussed and admitted in the current CCP system. Nonetheless, there is growing evidence that local and transnational civil society advocacy campaigns can be effective in raising public awareness and 'sensitizing the Chinese government and its state-owned enterprises to their environmental and social responsibilities within a contested political space.'<sup>37</sup>

### 1.3 The Chinese policy framework today: Huge commitments, slow progress

In recent years, the Chinese government has initiated a series of policy measures to address environmental governance issues domestically and in Chinese overseas activities under the label 'Greening the Belt and Road'. Several new regulations and policies have also stressed the need to prevent corruption in overseas investment. The main problem is that many of those policy

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36. People's Daily (2017).

37. Yeophantong (2020).

initiatives are either non-binding or are not implemented and enforced, resulting in a yawning implementation gap.

### Anti-foreign bribery legislation and overseas investment governance

China ratified the United Nations Convention against Corruption (UNCAC) in 2006 and has subsequently amended its domestic laws, introduced new legislation, and established a national anti-corruption coordinating agency with explicit reference to UNCAC implementation.<sup>38</sup> However, anti-corruption measures remain dominated by CCP disciplinary logic rather than by laws and the judiciary.<sup>39</sup> Legal analyses of China's anti-foreign bribery framework<sup>40</sup> and international evaluation reports by the Financial Action Task Force<sup>41</sup> or the International Monetary Fund<sup>42</sup> thus paint a mixed picture, contrasting progress in technical-legal reforms with insufficient enforcement efforts. Chinese anti-bribery prosecutions and court cases against SOEs or private sector actors remain essentially limited to domestic matters. The most important progress concerning foreign bribery was Amendment VIII to China's Criminal Law, which unambiguously criminalised the active bribery of foreign officials under PRC law but adopted a much narrower definition of 'bribery' than is applied to domestic matters.<sup>43</sup>

While vested interests within the administration still appear to prevent the enforcement of the anti-foreign bribery amendment, Chinese academic advocacy for a more severe approach to bribery has increased significantly, especially as the financial, quality, and reputational risks to BRI projects and China's overall standing in strategic BRI countries have become visible in recent years. China's proposal for a 'Clean Silk Road' (literally: Silk Road to Integrity, 廉洁丝绸之路) in 2017, as well as Xi's reiteration at the Second Belt and Road Forum in 2019 that 'we should have zero tolerance for corruption', show that corruption concerns in development cooperation have reached the top-level leadership.

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38. Lewis (2009).

39. The dual-track investigation system with unclear competencies between discipline inspection commissions and public procuratorates was abolished when the National Supervisory Commission was created in 2018; however, this has only reinforced the party leadership's dominance in anti-corruption proceedings. See further Li Li and Peng Wang (2019).

40. Gintel (2013).

41. Financial Action Task Force (2012, 2019).

42. International Monetary Fund (2019).

43. Gintel (2013).

Generic anti-corruption clauses can also be found in numerous ministerial policies relating to transnational business and foreign investment. Starting with the CCP Central Committee's 2008–2012 Anti-Corruption Working Plan, policy documents have reiterated the need to 'strictly prevent Chinese-invested companies ... from engaging in overseas commercial bribery' (严禁中资企业[...] 在国(境)外的商业贿赂行为).<sup>44</sup> The Chinese NGO Friends of Nature (自然之友), in a recent analysis of the regulatory framework for Chinese companies investing overseas,<sup>45</sup> identified a sizeable body of 'soft law' (软法) meant to prevent environmental degradation and corrupt behaviour. However, they conclude that the often-professed principle of 'overseas social responsibility' (域外社会责任) still entirely 'lacks an effective, binding regulatory framework' (缺乏行之有效的强制性规范).<sup>46</sup>

In sum, there is now an astounding number of sectoral regulations and guidelines,<sup>47</sup> codes of conduct, and quality standards for overseas contracting that mention anti-corruption principles,<sup>48</sup> but none of them is effectively enforced or even enforceable.<sup>49</sup> This is in curious contrast to the top-down, centralised 'strike hard' approach to corruption within China, where prosecutions and convictions have reached all-time highs under Xi Jinping.

### Environmental policy frameworks for the Green BRI

Partly in response to international criticism, the Chinese government has issued a series of documents on the Green BRI and the environmental conduct of Chinese companies that are intended to align the BRI with the SDGs and climate targets (see Annex 2).<sup>50</sup> The two core BRI policy documents are the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road<sup>51</sup> of 2015 (abbreviated as the 'BRI Action Plan') and the Vision for Maritime Cooperation under the Belt and Road Initiative of

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44. Central Committee of the CCP (2008).

45. Friends of Nature (2020).

46. Friends of Nature (2020), p. 32.

47. For instance, the China Banking Regulatory Commission in 2017 presented separate measures to strengthen policy bank supervision and corporate governance. This document called on China's two most important policy banks, the China Development Bank and Export-Import Bank of China, to 'develop comprehensive risk management frameworks' (全面风险管理).

48. Ministry of Commerce (2019).

49. Russell and Berger (2019).

50. On the evolving legal framework, see further Boer (2019).

51. National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce. (2015).

2017.<sup>52</sup> Both state that the BRI should engage in exchange and cooperation and promote ecological protection and green development, though they do not include any regulatory provisions on how to achieve these goals. The Guidance on Promoting Green Belt and Road (2017),<sup>53</sup> the Belt and Road Ecological and Environmental Cooperation Plan (2017),<sup>54</sup> and the Guidance on Promoting Investment and Financing to Address Climate Change (2020)<sup>55</sup> are concerned explicitly with environmental governance and emphasise that Chinese projects should support green and low-carbon development, protect biodiversity, and address climate change. A white paper titled ‘China’s International Development Cooperation in the New Era’ (2021)<sup>56</sup> underscores China’s intention to promote ‘eco-environmental protection’ in line with the SDGs. It highlights support for renewable energy projects, biodiversity protection, and efforts to address climate change (e.g., through the establishment of the South-South Cooperation Assistance Fund). It also calls for efforts to curb desertification and conserve marine and forest resources.

A notable recent development is the publication of the Green Development Guidelines for Overseas Investment and Cooperation in July 2021.<sup>57</sup> The guidelines recommend that companies conduct environmental impact assessments and due diligence ‘in accordance with international practices’ and adopt ‘international, multilateral or Chinese environmental protection standards if the host country has no relevant laws or its standards are too low.’ This may signal a first departure from the ‘host country principle’ that China has traditionally upheld and that often allowed Chinese companies to operate at lower standards abroad than at home. Moreover, the guidelines encourage companies to communicate with local communities and environmental NGOs to improve the reputation of Chinese investment.

In parallel, there is an ongoing debate about strengthening the role of Chinese environmental NGOs in BRI projects, driven in particular by the Ministry of Ecology and Environment (MEE). An issue that has been in discussion since 2014/2015, after Chinese-funded dam projects in Myanmar (Myitsone Dam) and Cambodia (Stung Cheay Areng Dam) were suspended, is whether Chinese

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52. National Development and Reform Commission and State Oceanic Administration (2017).

53. Ministry of Ecology and Environment, Ministry of Foreign Affairs, National Development and Reform Commission, and Ministry of Commerce (2017).

54. Ministry of Ecology and Environment (2017).

55. Ministry of Ecology and Environment, Ministry of Foreign Affairs, National Development and Reform Commission, and Ministry of Commerce (2020); Nedopil Wang (2020).

56. State Council Information Office (2021).

57. Ministry of Commerce and Ministry of Ecology and Environment (2021); Nedopil et al. (2021).

NGOs can engage in monitoring of environmental issues in Chinese projects and serve as mediators between Chinese companies and local communities and NGOs.<sup>58</sup> Domestically, the MEE, which is relatively weak in bureaucratic terms, has in the past entered into a kind of coalition with Chinese NGOs to target SOE violations of environmental legislation.<sup>59</sup> The Belt and Road Ecological and Environmental Cooperation Plan, issued by the MEE in 2017, announced that China would ‘support NGOs to carry out various environment protection projects.’<sup>60</sup> It seems that the MEE aims to better implement environmental and climate policies in the BRI context by making a ‘detour’ through NGOs.

### A yawning implementation gap

‘Chinese domestic environmental law is great, but jurisdiction is lacking. And there is a problem that since we require double criminality, many things that happen overseas ... we could not even pursue here in China ...’<sup>61</sup>

Despite these promising reform steps, the overall environmental impact of the Belt and Road Initiative remains problematic. The existing policies are neither comprehensive nor, for the most part, mandatory: for example, the Guidelines for Environmental Protection in Foreign Investment and Cooperation<sup>62</sup> encourage – but do not require – companies to conduct environmental impact assessments when investing overseas. In contrast, such a legal requirement has existed for investments within China since 2003.<sup>63</sup> Policies are often contradictory on environmental aspects, sometimes within the same document. For instance, the BRI Action Plan (2015) highlights a commitment to the SDGs and at the same time states that China should ‘increase cooperation in the exploration and development of coal, oil, gas, metal minerals and other conventional energy sources.’<sup>64</sup> Furthermore, the increasingly strict enforcement of domestic environmental regulations has meant that Chinese manufacturing companies are now starting to move production to countries with weaker environmental legislation.<sup>65</sup> There is a high risk of export and

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58. Wei Qingpo (2014); Zhao Fei (2016).

59. Eaton and Kostka (2017).

60. Ministry of Ecology and Environment (2017).

61. Interview with environmental lawyer at a Chinese NGO (INT20111375).

62. Ministry of Commerce and Ministry of Environmental Protection (2013).

63. Coenen et al. (2021), p. 9.

64. National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce (2015).

65. Interview with Beijing-based senior executive of a European development cooperation agency (INT20110393); interview with Southeast Asia-based executive of a European development cooperation agency (INT20110326).

delocalisation of the most polluting industries via overseas investment<sup>66</sup> – not unlike the problematic history of outsourcing dirty industries from Western countries to so-called pollution havens.<sup>67</sup>

A similar gap between rhetoric and practice can be observed for anti-corruption policies. Despite repeated assertions, including by Xi Jinping himself, that the BRI should be ‘clean’, various investment guides that urge Chinese companies to ‘avoid bribery activities’ have little effect when economic interests meet weak rule of law and legal institutions and high levels of corruption in the countries that host Chinese projects.<sup>68</sup> Added to that, the sheer distance to the ‘centre’ means a loss of state control over Chinese companies operating overseas.<sup>69</sup> Thus, the voluntary nature of the policies may also be related to the fact that the state has limited capacities to enforce them, and there is not yet a sufficient degree of political willingness to change that.<sup>70</sup>

The implementation gap does not mean that all official statements and documents aimed at improving environmental governance or anti-corruption practices are for appearance’ sake only. Different state actors are pursuing different interests, and those who push for stronger environmental or anti-corruption enforcement are in a weaker position than those with a predominantly economic agenda. For instance, the Chinese Ministry of Ecology and Environment has less clout than large state-owned enterprises. The latter usually have the rank of ministries or vice ministries and close ties to the Ministry of Commerce and the powerful National Development and Reform Commission (NDRC). Their chief executive officers (CEOs), who are always also party cadres, typically aspire to higher political office in central or provincial governments. In the personnel appraisals that are decisive for this, sustainability goals are now included, but they remain subordinate to economic goals. Many Chinese companies believe that when it comes to infrastructure projects, rapid construction and consideration of environmental and social impacts are mutually exclusive. They argue that they would lose their competitive advantage if they paid more attention to environmental governance.

Nevertheless, there is increasing awareness that neglect of environmental accountability has implications for the local acceptance of projects. In this

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66. Tracy et al. (2017).

67. Teo et al. (2019).

68. Liu Bingyu (2021).

69. Liu Bingyu (2021), p. 67.

70. On the limited impact of non-binding guidelines, particularly on private enterprises investing overseas, see also Shieh et al. (2021).

context, high-sounding promises by the Chinese leadership – such as the establishment of a ‘green Silk Road’ – should be taken seriously. Because of the BRI’s enormous scale and future ambition, even comparatively modest improvements in environmental governance could make an important difference. The example of the Asian Infrastructure Investment Bank (which style itself as ‘lean, green and clean’) proves that Chinese and Western discourses can align and suggests what the BRI as a Chinese-led (or Chinese-initiated) multilateral institution could look like.

## **1.4 Disentangling Chinese actors’ interests and potential contributions**

Under the broad umbrella of the Belt and Road Initiative, many different actors are pursuing their own agendas and interests. This section examines the role of different state and non-state (or quasi-non-state) actors such as policy banks, SOEs, and private companies, as well as various non-profit organisations, discussing their respective roles and potential contributions to an integrity-building agenda for better environmental governance.

### **Chinese actors overseas: Charting the field, dispelling common preconceptions**

Western governmental and non-governmental organisations often raise fears that Chinese social forces may be co-opted or controlled by the Chinese state, suggesting that Chinese civil society is an unsuitable counterpart for international cooperation. Such concerns are mainly shaped by two factors: first, the basic assumption that there has to be a clear distinction between state and non-state actors, and second, the idea that the Chinese state is a monolithic actor. While concerns about the role of the party-state are justified in many instances, a reductionist perspective that assumes there is total control ignores the reality of bureaucratic rivalry and conflicts of interests between different state actors that create openings for Chinese civil society to engage in environmental activism. Rather than focusing on a state/non-state or dependent/independent dichotomy, we therefore suggest paying more attention to struggles between economic and environmental or private and public interests that transcend both bureaucracy and civil society.

China’s fragmented bureaucratic landscape has produced a set of governance processes and practices that differ from parallel Western processes and practices. Since central planning has been reemphasised as the key mechanism

for setting priorities and allocating society's resources over the past decade, those Chinese 'civil society' organisations that have survived and thrived do not work in opposition to the party-state but often enter into alliances with bureaucratic actors in the government. Such relationships, however, are not a one-way street. Domestically, China's Ministry of Ecology and Environment has entered into an informal alliance with environmental NGOs to compensate for its relatively weak institutional standing within the Chinese bureaucracy and its disadvantage vis-à-vis economic ministries and SOEs when economic development plans clash with environmental concerns. The NGOs, primarily through environmental education and social media campaigns, try to improve the *enforcement* of existing environmental regulations on the local level.

China's associational sector has grown steadily in quantitative terms, despite crackdowns since 2013 on NGOs working in previously tolerated grey sectors such as labour rights or feminist or LGBTQ+ activism.<sup>71</sup> As of March 2019, over 820,000 'social organisations' were registered with the Ministry of Civil Affairs, marking a dramatic increase from only 300,000 in 2010. Additionally, there were an estimated one to three million unregistered informal associations in 2011, in addition to 770,000 government-organised NGOs.<sup>72</sup> Still other student clubs, community-based organisations, and virtual organisations exist only online.

The universe of non-state actors involved in China's environmental governance encompasses several distinct types of organisations:

- Private enterprises (民营企业/私营企业). These generally act like other profit-maximising multinationals in developing countries. Recent studies suggest that compared to SOEs, they tend to be much less aware of (or interested in) the Chinese sustainability agenda, less prone to be influenced by reputational risks, and more concerned with short-term financial gains.<sup>73</sup>
- State-owned enterprises (国有企业). CEOs of state-owned enterprises are party cadres who typically occupy vice-ministerial or ministerial ranks. Their performance is evaluated by the organisational department of the CCP, and

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71. This domestic crackdown is reinforced by the chilling effect of the Overseas NGO Management Law, adopted in 2016 to regulate and constrain foreign funding for non-profit activities in China. While many international NGOs have been able to register offices or temporary activities under the new law, grant making for Chinese grassroots NGOs has become almost impossible due to bureaucratic red tape and the political risks involved. See further Holbig and Lang (2021).

72. International Center for Not-for-Profit Law (2021).

73. There are important differences between private and state-owned enterprises in terms of their behaviour with regard to BRI sustainability issues. See Shieh et al. (2021).

they are often promoted to central or provincial government positions. Despite the existence of ‘green’ and ‘clean’ BRI policies, economic factors outweigh environmental factors in personnel evaluations, which reduces the CEOs’ incentive to apply green policies.

- Business and industry associations (商会). Typically registered as ‘social groups’ (社会团体), they have assumed the task of setting standards and developing guidelines on sustainability, corporate social responsibility (CSR), information disclosure, integrity, and best practices. Although their standards and guidelines are mostly non-mandatory, industry associations play a significant role through capacity building and evaluation of Chinese companies. Their convening power allows them to reach a substantial number of major industry actors.<sup>74</sup>
- Social organisations (社会组织). This official legal category now encompasses ‘social groups’ (社会团体), including business and professional associations; ‘social service organisations’ (社会服务机构); and ‘foundations’ (基金会). In official presentations to foreign audiences, these organisations are referred to as ‘NGOs’ or ‘independent social groups’, even if they have party cadres on their boards or are otherwise linked to party-state institutions.
- Public service units (事业单位). These include Chinese universities, hospitals, research institutes, and organisations like the Chinese Academy of Environmental Planning, which serve as staff for government agencies. They are not state entities, but given the role of the government in running them, they are also not fully non-state actors.

For a mapping of important Chinese actors’ roles and potential contributions to environmental governance, see Annex 3.

### **In need of new ideas for engagement**

While the Chinese government is addressing growing concerns around the environmental conduct of Chinese companies by actively developing a policy architecture for a Green BRI, it expects the companies to voluntarily bear environmental and social responsibilities. The lack of corresponding commitment on the side of Chinese companies has resulted in an implementation gap and reputational damage to the Chinese state due to an increasing frequency of local protests against environmental damage.

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74. Interview with Beijing-based Chinese scholar of international development (INT211401557).

Chinese actors themselves frequently cite ‘lack of experience’ as a reason for falling behind the ambitious policy commitments. Such statements may seem disingenuous given the sheer financial size of Chinese projects. Yet in our interviews, Chinese business managers in particular were described as ‘inexperienced’ and ‘lacking intercultural understanding’ in the sense of knowing too little about the countries where they operate.<sup>75</sup> Chinese development scholars and also many Chinese policymakers consider this to be the cause of the problems that Chinese projects experience in the areas of environmental, labour, and human rights.<sup>76</sup> Domestically, the local networks of the Chinese Communist Party function like an early warning system: local cadres pick up and report popular grievances, allowing companies to respond and/or use party networks to suppress the dissent. Such mechanisms do not exist abroad. Most Chinese company managers overseas communicate only with national and local governments in their host countries and do not interact with the local population.<sup>77</sup> As a result, they often become aware of local grievances only when protests erupt – and then, instead of engaging in a dialogue with local citizen groups, they rely on local government to deal with protests.

Frequent protests have noticeably heightened the integrity risk perception on the side of the Chinese state. They have also created an unusual overlap between the agendas of the Chinese government and non-state actors in the area of environmental governance, opening a fairly unique policy space that gives non-state actors freedoms that do not exist in other areas. As already mentioned (section 1.3), there is ongoing discussion about a possible role for environmental NGOs in the BRI, with debates often circling around the question of whether NGOs can take on a bridge-building role between Chinese companies and the local communities or help BRI host countries strengthen their environmental governance.<sup>78</sup> At the same time, it is often stressed that Chinese environmental NGOs lack sufficient international experience, and state actors have repeatedly suggested that Chinese NGOs should learn from more experienced actors, that is, from internationally operating environmental NGOs.<sup>79</sup>

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75. Interview with Beijing-based senior Chinese scholar of international political economy and China’s overseas investment (INT20110528).

76. Interview with Beijing-based senior Chinese scholar of international business and trade (INT20110543).

77. Liu Bingyu (2021).

78. China News Service (2017); Secretariat of BRI International Green Development Coalition (2021).

79. Such statements have been made at closed-door events in Beijing in 2015 and 2016 and in personal conversation with one of the authors.

While cooperation with Chinese NGOs has become more difficult since the outbreak of the Covid-19 pandemic, the ongoing debates about the internationalisation of environmental NGOs in China indicate that there is still a policy space for cooperation. This policy space can be used as an entry point to working together on other policy issues, most notably integrity. For that, we propose a cross-mapping of the environmental governance policy area with past and existing successful cooperation approaches in which non-state actors have acted as conveners, mediators, capacity builders, or knowledge hubs. Based on that, we next elaborate on three of the most promising pathways to cooperation.

## Part 2. Pathways to cooperation

### 2.1 How to talk about anti-corruption and integrity with Chinese actors

The use of appropriate terminology is a major challenge when it comes to coordination with China on issues that are typically subsumed in European discourses under ‘anti-corruption efforts’. Which terms to choose will naturally depend on the context and purpose of the dialogue, but it is important to understand the connotations of different terms in Chinese (development) discourses in order to avoid misunderstandings and choose language that is most likely to lead to productive exchanges.

First, we believe that the traditional anti-corruption terminology used in OECD DAC development discourses is not the most suitable way to address corruption-related issues with Chinese stakeholders. Not only does working on ‘anti-corruption’ appear politically too sensitive for most non-state actors,<sup>80</sup> but the term ‘anti-corruption’ (反腐败) is itself highly ambiguous in the Chinese official context. Most importantly, there is a stark contrast between a very broad usage domestically and a much narrower understanding in the context of international cooperation (Box 2).

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80. Interview with senior executive of a large Chinese foundation with international activities (INT20111984); interview with former staff member of a Beijing-based environmental NGO (INT20112580).

## Box 2. The Chinese ‘anti-corruption’ discourse: Domestic vs. international context

### Domestic context

Domestically, Xi Jinping’s ‘anti-corruption’ campaign casts a wide net. It covers economic and non-economic crimes, forms of moral misbehaviour such as ‘extravagance’ and bigamy, as well as all sorts of contraventions of CCP discipline. This framing deliberately blurs the lines between countering bribery and enforcing top-down control over the party-state bureaucracy.

### International context

Internationally, by contrast, party-state actors and media use the term ‘anti-corruption’ essentially to refer to intergovernmental cooperation for the extradition of ‘corrupt fugitives’ (allegedly corrupt public officials who have evaded prosecution) and stolen assets recovery on a case-by-case basis. This agenda is described as ‘pursuing fugitives and chasing their bounty’ (追逃追赃). While such objectives may be usefully linked with the important issue of international asset recovery, the Chinese government remains exclusively interested in repatriating its own officials, leaving little leeway for addressing overseas bribery or prevention measures under this framework.

The term ‘integrity building’ has become a popular alternative to ‘anti-corruption’ in European discussions because of its institutional, systemic, and preventive connotations. It has also entered Chinese policy discourses (often translated as ‘government integrity’ or ‘clean government’, 廉洁政府) along with China’s implementation of the UNCAC.<sup>81</sup> Notably, the slogan of a ‘Silk Road to Integrity’ (廉洁丝绸之路) has been promoted since 2017<sup>82</sup> and was officially added as one of seven BRI ‘visions’ (展望) in April 2019 with the Proposal for Jointly Constructing the BRI.<sup>83</sup>

The choice of language in cooperation efforts with Chinese actors should be guided by a desire to maximise opportunities for engagement without

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81. The common Chinese policy slogan *fanfu changlian* 反腐倡廉 also literally combines ‘anti-corruption’ and ‘promoting integrity’, but it has a much stronger moral component (promoting righteousness) than ‘integrity systems’, the term commonly used by international civil society actors talking of institutional reforms.

82. Yan Ming and Li Yuzhang (2017).

83. Leading Small Group on Belt and Road Construction (2019).

compromising on fundamental values and convictions. We therefore suggest careful and conscious use of the term ‘anti-corruption’ and an emphasis on *strengthening the integrity of governance systems*, which can help prevent the circumvention of national laws and international environmental norms. In the pilot area discussed in this study, ‘environmental governance’<sup>84</sup> can be used as a broad, all-encompassing term that can align with Chinese actors’ agendas while also relating closely to two notions that are key to meaningful international anti-corruption efforts:

- Good governance, that is, public administration guided by the pursuit of the common good rather than private rent seeking,<sup>85</sup> as well as
- Multi-stakeholder engagement. Binding regulations established by government are an important cornerstone of environmental governance, but their implementation and improvement in a transnational context cannot be ensured by state actors alone.

We further argue that it makes sense for European players to focus on those areas where top echelons of the Chinese government have already made an open commitment to transnational governance mechanisms, providing incentives and space for other Chinese actors to promote implementation and seek out international cooperation.

Building on the challenges and opportunities identified in Part 1, we now turn to concrete pathways along which cooperation with Chinese actors could be pursued or intensified. Through our interviews with European and Chinese stakeholders from civil society, business associations, and development agencies, we have identified three priority areas for strengthening cooperation on integrity and clean governance issues: the introduction of an integrity-building focus into trilateral development cooperation formats (2.2), the promotion of integrity standards along transnational value chains (2.3), and the combination of on-the-ground public mobilisation against corruption and environmental destruction with offers of dialogue between Chinese and local stakeholders (2.4).

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84. From a global public goods perspective, ‘governance’ can be understood as the collective efforts of individuals and organisations from different sectors of society to coordinate their behaviour, allocate resources, and address collective action problems in the absence of a supreme regulatory authority (‘government’). See further Ayre and Callway (2005).

85. ‘Good governance’ (善治) was introduced and popularised in Chinese academia in the 2000s. But it was never really endorsed officially and today appears to be treated mainly as a foreign, ‘Western’ term. Thus, talking directly about ‘good governance’ may not be the best approach.

## 2.2 Pathway 1: Trilateral development cooperation

‘We thought the main success factor is complementarity. Turns out, it’s the people involved.’<sup>86</sup>

***The idea in brief:*** Use trilateral development cooperation between a DAC donor, China, and a third country to improve environmental governance and integrity in Chinese overseas projects through trust building and mutual learning.

### Why is it a useful entry point from an anti-corruption standpoint?

Most of the conflicts Chinese projects face overseas arise from environmental protection concerns on the part of the local population in countries that host the projects. As discussed in the first section of this report, the environmental damage caused by overseas investment is closely connected to deficient integrity systems.<sup>87</sup> Trilateral development cooperation presents a useful entry point for strengthening environmental governance and integrity systems, primarily for two reasons: First, Chinese actors – both state and non-state – have highlighted the need for Chinese contractors to understand international standards better and improve their sustainability performance. There is an understanding that ‘most conflicts in countries along the “One Belt and One Road” are due to environmental protection and social responsibility concerns.’<sup>88</sup> Second, and most importantly, Chinese actors have a general openness to engagement on this issue with international partners. It is often stated that Chinese companies overseas do not understand their host countries well enough and therefore should work with European partners.<sup>89</sup> It is noteworthy that this openness towards trilateral cooperation comes from trust, which in turn results from long-standing bilateral development cooperation projects. These have provided capacity development for Chinese state actors and industry associations on issues such as sustainability, CSR, and international standards.<sup>90</sup>

For instance, Guidelines for Social Responsibility in Outbound Mining Investment (中国对外矿业投资行业社会责任指引, 2015) were developed by the China Chamber of Commerce of Metals, Minerals & Chemicals (CCCMC) in

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86. Interview with senior executive of a European development cooperation agency (INT20110627).

87. Tacconi and Williams (2020); Roe, Parry-Jones, and Williams (2016).

88. Statement by Yang Zhengwei, Deputy Director General, Policy Research Department, Ministry of Commerce, at the workshop ‘Companies Sustainable Development in the Context of the “One Belt One Road” Initiative’, organised jointly by GIZ, CHINCA, and MOFCOM in April 2015.

89. Interview with senior executive of a European development cooperation agency (INT20110627).

90. Interview with senior executive of a European development cooperation agency (INT20110503).

cooperation with Germany's development cooperation agency, GIZ.<sup>91</sup> Subsequently, GIZ and the UK Department for International Development (DFID) jointly supported the CCCMC in implementing one of the guidelines through a three-year project, the Sustainable Mining Action Plan. GIZ also supported the China International Contractors Association (CHINCA) in drafting the Guide on Social Responsibility for Chinese International Contractors (中国对外承包工程行业社会责任指引) and the Guidelines of Sustainable Infrastructure for Chinese International Contractors (对外承包工程行业社会责任指引, 2012 and later versions). The Guidelines on Sustainable Operation and Utilization of Overseas Forests by Chinese Enterprises (中国企业境外森林可持续经营利用指南, 2009) were drafted in cooperation with major NGOs.<sup>92</sup>

In September 2019, the NDRC adopted guidelines on 'third-party market cooperation' (第三方市场合作) with the vision to 'pursue an open, green and clean cooperation'.<sup>93</sup> Although the guidelines are primarily directed at business-to-business cooperation, they can serve as an important entry point as they share with the concept of trilateral cooperation the idea that cooperation should serve the third country's interests. Behind the issuing of the guidelines stands the recognition that China needs partners with more international experience to improve its risk management in overseas investment.

Given their role within the Chinese system and their history of partnerships with international organisations and DAC donors, industry associations such as CHINCA, CCCMC, and the China National Textile and Apparel Council (CNTAC) are the most likely partners for trilateral cooperation projects. They have set standards and developed guidelines on sustainability, CSR, information disclosure, integrity, and best practices. Although their standards and guidelines are mostly non-mandatory, industry associations play a significant role through capacity building and evaluations of Chinese companies, and their convening power allows them to reach a substantial number of major industry actors.<sup>94</sup> Industry associations have recognised that when 'going global', Chinese companies face many issues that they do not have to face at home, such as dealing with trade unions or local civil society.<sup>95</sup> They understand that

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91. The Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains were developed in cooperation with the OECD and strongly based on the corresponding OECD guidelines.

92. Díaz et al. (2020), p. 251.

93. National Development and Reform Commission (2019).

94. Interview with Beijing-based Chinese scholar of international development (INT211401557).

95. Interview with Southeast Asia-based executive of a European development cooperation agency (INT20110326).

insufficient pre-project assessment and lack of accountability and integrity causes problems during project implementation. At the same time, they are interested in understanding how Chinese companies really perform abroad and what needs to be done to improve their performance.<sup>96</sup>

In Southeast Asia<sup>97</sup> and the Balkans,<sup>98</sup> local protests have led Chinese companies to open up a dialogue with civil society. In Myanmar, following a protest, a consulting company was engaged to help the Chinese mining company enter into a participatory dialogue with local workers.<sup>99</sup> Trilateral cooperation can help make a business case for adherence to environmental accountability and integrity standards.

The theory of trilateral development cooperation is that it creates added value for the third country by combining the complementary strengths of a Northern donor and a Southern development partner. In reality, trilateral cooperation projects have significantly higher transaction costs than bilateral projects, costs that may be deemed too high if one considers only the added value for the recipient. However, specifically in environmental governance, the benefits for the third country can be significant because it connects the country to different legal spaces: the European partner will include references to European Union (EU) relations, while China will take into account the Association of Southeast Asian Nations (ASEAN) Plus<sup>100</sup> and Regional Comprehensive Economic Partnership (RCEP) agreements, in particular on many trade issues.<sup>101</sup>

Still, the main benefit of trilateral engagement is mutual learning, a better understanding for each partner of how the other side approaches projects, project planning, and project management, provided both parties are willing to

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96. Interview with Southeast Asia-based executive of a European development cooperation agency (INT20110326).

97. Interview with Beijing-based senior executive of a European development cooperation agency (INT20110393).

98. Interview with researcher working on Chinese investment in the Balkans (INT20072147).

99. Interview with Beijing-based senior executive of a European development cooperation agency (INT20110393).

100. ASEAN Plus refers to cooperation mechanisms between the ten ASEAN member states (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) and other countries. The cooperation mechanisms of relevance here are, in particular, the ASEAN-China Free Trade Area; ASEAN+3 with China, South Korea, and Japan; and ASEAN+6 with Australia, China, India, Japan, South Korea, and New Zealand.

101. Interview with Southeast Asia-based executive of a European development cooperation agency (INT20110326).

learn from each other.<sup>102</sup> For DAC donors, trilateral cooperation allows them to understand the bureaucratic logic and limitations on the Chinese side. When Chinese counterparts in trilateral cooperation projects reject suggestions like inviting civil society stakeholders to events, the reasons often concern administrative and bureaucratic obstacles rather than political calculations. For China, trilateral cooperation allows the government to get a clear picture of how well Chinese companies really perform on sustainability criteria and international standards, and to improve the companies' capacities to better implement the existing Chinese (voluntary) sustainability and accountability guidelines.

An executive of a European development cooperation agency commented that in many cases, China does not use international standards but translates and adapts them into a national standard; in the translation, the parts China does not want to apply are excluded. This was, for instance, the case with the OECD Due Diligence Guidance for Responsible Business Conduct. When Chinese companies go abroad, a selective adaptation of international standards can lead to problems because parts are missing. Such was the case when Chinese textile producers started investing in Cambodia: China had excluded the chapter on trade unions because, in China, all trade unions are part of the All-China Federation of Trade Unions, and the chapter on trade unions was therefore considered unnecessary. There are many trade unions in Cambodia, and the law dictates that a company must have a union. Strikes are costly, so there was much interest in training on how to work with the unions.<sup>103</sup>

### **Who needs to be involved?**

#### Europe:

- European development cooperation agencies identify, assess, prepare, accompany, and monitor triangular cooperation projects. They should actively seek partnerships with European and Chinese enterprises to utilise the potential of business activities to promote sustainable development in third countries.
- European private enterprises can be involved if applicable.

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102. Interview with Southeast Asia-based executive of a European development cooperation agency (INT20110326).

103. Interview with Southeast Asia-based executive of a European development cooperation agency (INT20110326).

China:

- The China International Development Cooperation Agency (CIDCA), Ministry of Commerce (MOFCOM), or other relevant ministries need to be engaged as political stakeholders on the Chinese side.
- Chinese industry and business associations can promote international standards and reward best practices among their members.
- Chinese leading scholars and think tank experts with convening power can bring relevant stakeholders to the table.

Third-country partners:

- Relevant ministries need to be engaged as political stakeholders.
- Trade unions and local civil society organisations should be involved in stakeholder dialogue.

**Preconditions and challenges**

- In trilateral cooperation, process orientation – learning *how* to cooperate – is much more important than results orientation, as the latter depends on functioning cooperation processes. Framing is essential: the less political the framing, the easier it will be for Chinese partners to engage. It is helpful to frame the project in a way that is aligned with the terminology used in China’s official communications. For example, one can speak of ‘mutual understanding’, ‘mutual learning’, and ‘clean/open environmental governance’ rather than of ‘confronting corruption in Chinese projects’.
- The project context cannot be separated from the political setting. Each of the three parties has to assess how the project fits with its bilateral relations and the broader cooperation landscape.
- The project’s success is highly dependent on the persons involved on both the development partner sides (while complementarity of the parties’ strengths plays a minor role and is often difficult to find).
- The third country may have difficulty formulating its priorities.
- Agreeing on a holistic approach to sustainable development involving civil society, or talking about local labour law and trade unions, will likely be a challenge – but one that can be resolved by building trust.
- Trust building with the Chinese side is essential and will take some time. China thinks with a much longer time horizon and may calculate a project’s impact on its relationship with the third country across several years or decades.

- Getting a financial commitment from the Chinese side is a challenge.
- The Chinese side may require much support with connecting to local contexts in the third country and with cross-contextual learning.

### Ways forward

‘I respect you, therefore I listen to you.’<sup>104</sup>

‘We looked deeply into each other’s eyes and made it possible.’<sup>105</sup>

Trilateral cooperation provides a framework through which to address the different impact dynamics in the Chinese context, where exercising pressure can be highly counterproductive but much can be achieved through relationships. A case in point is a textiles-focused regional project involving China whose staff we interviewed for this study.<sup>106</sup> In the early phase of the project, the DAC donor proposed a dialogue with the third country’s trade unions and NGOs, but the Chinese partner vehemently rejected this suggestion. The DAC donor continued to insist on involving trade unions, and in the end, the Chinese side agreed and took an active part in the dialogue. How was this possible?

The key was negotiating relationships. The DAC donor explained why the dialogue was important for the project, tried to understand the Chinese position, and proposed possible solutions:

Why is this so difficult for you? Can we change the title of the training? Can we say the local NGO is just a guest at the training but not a project partner? Can we ‘forget’ them in the agenda – and say, oh, there is an NGO representative, but we did not know he would be here?

The Chinese started to agree to it step by step, signalling that they understood why the matter was so important for the DAC donor. Then the Chinese side clearly stated what should not happen: the DAC donor could not invite the Chinese ambassador to give the opening speech. Also, the NGO or trade union could not act as an official partner, because in that case the Chinese side would have to undertake a formal assessment first, and they did not have the time and resources to do that, they said. The DAC donor thus tried a creative (and

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104. Interview with Beijing-based Chinese scholar of international development (INT211401557).

105. Interview with Southeast Asia-based executive of a European development cooperation agency (INT20110326).

106. Interview with Southeast Asia-based executive of a European development cooperation agency (INT20110326).

pragmatic) approach to find a way to make it possible for the Chinese side to agree.

## 2.3 Pathway 2: Promoting integrity along transnational supply chains

‘Two forces are fighting within China: those that are trying to mainstream anti-corruption across the trade sector, and those that try to prevent any binding regulations.’<sup>107</sup>

‘It’s hard to say how much influence we [Chinese civil society] could have on the government, but at least I know that the Chinese government takes the EU’s opinion very heavily ... the EU has a strong influence on the Chinese position on these issues.’<sup>108</sup>

***The idea in brief:*** Combine the European Union’s market regulatory power with dialogue and capacity-building mechanisms to raise governance standards at all stages of sensitive transnational value chains and to spur and support Chinese midstream companies to improve their compliance mechanisms.

### Why is it a useful entry point from an anti-corruption standpoint?

Europeans have become accustomed to deploring their limited leverage regarding China’s growing presence in the developing world. However, the EU’s huge internal market can provide a major lever if its regulation is used more consciously and effectively to promote integrity standards along globe-spanning transnational value chains. Ideally, a gradual tightening of supply chain regulations for transnational companies operating in the EU Single Market will be combined with adaptation measures and support, including for Chinese businesses through development cooperation programmes.

In many sectors where corruption has been shown to undermine progress towards the SDGs by allowing environmentally and socially harmful practices to continue, Chinese companies play a role as intermediaries, but many products still end up on the European market or are further processed by European downstream companies.<sup>109</sup> With environmental regulatory standards improving around the world, corruption that allows actors to circumvent these standards is today the biggest challenge when it comes to deforestation, illegal timber

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107. Interview with China advocacy manager at a US-based environmental NGO (INT20120338).

108. Interview with environmental lawyer at a Chinese NGO (INT20111375).

109. United Nations Conference on Trade and Development (2015), p. vi.

trade,<sup>110</sup> and wildlife protection.<sup>111</sup> A major problem regarding China's role in these corruption-prone supply chains is the fact that products are effectively whitewashed upon passing through Chinese customs, making it very hard for other regulators as well as civil society activists to trace products subsequently or prevent their further export into developed markets.

China's domestic anti-corruption campaign has repeatedly targeted customs agencies in recent years. The crucial role of venal customs officers as enablers of transnational criminal networks has been recognised in principle.<sup>112</sup> A notable positive change occurred in the fight against the global ivory trade, which received high-profile coverage in Chinese media following activist and celebrity-led campaigns for the protection of elephants.<sup>113</sup> China banned ivory trade in 2017 and has subsequently stepped up investigations to track down and punish transnational smuggling rings.<sup>114</sup> The Covid-19 pandemic has given further momentum internationally and within China to efforts to combat illegal trade in wildlife.<sup>115</sup>

The struggle against wildlife trafficking is also a field where Chinese non-profit organisations are intensifying their international cooperation.<sup>116</sup> For instance, the China Biodiversity Conservation and Green Development Foundation has established ties with the African Wildlife Foundation and environment ministries of several African countries to promote information exchange and innovative monitoring techniques against wildlife trade.

Sharing tasks transnationally is crucial to build global momentum for change and to avoid the impression of a self-interested or arrogant European policy agenda. Chinese environmental NGOs should be taken seriously as domestic advocates of higher environmental integrity standards in one of the only policy fields where this is (still) possible in China.

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110. Environmental Investigation Agency (2019).

111. Outhwaite (2020).

112. Interview with China advocacy manager at a US-based environmental NGO (INT20120338).

113. Global Environmental Institute (2020).

114. Bielicki (2019).

115. Environmental Investigation Agency (2021).

116. Interview with former staff member of a Beijing-based environmental NGO (INT20112580). See also Global Environmental Institute (2020).

‘This is another way we could collaborate together, because the [message] also from the 14th five-year plan is that China will continue to remain open [and] the influence of supply chains will continue. So, we [Chinese NGOs] will bring this down to Chinese media, and also push companies to bring pressure on their own supply chains.’<sup>117</sup>

Importantly, Chinese environmental activists pointed out in personal interviews that stricter EU market access rules would decisively help their cause, enabling them to appeal to Chinese policymakers and businesses for more serious efforts to prevent corruption-facilitated smuggling and whitewashing activities.<sup>118</sup>

Moreover, imposing higher supplier due diligence standards on downstream companies can also set a global example and contribute to a broader diffusion of (environmental) integrity norms, spurring other governments to follow suit. The EU’s model role for Chinese policymakers in these areas was repeatedly highlighted in interviews with Chinese civil society representatives.<sup>119</sup>

### Who needs to be involved?

- European policymakers should use Single Market entry rules and international negotiations to promote higher, binding integrity and due diligence standards all along transnational supply chains. The European Parliament’s resolution of March 2021 calling for a mandatory EU due diligence framework and stronger supply chain traceability rules is an important step in this direction.<sup>120</sup>
- European development agencies can use their existing dialogues with Chinese counterparts to push the agenda of supply chain integrity while pointing to evolving European standards that will eventually make adjustments inevitable.
- European development agencies could design adjustment programmes involving European and non-European businesses in high-risk supply chains, creating incentives for early adopters of higher accountability standards.
- European companies with credible compliance and CSR track records can serve as role models to demonstrate the business case for upholding corporate integrity standards to their Chinese peers.

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117. Interview with environmental lawyer at a Chinese NGO (INT20111375).

118. Interview with environmental lawyer at a Chinese NGO (INT20111375); interview with former staff member of a Beijing-based environmental NGO (INT20112580).

119. Interview with senior executive of a large Chinese foundation with international activities (INT20111984); interview with senior executive of an international environmental NGO focusing on China (INT20112552); interview with senior executive of a Chinese environmental NGO (INT20120868).

120. European Parliament (2021).

- International NGOs such as Global Witness, Mercy Corps, or the World Wildlife Fund are also building on the previous work of European development agencies in helping Chinese companies and banks improve their governance models in overseas activities.<sup>121</sup>
- Chinese customs agencies should be incentivised to participate in international training and cooperation.
- Chinese business associations can promote international standards, reward best practices among their members, and establish contacts with compliance pioneers in their sectors.
- Chinese leading scholars and think tank experts provide important input into the Chinese policy system.
- Chinese NGOs as well as international NGOs that have found ways of working inside the Chinese system can act as intermediaries between Chinese and international actors. They should be supported in their efforts to build trust with international partners as well as Chinese companies and regulators.

### Preconditions and challenges

- From the European side, this pathway notably requires better cross-departmental and cross-sectoral coordination, including between trade policy, internal market regulation, development cooperation, and the private sector.
- Voluntary codes of conduct and CSR formats as well as public rewards for best practices can be a useful first step, either in the absence of binding rules or as a supplement to them. But international NGO campaigners with experience in tracking Chinese companies involved in illegal trade and smuggling emphasise that strong binding and enforceable regulations must be considered eventually, as they are the only way to ensure broad-based compliance in the long term.<sup>122</sup>
- To maximise their own leverage, European policymakers need to consider specific integrity risks in complex, multinational supply chains with various intermediary actors.
- The EU should not underestimate its own global normative influence when it comes to defining responsible business standards. The combination of binding market entry rules with external policy dialogues and – in the area of development cooperation – capacity-building offers for upstream and intermediary companies to help them strengthen their compliance

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121. We thank Shawn Shieh for this observation.

122. Interview with China advocacy manager at a US-based environmental NGO (INT20120338).

mechanisms needs to be more systematically explored.

### Ways forward

We think that the global fight against illegal deforestation and timber trade is a promising pilot area because the role of corruption in illegal logging and smuggling has been widely recognised, because Europe and China share a responsibility as important consumer markets, and because European governments have started to take meaningful regulatory action that can serve as both model and leverage in supply chain integrity-building efforts.

Our interviews showed that the European Commission's current initiative to prevent deforestation and forest degradation is already causing worry among Chinese suppliers who anticipate more rigorous checks by European regulators and customers. Chinese NGOs are being approached by companies involved in timber trade about how to adjust to new European requirements.<sup>123</sup> This suggests that stronger European standards can create windows of opportunity for new capacity-building programmes with genuine involvement by Chinese businesses, as previously demonstrated in the case of the EU's REACH Regulation on chemicals, which spurred Chinese suppliers to tighten their standards.<sup>124</sup> Enforcement on the European side will be key, however, since previous regulatory efforts have failed to prevent illegally logged timber from entering the EU Single Market.

In 2018, France adopted an ambitious national strategy for 'ending deforestation caused by importing unsustainable products' by 2030. The strategy comprises many important elements, such as early alert mechanisms for importing companies, new multi-stakeholder partnerships steered by the Agence Française de Développement, and a 'zero deforestation' public purchasing policy. So far, the strategy remains focused on the two ends of supply chains, that is, producers and consumers. Strategically addressing the role of intermediaries in supply chains would be an important addition. These are frequently Chinese companies and traders buying from producers in developing countries and reselling products to downstream companies headquartered in OECD countries.<sup>125</sup> Specifically, European donor agencies

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123. Interview with environmental lawyer at a Chinese NGO (INT20111375).

124. Interview with Beijing-based senior executive of a European development cooperation agency (INT20110393).

125. UNCTAD (2015), p. vi.

could act as convenors of dialogue platforms on supply chain integrity, focusing on areas with strong European regulatory standards.

## 2.4 Pathway 3: Environmental backlashes and dialogue

‘It’s not like they [the Chinese government] aren’t doing anything. They have their blacklists for corruption issues abroad but of course it’s not the Chinese government which investigated these cases. Other organisations ... did the investigations and the Asian Development Bank and others threatened not to give any loans to these companies anymore ... So the government is mostly reactive and doesn’t have the view from the ground.’<sup>126</sup>

‘We sued the National Forestry and Grasslands Administration ... We actually sued many government agencies ... in protecting pangolins ... because they colluded with companies on trading pangolin furs, and they had loopholes in their administration.’<sup>127</sup>

***The idea in brief:*** Use public mobilisation in host countries of corruption-prone projects to build leverage, followed by outreach and dialogue with Chinese actors to strengthen preventive governance mechanisms.

### Why is it a useful entry point from an anti-corruption standpoint?

Overall, Chinese diplomats and corporate managers have been reluctant to acknowledge the relevance of involving civil society stakeholders in project planning and implementation. However, central foreign policy planners clearly remain sensitive to the country’s international reputation, especially in strategic BRI countries. Apart from general efforts to strengthen risk management, Chinese decision makers have been willing to pragmatically adjust their positions and even engage with societal actors once the default approach based on discreet backroom deals between governments encounters obstacles.

Within China, the benefits of allowing officially approved NGOs to engage in environmental public interest litigation to prevent rent seeking and collusion between companies and local politicians have been officially recognised with the introduction of environmental public interest litigation in the Environmental

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126. Interview with environmental lawyer at a Chinese NGO (INT20111375).

127. Interview with senior executive of a large Chinese foundation with international activities (INT20111984).

Protection Law.<sup>128</sup> However, similar mechanisms for including more stakeholders in risk assessment and prevention have not yet been implemented in major Chinese infrastructure projects overseas.<sup>129</sup> What this means for local social movements and NGO coalitions is that they first need to demonstrate their own relevance through widespread mobilisation, public advocacy, or even environmental litigation in countries where this is possible.<sup>130</sup> Campaigns spearheaded by alliances between local and international NGOs can be a crucial tool in this regard.<sup>131</sup>

Confrontational approaches and cases of successful environmental litigation can be useful to heighten risk awareness among Chinese development finance institutions, for whom ‘governance risks are actually more obvious than environmental risks.’<sup>132</sup> However, in the long run it would be much more desirable to reduce the need for confrontation and establish mechanisms for the improvement of projects. As Chinese environmental public interest lawyer Zhang Jingjing found in her field research in Africa and Latin America, most local grievances arise because Chinese corporations continue to rely exclusively on backroom deals with national governments and remain both unwilling and unable to reach out to local stakeholders, thus failing to recognise popular grievances about Chinese projects early on. Combining popular pressure with sophisticated outreach and capacity building for corporate managers could lead gradually to better project governance and thereby reduce the risk of both violent conflicts and project failures.

Therefore, one important message to convey to Chinese development finance decision makers is that their over-reliance on local political elites in target countries is also a Chinese problem in the long term. Indeed, local elites’ corruption and blatant self-enrichment inflicts both reputational damage on Chinese companies and a financial burden on Chinese (state-backed) lenders.<sup>133</sup> On the upside, better governance could also be a way to attract international private capital, which is something that China is eager to do.

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128. Interview with senior executive of an international environmental NGO focusing on China (INT20112552).

129. Tracy et al. (2017).

130. Interview with activist at a local anti-corruption NGO in East Africa (INT20100710).

131. Yeophantong (2020), p. 85.

132. Interview with senior executive of an international environmental NGO focusing on China (INT20112552).

133. Interview with researcher working on Chinese investment in the Balkans (INT20072147).

## Who needs to be involved?

- Civil society actors in countries that host Chinese investment are best positioned to identify integrity risks and build local coalitions for better governance standards. What they often need is a better understanding of Chinese decision-making processes and support in overcoming cultural and language barriers so they can establish dialogues with Chinese actors.
- Chinese NGOs play a crucial role in this pathway, both by mediating between foreign civil society actors and Chinese companies and, potentially, by building on their own experiences with environmental public interest litigation domestically within China.<sup>134</sup> The same applies to Chinese who used to work for Chinese NGOs or international NGOs in China and have transitioned to consulting companies or become independent consultants.<sup>135</sup>
- Leaders of Chinese business associations as well as leading Chinese scholars and think tank experts can be important intermediaries between Chinese state-owned companies and international donors, due to their domestic standing and trusted relationships with CEOs.<sup>136</sup>
- OECD donors can serve as funders of dialogue and engagement programmes, platform providers, facilitators, and honest brokers.

## Preconditions and challenges

- This pathway can only be envisaged in host countries with sufficient civil liberties for civil society mobilisation and bottom-up scrutiny of government activities.
- Meaningful anti-bribery standards and/or environmental legislation in the host country, along with a sufficient degree of judicial independence, are also preconditions.
- Attempts at dialogue and mediation should initially explore those cases where local stakeholders have already mobilised against projects for their lack of transparency or negative environmental repercussions but have failed to negotiate with Chinese actors involved.
- Chinese environmental NGOs have crucial knowledge and experiences in dealing with Chinese companies,<sup>137</sup> but when acting overseas, they need to be extremely cautious not to be viewed as undermining Chinese national interests.

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134. Global Environmental Institute (GEI) (2016).

135. We thank Shawn Shieh for this additional point.

136. Interview with Beijing-based Chinese scholar of international development (INT211401557).

137. Global Environmental Institute (GEI) (2016).

## Ways forward

‘Overseas litigation remains a sensitive issue for Chinese NGOs ... but it always depends on your connections to be safe with certain things and exert your influence that way.’<sup>138</sup>

‘Many [NGOs] in Southeast Asia have a better understanding of what Chinese investment means. It involves many different actors, contractors, loans, financiers, et cetera ... If you are not familiar with the structure and policies and flows of investment it’s difficult and you don’t know whom to engage ... so generally Chinese companies in Southeast Asia are facing a more effective backlash and they know they have to do community works although they may not be doing it the best way.’<sup>139</sup>

Transnational civil society coordination and sharing of experiences is key to strengthening the effectiveness of both public scrutiny and cross-sectoral dialogues with Chinese stakeholders overseas. As the above quotes illustrate, Chinese environmental activists are exploring possible international applications of their domestic experiences in holding companies accountable for environmental integrity. Southeast Asian countries are seen as geographically and culturally closer than other countries that host Chinese investment, which in the eyes of Chinese interviewees facilitates both NGO dialogues and cross-sectoral engagement with Chinese companies.<sup>140</sup>

A pioneering effort in combining environmental litigation with civil society mobilisation and dialogue is the Transnational Environmental Accountability Project, initiated by Chinese environmental lawyer Zhang Jingjing. Zhang has accumulated long-standing experience in environmental lawsuits against mining companies both within China and overseas. In the absence of sufficient binding governance standards for Chinese outbound development finance, Zhang’s core line of argument has been that Chinese law requires companies to abide by international treaties signed by China (such as commitments to consultations with local indigenous communities under the UN Declaration on the Rights of Indigenous Peoples) and domestic law in the countries in which they operate. One of her major success cases was the revocation of a mining licence for the Rio Blanco Mine in Ecuador in 2018.<sup>141</sup>

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138. Interview with China advocacy manager at a US-based environmental NGO (INT20120338).

139. Interview with senior executive of a Chinese environmental NGO (INT20120868).

140. Interview with senior executive of a Chinese environmental NGO (INT20120868); interview with senior executive of a large Chinese foundation with international activities (INT2011984).

141. Picq (2018).

Future development cooperation projects should seek to go beyond these individual efforts and establish permanent capacity-building and dialogue formats where experiences can be shared and communication channels established early on when contentious projects arise. In terms of dialogue formats with Chinese actors, business associations and influential scholars and think tank leaders in China would be ideal interlocutors, with a capacity to reach out directly to company managers.

Another promising angle is to build on and share the experiences and local knowledge of Southeast Asian civil society organisations in terms of advocacy vis-à-vis different stakeholders in Belt and Road projects. Capacity building for civil society actors in Africa or Latin America in terms of identifying and engaging relevant actors may be best done via horizontal sharing of practical experiences.

Finally, research teams could compile practical guides introducing investment standards and relevant local stakeholders, written in Chinese (!), for Chinese companies and business associations.<sup>142</sup> For greater impact, these should end up in the country briefings prepared by Chinese embassies for Chinese companies.

### Part 3. Conclusions and recommendations for U4 partners

How can U4 partners build trust and promote pragmatic engagement with Chinese actors on integrity-building mechanisms without compromising their own standards regarding transparency, accountability, and development effectiveness? What should they try, and what should they avoid? We offer the following suggestions.

- **Prioritise relationships.** What works to create impact in the West does not necessarily work well in China, and vice versa. In China, personal relationships play a big role. Trust building is extremely important – and takes time. Therefore, donors should understand that focusing on the cooperation process is more important than focusing directly on the outcome. ‘Respected individuals’ such as eminent academics have the power to convene Chinese actors and should be included. Building trust is an essential first step toward obtaining commitment and thus funding and

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142. Interview with researcher working on Chinese investment in the Balkans (INT20072147).

necessary high-level support. The transaction costs will be high, especially in the early project stages.

- **Introduce an integrity-building focus in fields where cooperation is already happening and shows promise**, rather than aiming to create dedicated anti-corruption programmes. Environmental integrity is one such area. ‘Environmental governance’ can be used as a broad, all-encompassing term, one that can align with Chinese actors’ agendas while also relating closely to two concepts that are central to meaningful international anti-corruption efforts: good governance and multi-stakeholder engagement.  
143, 144
- **Pay close attention to language in framing cooperation efforts with Chinese actors.** The choice of terms should maximise opportunities for engagement without compromising fundamental values and convictions. Be clear in defining realistic goals and mindful of how they can be navigated politically.
- **Understand the Chinese side.** The Chinese system is not monolithic. Some like-minded actors may concur with donors on the need to improve the situation, but they may prefer a different approach to get there. Keep in mind that more is happening on the Chinese side than is visible. Decisions that may appear to be politically motivated often have simple administrative drivers. The less political the framing of a topic, the easier it will be for the Chinese side to engage.
- **Create a feedback and learning mechanism that can help track progress and steer towards achieving your goals.** When encountering resistance from Chinese partners, our interviewees sought to persevere with the issue and not give in, while at the same time accommodating Chinese concerns and asking what could be done to make it possible for the Chinese side to agree.
- **Build leverage but without unnecessary open confrontation** by remaining focused on technical issues and concrete matters.

Donors should seek to lead by example and learning rather than by direct criticism. Beyond the pathways laid out in Part 2, this principle can also be applied to promote anti-corruption norms through other channels. Other areas to be further explored beyond the scope of the present study include, for

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143. This is by no means to suggest that environmental integrity is the only area where this could be done.

144. Community engagement and consultation, for example, is another area where there is growing interest among Chinese stakeholders, and it overlaps with environmental governance. Also, trade unions are potential allies in the fight for environmental integrity because health, safety, and the environment pose concerns for workers, particularly in high-risk sectors such as mining or construction.

example, co-financing agreements between European and Chinese development banks as a vehicle for raising governance standards and exchanging experiences.

Another potential strategy is to strengthen Sino-Western civil society dialogues targeted at specific UN conventions that have a strong anti-corruption angle. This might include, for example, implementation monitoring of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) or the current negotiations on a UN binding treaty on business and human rights. Many civil society coalitions already exist, but it is very risky for Chinese civil society organisations to officially join outspoken rights-based coalitions. Informal dialogue formats could promote mutual trust and information exchange among these organisations on such matters as stumbling blocks and veto players in different countries.

The year 2020 brought significant upheavals to Sino-Western cooperation and dialogue. The Covid-19 pandemic has made the kind of direct, private exchanges needed for trust building more difficult and has interrupted many existing development projects. However, as explained in this study, we believe that many of the substantive goals of OECD donors and civil society actors in terms of global integrity building cannot be advanced without coordination and cooperation with relevant Chinese stakeholders. Thus, the post-pandemic setting should be used as an opportunity to explore new formats rather than as an excuse for abandoning outreach efforts because they appear politically difficult.

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