



# ENVIRONMENTAL POLICIES ON CHINA'S INVESTMENT OVERSEAS

Global Environmental Institute

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The volume, *Environmental Policies on China's Investment Overseas*, is an important milestone in GEI's Program on Environmental Conduct of Chinese Overseas Investment. We are extremely grateful for the support of this program has received from our donor—the Blue Moon Fund, and our project partners Chinese Academy for Environmental Planning and the University of International Business and Economics (UIBE) in Beijing. We also greatly appreciate the close attention and interest in this book from China's Ministry of Environmental Protection, Ministry of Commerce and Ministry of Foreign Affairs.

We are also deeply grateful for very helpful suggestions from scholars at Peking University, Tsinghua University, University of International Business and Economics and China Institute of Contemporary International Relations.

Finally, we want to give many thanks to our colleagues at GEI for their assistance with this book, particularly Ke Cao, Dongying Wang, Douglas Whitehead, Huajing Wen and Jonathan Abramovic for their suggestions on editing and content and translating part of the content.

We hope you find this book informative and engaging, and we look forward to hearing your thoughts as we continue to work to strengthen environmental conduct of Chinese overseas investment.

## Commentaries

As the culmination of research efforts by a circle of government agencies, research and academic institutions and non-governmental organizations, this book examines China's overseas FDI, foreign aid and credit lending activities and the related environmental and social challenges. Providing outward-looking perspectives on and feasible solutions to these challenges, it is arguably one of the most in-depth Chinese studies on the Go Global strategy and overseas business expansion.

——Zhang Lijun, (Ministry of Environmental Protection of the People's Republic of China)

On my flight to Cancun, Mexico for the United Nations Climate Change Conference (COP16), I opened the pages of the Environmental Policies on China's Investment Overseas. Of its six chapters, I wasn't terribly impressed with the first one on economic globalization and sustainable development. But chapter two on China's OFDI and environmental protection certainly caught my eyes and kept me engaged for the rest of the trip. I finished the whole book in one go and it was such an enjoyable read and well worth the time.

——Li Nuyun, State Forestry Bureau of the People's Republic of China

This is the first book of its kind to focus on the environmental impacts of Chinese OFDI. The book covers a comprehensive set of topics and features objective arguments, a large amount of graphs, tables and data from reliable sources.

——Cheng Weixue, Ministry of Environmental Protection of the People's Republic of China

I am pleased to recommend this book for its relevance, reliability and reference value for addressing real-life challenges.

——Shi Yonghai, Ministry of Commerce of People's Republic of China

How does China shift from a peaceful rise to harmonious development and from a harmonious society to a harmonious world? This book sheds light on why China must answer these grand questions and how.

——Zhang Haibin, Peking University

The book will help Chinese companies investing abroad understand and have an overview of the current Chinese policies which they have to respect and abide by in environmental protection. It will also assist local communities, CSOs, government officials and other

stakeholders in host countries to engage with these Chinese companies.

—Kevin May, Manager for Public Education, Policy and Communications, Oxfam Hong Kong

Global Environmental Institute's release of draft environmental guidelines for Chinese overseas investors is timely, and if the Chinese government sees these measures to fruition there is great potential to improve the environmental and social performance of Chinese overseas projects.

—Adina Matisoff

GEI's book speaks frankly about the progress and challenges that the Chinese government, companies, and financial institutions have faced in going global.

Most importantly, it signals the possibility for engagement and partnership between U.S. and Chinese companies under terms that reduce risk and enhance the returns for both investors and the countries and communities in which they invest.

—Jim Harmon

It reflects insights from GEI's first-hand experience in working with government think-tanks and regulators. It sets out the existing framework of standards and provides the essential next steps forward.

—Jonathan Lash

In this rapidly changing context, we welcome the efforts of the Global Environmental Institute (GEI) to promote greater understanding—both domestically and abroad—of the environmental risks that China faces as it goes global.

—Rachel Kyte

This book will be an important reference for policymakers in China, as well as those in the West who seek to have a more accurate understanding of China's overseas investments, and how they are changing.

—Deborah Brautigam

# Foreword

In the 1990s, China's central government initiated its Go Global strategy to encourage and support companies for their investments and economic cooperation overseas in line with internationally accepted norms. This has been an important strategy for China while adapting to economic globalization and pursuing sustainable socioeconomic development. As of December 31, 2008, China's Outward Foreign Direct Investment (OFDI) in equities was valued at USD184 billion, with the total value of its assets overseas exceeding USD1 trillion. Chinese companies are indeed actively investing abroad.

As more companies go global, the environmental implications of their operational and development activities often cause concerns or even controversies in the international community. Therefore, while benefiting from such overseas investments, companies sometimes must be reminded to consider their country's long-term and strategic interests, to abide by the host country's laws and regulations, to protect the environment, to respect the local culture and customs, and to support the local community.

China's OFDI and foreign aid are concentrated in Africa and Southeast Asia, so the most Chinese OFDI is in oil fields, resource extraction, processing and assembly, and labor-intensive construction and services. But because these sectors are so closely connected to the environment, the absence of robust environmental regulations is likely to create environmental hazards in the local communities. Accordingly, as governments around the world become more environmentally conscious and more careful in the development of their natural resources, and as public awareness of environmental engagement gradually grows, companies too must learn to operate under greater environmental scrutiny.

The report of the Seventeenth Communist Party of China (CPC) National Congress called for building an "eco-civilization" in which all countries "should help one another and make a coordinated push on environmental causes in order to protect the planet that sustains our very existence." The environmental dimension of China's foreign aid and overseas investment should be viewed as an important extension and component of its effort to build an eco-civilization and a harmonious society. To this end, every environmental issue arising from overseas investments should be examined and analyzed with a global perspective and addressed with strategic and forward-looking solutions. Investing abroad is not a zero-sum game but should be bound by the principles of mutual benefit, win-win, and common

development. Companies should accept social responsibilities at the same time they seek profits and returns, so that economic and social benefits come hand in hand. In recent years, Chinese government agencies have introduced a host of policies to regulate OFDI. In October 2006, the State Council urged Chinese companies to “pay attention to environmental protection and resource conservation” and to “provide for the livelihood of the local community and people” where they operate. Then in 2007 and 2009, the State Forestry Bureau and the Ministry of Commerce (MOFCOM) jointly published the *Guidelines on Sustainable Building of Overseas Forests by Chinese Companies* and the *Guidelines on Sustainable Management and Utilization of Overseas Forests by Chinese Companies*, the first codes for the conduct of Chinese companies in their use of overseas forests. These guidelines have introduced rules for those sectors in which Chinese companies are investing heavily abroad and are helping China live up to its promise of being a “big responsible country.”

Nonetheless, companies still need specific policy guidelines and regulations. Although banks may be generous in offering credit and risk management, few include environmental considerations. In fact, most financial institutions do not understand or have a policy regarding environmental issues, let alone effective management of environmental risks. Accordingly, environmental regulators must draw up more specialized guidelines for overseas investment and lending. The use of environmental impact assessments, environmental planning and community development, environmental protection, and sustainable development should continue through the entire life cycle of a project. By doing this, Chinese investment abroad could minimize environmental hazards and maximize the benefits of development for both the investors and the local community.

Recognizing the environmental risks associated with Chinese companies’ Go Global strategy, the Chinese Academy for Environmental Planning (CAEP) of the Ministry of Environmental Protection (MEP), the University of International Business and Economics, and the Global Environment Institute (GEI) have assembled in this book a brief account of the development of environmental management in global foreign direct investment (FDI), an analysis of the environmental conduct and policies associated with China’s OFDI and aid, and a feasibility study of the environmental policy framework governing China’s overseas credit-lending activities. In this book, we also offer policy recommendations for enforcing environmental standards for OFDI, foreign aid, and overseas credit lending.

Pan Yue

Vice Minister , Ministry of Environmental Protection of  
the People’s Republic of China  
February 24, 2010



# Preface

Along with China's phenomenal economic growth, the country's economic importance and influence have rapidly risen as well. The growth in the size of China's OFDI has been accompanied by its diversification in geography and sector. China's foreign aid, began in the early 1950s, has expanded in both scale and coverage and has supported the recipient countries' socioeconomic development, technology upgrades, and poverty reduction. In addition, Chinese banks have expanded their credit-lending activities abroad, and over the past few years, the Western media have been keeping a close eye on China's investments in Southeast Asia, Africa, and Latin America.

Although China's administrative frameworks governing outward investment and foreign aid are in place, the relevant laws, regulations, and policies leave much to be desired, particularly for environmental policies regarding aid and investment. Even China's existing environmental policies need to be implemented more carefully. Therefore, in order for its outward investment and foreign aid to grow rationally; to share its resources and profits with, and promote sustainable development in, the host countries and regions; and to build a positive image as a peace-loving country, China must place environmental protection at the forefront of its overseas economic strategy and regard it as the centerpiece of strong foreign economic cooperation based on innovation.

To that end, the CAEP and the GEI jointly initiated a GEI-sponsored program to study the "environmental policies for China's investments overseas" Using the findings of that study, our book examines the environmental issues and potential risks associated with China's overseas investment and aid in relation to its strategic objectives of building a good country image, enhancing its soft power, promoting sustainable development in its host countries, and bringing harmony to the world. We also look at the best practices of international organizations in managing overseas investments and recommend policies and guidelines for promoting environmental governance in China's overseas investment and aid programs and for greening overseas lending by Chinese banks. We hope that all this will make China's aid and investment greener and more sustainable.

In chapter 1, we introduce economic globalization as an irreversible trend, looking back at China's "opening-up" in the context of globalization, examining the relationship between economic growth and sustainable development, and discussing related theories. Chapter 2

describes the growth of China's OFDI since the implementation of its Go Global strategy. We break down China's outward investment by flow, destination, and sector and analyze its administrative frameworks and policies, as well as the environmental issues related to China's outward investment based on research in the media, literature, and public opinion. In chapter 3, we review the history of China's foreign aid, its characteristics and regulatory framework, and its environmental policies, measures, and issues regarding such aid. Chapter 4 presents a detailed account of Chinese banks' overseas lending and how it relates to environmental governance. We also provide a systematic overview of international best practices for green credit, to serve as a reference for China to improve its environmental governance of overseas lending projects. We summarize and compare environment-related international conventions and governance regimes in chapter 5. Finally, in chapter 6, using the analysis in previous chapters, we recommend concrete and actionable environmental policies for OFDI, foreign aid, and overseas lending, as well as national environmental guidelines and conduct regarding OFDI, foreign aid, and credit. The annexes contain the Guidelines on Strengthening Environmental Governance in Outward Investment and Foreign Aid and A Guide to Good Environmental Conduct for Chinese Companies Investing Overseas.

We hope that by explaining the environmental risks in China's overseas investment and the importance of crafting mitigation measures, this book can serve as a reference tool for both government authorities and those with a particular interest in environmental issues.

We thank those who helped us with this book, particularly the following persons for their counsel and direction: Yang Chaofei, director general of the Department of Policies and Regulations; Yan E, director of the Policy Division; and Yuan Qingdan, deputy director of the Policy Research Center of Environment and Economy, MEP; officials from the Department of Aid to Foreign Countries, MOFCOM; Yu Haiping, director, and Yang Zhentao, deputy director, Export-Import Bank (EX-IM) of China; Professor Li Anshan of Peking University; Professor Lu Jinyong of the University of International Business and Economics; Zeng Qiang, research fellow with the China Institute of Contemporary International Relations; and Dr. Zhang Jiqiang of Blue Moon Fund.

If we have omitted important information or need to do further research in particular areas, we apologize and encourage our readers to offer criticism and corrections.

# Contents

<b>1 Economic Globalization and Sustainable Development</b> .....	1
1.1 Globalization and Sustainable Development .....	1
1.2 China's Opening-up and Sustainable Development .....	4
1.3 Theories of Economic Development and Environmental Protection .....	9
<b>2 China's OFDI and Environmental Protection</b> .....	12
2.1 China's OFDI Today .....	12
2.2 Environmental Protection in OFDI .....	26
2.3 Environmental Management at the World's Leading Multinational Corporations .....	34
2.4 Summary .....	35
<b>3 China's Foreign Aid and Environmental Protection</b> .....	37
3.1 Current Status of Foreign Aid .....	37
3.2 Environmental Protection in China's Foreign Aid .....	45
3.3 International Best Practices of Foreign Aid .....	46
3.4 Summary .....	50
<b>4 The Chinese Banking Industry's Overseas Lending and Environmental Protection</b> .....	51
4.1 Current Status of the Chinese Banking Industry's Overseas Lending .....	51
4.2 The Chinese Banking Industry's Environmental Protection Policies .....	57
4.3 International Financial Institutions' Environmental Protection Policies .....	67
4.4 Export Credit Agencies .....	75
4.5 Summary .....	85
<b>5 Environmental Regulations and Implementation</b> .....	86
5.1 Environmental Governance in China .....	86
5.2 International Environmental Initiatives .....	100
5.3 Corporate Social Responsibility (CSR) .....	105
5.4 Reducing Emissions from Deforestation in Developing Countries (REDD) .....	110
5.5 Summary .....	116