Conference Proceedings

2nd Yale Symposium on Chinese Overseas Investment and its Environmental and Social Impacts
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Note to readers:
This report aims to represent the diversity of thoughts and ideas exchanged during the Conference. Its contents will not be attributed to specific speakers.

Introduction

The 2nd Yale-China Symposium of Chinese Overseas Investment represented another milestone of ongoing efforts by Yale School of Forestry & Environmental Studies (F&ES) to bring under discussion the environmental and social issues of Chinese overseas investment. The 1st Yale-China Symposium in 2014 was successful in pioneering timely and in-depth discussion on the topic. Building upon the last conference, the 2nd Conference brought together an impressive array of speakers from the private sector, multilateral development agencies, academic scholars, and NGO representatives to discuss how to better manage the social and environmental risks of Chinese government agencies and transnational corporations as they continue to invest globally. This year we introduced four interactive case study sessions in Asia, North America, Latin America, and Africa. These sessions were jointly designed with the case presenters to provide the audience an opportunity interact and engage in direct dialogues with speakers on Chinese overseas investment across regions and sectors. This forum recognizes challenges, catalyzed much-needed discussions, and raised social awareness that hopefully will improve industry practices. *The synthesis report is a summary of the papers represented by the participants (see Appendix II)*.

Overview of China's OFDI and Its Impacts on Recipient Countries

China's "Going Global" (Going Out) strategy, formally adopted by the central government in 2001, marked the beginning of China's remarkable increase in Outward Foreign Direct Investment (OFDI). The total value of China's OFDI in 2014 is US$120 billion, ranked third in the world after the U.S. and Japan. According to China Global Investment Tracker, from 2005-2014, around a half of China's OFDI projects are concentrated in the energy and metals field. With the establishment of BRICS Bank, Asian Infrastructure Development Bank (AIIB), and Silk Road Fund, the scale of Chinese overseas investment will increase dramatically. China's OFDI will mainly focus on South-East Asia, Mid-Asia, Latin America and Africa. Both state-owned enterprises (SOEs) and private enterprises will be key investment vehicles. In terms of investment structure, the proportion of non-resource investment will increase. Business investment project will also expand to high-end industry chain.

Chinese overseas investment has undoubtedly brought major positive impacts to host countries – creating new jobs, contributing to GDP and tax revenues, and improving living standards. However, there are also negative social and environmental risks associated that need to be better managed. In Africa, like most global OFDI, Chinese OFDI is concentrated on sectors that are especially vulnerable to environmental concerns such as energy, mining, fishing, and forestry. Chinese companies have invested in mines that are sometimes located in ecologically fragile areas where there is a higher risk of environmental degradation, accompanied by GHG emission, and waste generation, including hazardous substances such as cyanide and mercury. There is widespread agreement that Chinese companies, more than Western companies, need to improve their environmental practices as they invest in Africa.

Over the past decade, China has developed a powerful investment and trade presence in Latin America and the Caribbean. In Latin America, about two-thirds of greenfield projects from China are in dam construction. Two-thirds of Mergers and Acquisitions (M&A) from China take place in the oil and gas sector. Construction of roads to development site causes deforestation and displacement of local community in the Amazon. A trans-continental rail project runs the risk of opening up a resource-rich area in northern Peru to dense urban settlement.

Challenges to Comply with Environmental and Social Safeguards

Chinese investors, especially the larger companies, are found to be willing to meet local standards as long as they are clearly stated and stable. Chinese investments are intentionally establishing long-term diplomatic relationships. This gives leverage to local government and community to collaborate with Chinese investors to establish higher standards. As an example, China Minmetals Corporation (CMC) is China's largest integrated global minerals and metals enterprise. In 2014, it ranked 133rd among Fortune's Global 500 Companies and 2nd in international metal industries. The leadership signed the UN Global Compact in 2010, which contains provisions aimed at protecting the environment. When CMC acquired former OZ Minerals in Australia, it achieved a smooth transition by keeping the management team and offering 5,500 employees local jobs. When CMC planned to establish a chrome ore and PGM mining operation near Rustenberg in South Africa, it partnered with Golder Associates, a global environmental consulting company, to conduct an environmental impact assessment (EIA) process.

In spite of the importance for government agencies, local communities, and companies to collaborate, stakeholder engagement remains a big challenge. Chinese companies have limited understanding of local requirements. International relations and regional stability more often than not override the environmental concerns. The following four case studies in Mozambique, Russia, Canada, and Brazil provide context-based knowledge for a more nuanced view of reality about the challenges in engaging stakeholders.

The Wanbao Xai-Xai farm in Mozambique is one of the largest Chinese agricultural investments in Africa. It has an ambitious plan to grow rice in an area of 20,000 hectares in Xai-Xai province of Mozambique. However, the tensions among Wanbao, Mozambican government and local community heightened as the project expanded. The key causes include the infringement of property rights and the lack of public opinion process and environmental impact assessment (EIA). Mozambican government, claimed as landowner, leased state-owned land to Wanbao for a relatively low price. Although there's a growing consensus that people who have been working the land for decades have access to use the land from past colonization, Mozambican government claimed itself as the owner of the land. Throughout all phases of the project, there were neither public opinion process nor environmental impact assessment. Local community had no access to participate the negotiation process. Even if there were public opinion process, it didn't guarantee to what extent the opinions would be considered.

The transboundary Amur-Heilong River forms the Sino-Russian Border. The river provides many ecosystem services including North Japan's fisheries' sustained nutrient transport from Amur into the Pacific Ocean. The greatest threat to Amur-Heilong is development of hydropower reservoirs on the main channel that can block migration of aquatic species, reduce sediments and change flooding patterns. Investment into individual new dams doesn't involve basin-wide strategic environmental assessment. In 1986, an agreement on development of "The Russia-China Comprehensive Scheme for Water Resources Development in Transboundary Amur-Heilong River" was signed by the People's Republic of China (PRC) and The Union of Soviet Socialist Republics (USSR). The draft Scheme proposed up to 11 dams on the main stem of the Amur-Heilong River and five more on a major tributary, the Argun River. The plan had little consideration to joint resource management issues other than hydropower development. Russia and China failed to agree on many issues including dam height, exact location, reservoir volume and regime, mitigation of impact on fish stocks, other environmental issues and finally the draft Scheme was shelved. Presently there are 2 hydropower dams in Russia and 18 in China; at least another 80 large dams are proposed for future development in the Amur-Heilong transboundary river basin. In Russia existing hydropower projects lack proper environmental safeguards and have already caused significant negative impacts on the freshwater ecosystem. The environmental and socio-economic impacts of new tributary hydropower dams and transmission infrastructure are complex, and require comprehensive and basin-wide cumulative impact assessments that take into account existing hydrological alterations.

Canada has the third largest oil reserve in the world (including oil sand) but its oil export source is primarily restricted to the US by pipelines. When the Keystone Pipeline project started to experience difficulty in the US, Canadian oil companies started exploring business opportunities in China. Since 2005 there have been several Chinese state-owned enterprises, including PetroChina Co. Ltd., Sinopec, CNOOC Ltd. and China Investment Co., that have invested in Canadian energy projects, mostly oil sands and shale projects. One of the biggest acquisition headlines of 2013 was CNOOC's acquisition of Nexen Inc. However, many have questioned the benefit China is receiving from these investments as a suspicious political climate hinders quick development. The current GHG accounting regime is an obstacle for exporting Canadian energy to China. Although China's emission will be reduced, Canada would not be able to meet its reduction commitment due to the increased resource extraction.

Brazil with its abundance of natural resources has in particular attracted Chinese investment. Since China's resources and food sectors are in the control of a few large national corporations domestically and abroad, investment in the land and resource-rich Brazil will help improve resource security, diversify sourcing, and reduce monopoly risk for China. For example, China has displaced the European Union as the main destination of Brazilian soybean exports, with its market share rising from 15% in 2000 to 53% in 2009. This is likely to rise to 70-90% of soybean exports by 2020. With increasing demand exerting pressure on Brazilian land, a key question is how to incentivize local producers and Chinese investors toward better risk management and social responsibility.

Overcome the Challenges from Business and Regulatory Perspectives

To better engage stakeholders, Chinese investors are recommended to 1) recruit Chinese and local professional, high-quality management and operating talents; 2) improve the understanding of recipient countries' investment environment; 3) establish close relationships between its management and local government, communities , media and other parties; and 4) pay attention to international political environmental changes and the national sentiment.

From the regulatory perspectives, the newly established AIIB represents a renewed opportunity to incorporate higher social and environmental safeguards in China-led investment. However, it is still too early to conclude that AIIB will play a major role regarding environmental and social standards in the future due to the following reasons. China lacks the experience in managing multinational institutions - both human and institutional capital. China's participations in international multi-level organizations are very minimal. The World Bank has three institutions related to global environmental climate change. Global Environment Facility (GEF) was established in 1991. Since 1994, it has served as financial mechanism including climate change. Other global environmental conventions like convention on biological diversity are very close to GEF. China is a founding member of GEF, a recipient and donor, although the amount of Chinese donation is minimal. Second one is Climate Investment Fund (CIF). This is a new institution, funded in 2008 after Copenhagen. U.S is the biggest donor and China is not involved. The third fund is the Green Climate Fund (GCF) with its headquarter in South Korea. A total of 10.2 billion dollars from countries around the world are being requested right now for the first 15 years. China is an eligible world member but did not pay anything.

In spite of the lack of human and institutional capital, there is a good chance that AIIC could become a lean, clean, and green institution. AIIB can be more efficient and pragmatic than the existing institutions. AIIB is in direct competition with IFC. In the past, IFC has been very competitive against their multilateral competitors, like ADB. However, IFC is losing to Chinese commercial banks primarily because the long time to go through paperwork and careful financial planning. IFC also loses because of the cost of Environment, Health, and Safety (EHS) compliance. China will develop enforcement and reporting mechanisms for AIIB to improve transparency because China doesn't want to be embarrassed. Jin Lijun, the first president of AIIB, has a lot of experience in the Asian Development Bank (ADB) and the World Bank (WB). His management experience will be helpful for AIIB to learn from the existing institutions. Chinese government is in general respectful to international environmental rules. China has signed most of the environmental agreement in the world including CO_2 reduction and biodiversity protection, much better than many other countries. The developed countries in AIIB, like UK and Germany, will bring oversight to the environmental rules.

Take-home messages

The conference explores the relationship between China's overseas investment and the impacts - both negative and positive - on natural resources, particularly in the forestry, minerals, water, and energy sectors. By convening key actors working in this area, it aims to facilitate knowledge sharing that can steer Chinese overseas investment toward stronger environmental and social governance. The organizers of the conference summarize the key points as follows.

- China's increasing OFDI has brought both positive and negative social and environmental impacts.
- In spite of the importance for government agencies, local communities, and companies to collaborate, stakeholder engagement remains a big challenge.
- Chinese companies are recommended to improve understanding of recipient countries; investment environment and recruit talents for better stakeholder engagement.
- AIIB has the potential to play a major role to incorporate higher social and environmental safeguards in China-led investment by learning from existing multilateral institutions such as the World Bank.

Next steps

Yale University has dedicated to build a strong tie to China. In October 2014, Yale inaugurated Center Beijing as the first university-wide center outside of the United States. Yale F&ES just launched a new dual degree program with Tsinghua University School of Environment in Beijing. The closer relationship will enable the school to expand its research collaboration with China and foster exchange of ideas and knowledge among students.

The organizers of this conference suggest that the Yale F&ES continue to act as a meeting ground for scholars and practitioners who are interested in Chinese oversea foreign investment. These future interactions should take place on the Yale campus in New Haven, Connecticut and at the new Yale Center Beijing.

Appendix I: Symposium Agenda

2nd Yale Symposium on Chinese Overseas Investment and its Environmental and Social Impacts

Location: Burke Auditorium, Kroon Hall
195 Prospect Street, New Haven CT 06511, USA

Friday, April 03, 2015

5:00-7:00 pm	**Joint Reception with The Forestry Club and EFFY**
7:00-9:00 pm	**Dinner**

Saturday, April 04, 2015

8:30-9:00 am	**Registration and Breakfast**
9:00-9:20 am	**Welcoming Remarks**
9:20-10:20 am	**Opening Overview: Chinese Overseas Investment—Trends and Impacts**
10:30-11:40 am	**Panel I: Business Perspective on Environmental and Social Impacts of Chinese Overseas Investment**
11:50-1:00 pm	**Panel II: Chinese Regulatory Governance on its Overseas Investment**
1:00-2:00 pm	**Lunch Break**
2:00-3:10 pm	**Panel III: Chinese Funding in Bilateral and Multilateral Development Institutions**

Case Studies Breakout Sessions

3:20-4:50 pm	**Session A: Canada: China's Overseas Investment in Energy Infrastructure** **Session B: Africa: Wanbao Farm in Mozambique: Land Grab or Development?** **Session C: Latin America: Brazil-China Soybean Trade and Rainforest Conservation** **Session D: Asia: Hydro Development in the Amur-Heilong River Basin**
4:50- 5:20 pm	**Takeaways and Closing Remarks**
5:30- 7:00 pm	**Reception**

Appendix II: Invited Participants

Marian Chertow, Associate Professor, Yale F&ES

Peter Crane, Dean, Yale School of Forestry & Environmental Studies (F&ES)

Deborah Davis, Professor, Sociology, Yale University

Daniel C. Esty, Professor, F&ES and Yale Law School (YLS)

Gordon Geballe, Associate Dean, Yale F&ES

Bradford Gentry, Professor, Yale F&ES

Tao Hu, Director, China Program, World Wide Fund for Nature U.S.

Rodney Irwin, World Business Council for Sustainable Development

Larry Jiang, Environmental Specialist, International Finance Corporation

Wenran Jiang, Director, Canada-China Energy and Environment Forum

Denise Leung, Associate, World Resource Institute

Rebecca Ray, Pre-Doctoral Fellow, Global Economic Governance Initiative, Tufts University

David H. Shinn, Adjunct Professor, International Relations, George Washington University

Eugene Simonov, Coordinator, Rivers without Boundaries International Coalition

Charles Tang, Chairman of the Brazil-China Chamber of Industry & Commerce

Xiaoyang Tang, Associate Professor, International Relations, Tsinghua University

Graham Webster, Research Scholar in Law and Senior Fellow, China Center, YLS

Weijun Xie, General Manager, Resource Development, China Minmetals Corporation

Jingjing Zhang, Environmental Public Interest Lawyer, Yale World Fellow

Zhihong Zhang, Senior Program Coordinator, Climate Investment Funds, World Bank

Appendix III: Acknowledgement

We would like to thank the following sponsors who support the symposium:

Dean Peter Crane, Yale School of Forestry & Environmental Studies (F&ES)
Associate Dean Gordon Geballe, Yale F&ES
Class of 80' Student Project Fund, Yale F&ES
Yale Graduate and Professional Student Senate
Yale Center for Business and the Environment