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## **BELT AND ROAD INITIATIVE: A VIEW ON THE INITIATIVE AND ANALYSIS OF CHINESE ENERGY INVESTMENTS IN THE CONTEXT OF CDB and Ex-Im BANKS**

Key-Words: Belt and Road Initiative; Coal investments; China

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Research Area: International Political Economy

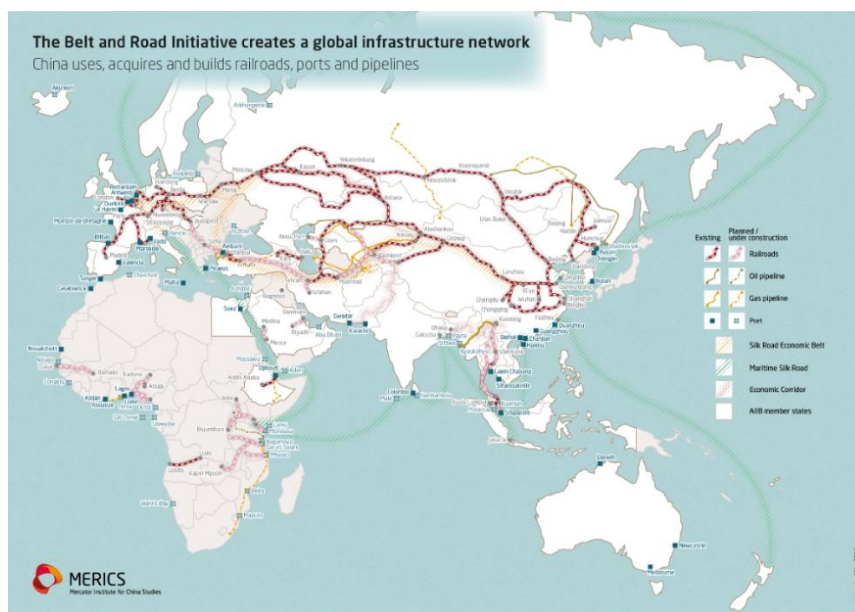
One of the most promising financial initiatives in the global economy today is perhaps that involved in the ambitious Belt and Road Initiative (BRI) project. This Chinese transcontinental geo-economic restructuring is going to have significant impacts on international trade and investment, reviving in the 21st century the thousand-year-old trade pathways of the old silk road that connected West and East. China's development has been one of the most remarkable geo-economic and geopolitical processes in history, due to its territorial and demographic scales and its expected implementation speed. This ambitious initiative demonstrates an even stronger country on its accelerated rise in global development by its geopolitical moves and economic power through cooperation and economic development agreements with sixty-eight countries and international organizations, with massive investments in an extensive network of infrastructure, energy plants, trade and economic cooperation at large (BRUNO; RIBEIRO, 2017). The main projects are on land and marine routes, with the primary objective of integrating the European, Asian and African continents, including recent investments in Latin America as well.

Moreover, this initiative is a way out of the economic downturn experienced, especially in the Western world, amidst the global crisis unfolding since 2008, with a focus on facilitating the expansion of Chinese imports of primary products and energy inputs and its increasing of both the manufacturing exports and its consumer market. For these flows to occur, there is an ongoing massive set of Chinese investments in areas that have, though, a very negative impact on the environment, since the infrastructure sector demands high concentrations of steel and



concrete. There is also a substantial investment in the energy sector, especially in the area of fossil energy, with a focus on coal. Coal is the most polluting fossil energy source, with the proportionally most polluting emissions of gases, taking into account the amount of energy it produces (GOLDEMBERG; LUCON, 2008).

**Figure 1 Location of the Belt and Road Initiative (BRI)**



Fonte: MERICS. Available in: < <https://merics.org/en/analysis/mapping-belt-and-road-initiative-where-we-stand> > Access in: 27/09/2020

China's effort to reduce coal consumption has slowed the growth of the sector on its domestic market. Moreover, slower economic growth in China has resulted in a decrease in energy investments, leading to idle construction and manufacturing capacity. This slow down has fuelled concerns that limited domestic growth opportunities could lead China's coal energy companies to seek new opportunities abroad. BRI has created the necessary conditions for Chinese energy companies to work abroad, which is further spurred by strong demand for new generation capacity among the initiative countries (KOTZ, 2019).

The Global Environment Institute (GEI) recently conducted a long-term review of China's involvement in coal energy projects in 65 countries participating in BRI. GEI figures



show that between 2001 and 2016, China was involved in 240 coal energy projects in these countries, with a total generation capacity of 251 gigawatts (HAO, 2017).

The main contribution and objective of this short paper – and those of the junior research project on its origin, that included an associated Foreign Research Internship (BEPE) – may be presented as a critical characterization of the international panorama of Chinese energy investments with the proposal and demonstration of a hypothesis represented by a metaphor. This metaphor takes the form of an “ambiguous Chinese dragon of energy”. This dragon or, as we also prefer to call it, a chameleon, alternates its colours between shades of green and brown, both on its head and its body since both parts represent Chinese institutions favourable to fossil and renewable energies.

**Figure 2. The Chinese dragon of chameleon-like energy**



Source: DREZZA; CORAZZA; FLYNN (2020)<sup>1</sup>

The dragon’s head would represent China’s central government. In contrast, its body would represent subnational governmental Chinese organisms, whose programs and actions entail tensions and fragmentations vis-à-vis energy matters and decisions, which also manifest mixed green (low-carbon) and brown (fossil-fuel-intensive) practices patterns. Investment decisions by public banks, the CBD and Ex-Im within the BRI, and their distribution among fossil and renewable sources, are studied in this work allowing to characterize the central government decisions (the dragon’s head). Data used are available from the Boston University database, so-called China’s Global Energy Finance, as seen in Gallagher (2018). The amount

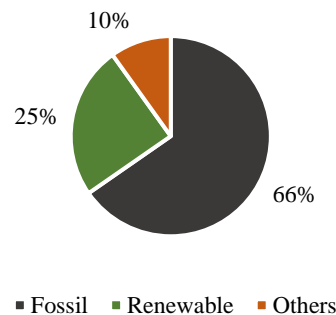
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<sup>1</sup> This idea of the dragon was first presented in the BEPE - FAPESP report titled: CHINA FACING THE CHALLENGES OF CLIMATE CHANGE - Climate governance in the context of greenhouse gases emissions growth. This material is still in restricted circulation as the results will be published in the form of a scientific paper.



of these fossil energy investments, as will be seen, is massive and therefore not compatible with reducing greenhouse gases emissions.

**Chart 1. Energy investment of the two Chinese banks in BRI**



Source: own elaboration based on Global Development Policy Center data (2019)

Chart 1 shows the share of total loan financing for energy production of the two Chinese banks for the period from 2000 to 2019. Fossil energies comprise oil, gas and coal, while renewable comprehends hydropower, the solar, wind, thermal and biomass, and the others include nuclear and non-specific. In general, investments are earmarked and highly concentrated on fuel production and exploration. About 66% of the total was for fossil fuel production, while renewable energy (hydro, solar, wind) accounted for only 25% in the period.

As China leads the world in renewable energy capacity and is rapidly eliminating coal on its territory, the country is investing on and building plenty of the same old archaic coal-fired plants abroad. China is driving more than a quarter of the new coal-fired power capacity entering BRI today. Besides, between 2014 and 2017, 91% of the loans for energy projects throughout the BRI were on fossil fuels. So if all the new Chinese-funded planned coal plants start operating, one may expect an increase in carbon emissions by 276 megatons per year - as much as the entire country of Thailand (FORBES, 2020)<sup>2</sup>.

China's eagerness for global influence, especially in expanding investments in Latin America and Africa, takes place when the country development path urgently need energy

<sup>2</sup> Inside China's 'Greenwashing' Of The Belt And Road. Available in: <<https://www.forbes.com/sites/wadeshepard/2020/02/29/inside-chinas-greenwashing-of-the-belt-and-road/#103781005039>> Access in: 30/06/2020



resources, minerals, water and the land itself. In contrast to the US form of power and influence (MENDES, 2010), the country distinguishes itself by exercising “a form of economic imperialism that gives China much influence over other countries, generally, those that are smaller and poorer” (THE GUARDIAN)<sup>3</sup>.

It is also essential to weigh these investments against the scope of negative impacts that countries suffer since, at home, China is already trying to lessen those effects. Countries which receive Chinese coal-fired plants investments, as Indonesia, Pakistan and Vietnam, are going to be increasingly affected by pollution from them, having adverse effects on their populations' health, and national and global impact on greenhouse gases emissions.

Consequently, it is expected that there will be these investments in coal thermoelectric plants, since they are relevant both for the Chinese energy companies and for the local development of the countries that host these investments. However, such investments clearly deepen the fossil-intensive nature of these countries' energy profiles, resulting in a dependence on fossil energy consumption for a long period of time in the foreseeable future, with more GHG emissions.

Therefore, this research has described coal-fired power plants as the focus of Chinese energy investments abroad, mainly in poorer Eastern countries, creating a need for energy development in fossil sources. This attitude contrasts with investments within China, allowing to confirm, at least for the moment, the ambiguity of the Chinese energy dragon.

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<sup>3</sup> **What is China's Belt and Road Initiative?** Available in: <https://www.theguardian.com/cities/nginteractive/2018/jul/30/what-china-belt-road-initiative-silk-road-explainer> Access in: 20/11/2018.