Asia Society POLICY INSTITUTE

REPORT

# Navigating the Belt and Road Initiative

Daniel R. Russel and Blake Berger

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DANIEL R. RUSSEL AND BLAKE BERGER

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COVER IMAGES: Laborers working on a building construction site in Sihanoukville, Cambodia, Tang Chhin Sothy/AFP/Getty Images, December 14, 2018; Billboard advertisement for the Laos-China railway in Oudomxay province, Laos, RFA, June 25, 2017

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# ABBREVIATIONS

| | |
|---|---|
| **ADB** | Asian Development Bank |
| **AIIB** | Asian Infrastructure Investment Bank |
| **APEC** | Asia-Pacific Economic Cooperation |
| **ASPI** | Asia Society Policy Institute |
| **BRI** | Belt and Road Initiative |
| **CBRC** | China Banking Regulatory Commission |
| **CHINCA** | China International Contractors Association |
| **EBRD** | European Bank for Reconstruction and Development |
| **ECRL** | East Coast Rail Link |
| **EIA** | Environmental Impact Assessment |
| **ESIA** | Environmental and Social Impact Assessment |
| **FIDIC** | International Federation of Consulting Engineers |
| **GDP** | Gross Domestic Product |
| **MDB** | Multilateral Development Bank |
| **MFA** | Ministry of Foreign Affairs |
| **MOU** | Memorandum of Understanding |
| **MOFCOM** | Ministry of Commerce |
| **NDRC** | National Development and Reform Commission |
| **ODA** | Official Development Assistance |
| **OECD** | Organisation for Economic Co-operation and Development |
| **PBOC** | People's Bank of China |
| **PPF** | Project Preparation Fund |
| **PPP** | Public-Private Partnerships |
| **SASAC** | State-Owned Assets Supervision and Administration Commission of the State Council |
| **SOE** | State-Owned Enterprise |

# FOREWORD

**AS A RESULT OF CHINA'S IMMENSE SIZE AND GROWING ECONOMIC AND STRATEGIC FOOTPRINT**, along with its increasingly muscular handling of international relations, the world today is confronting the challenges and opportunities posed by an ambitious and resurgent China. Key among the challenges and opportunities is the initiative announced by Xi Jinping in 2013 as "One Belt, One Road"—a series of infrastructure investments to connect China with economies throughout East, South, and Central Asia and on to the Middle East and Europe. Its stated purpose was to promote new corridors of trade and connectivity between China and the world. But other drivers included the need to offload China's then-immense overcapacity in steel and construction; a desire to develop China's impoverished, remote western provinces; and to diversify China's energy import routes to reduce its heavy dependence on oil shipments through the vulnerable Malacca Strait.

This grand plan, later renamed the "Belt and Road Initiative" (BRI), encompasses a continental "Economic Belt" and a maritime "Silk Road." At the national Work Conference on Peripheral Diplomacy held in 2013 in Beijing, the Chinese government also announced the creation of a USD $40 billion Silk Road fund. Since that time, as the BRI's reach and ambition have grown, the scale of the initiative has expanded to an estimated USD $1 trillion or more.

Not only have the BRI projects increased in number, value, and geographic scope across more than 70 countries worldwide, but also the BRI has become central to China's foreign policy and to Xi Jinping's political status and legacy; it was even written into the constitution of the Chinese Communist Party side by side with "Xi Jinping Thought." This marriage of Chinese political identity, economic interest, and grand strategy means that the BRI is here to stay.

At the same time, Washington has signaled increasing alarm and opposition to the BRI, particularly as Western countries such as G-7 member Italy sign on to the initiative. Vice President Michael Pence, in his October 2018 speech on China at the Hudson Institute, and again at summit meetings in Asia the following month, warned against China's "constricting belts" and "one-way roads," stating that they would drown BRI partners in a "sea of debt." Secretary of State Michael Pompeo amplified the accusation of "debt-trap diplomacy" in visits to Europe and Central America, warning that the BRI is a dangerous Chinese attempt "to buy an empire."

It was against this backdrop that the Asia Society Policy Institute (ASPI) decided to conduct an examination of BRI projects with a view toward analyzing the claims and the criticisms surrounding the initiative. But ASPI, which I describe as a "think- and do-tank," aspires to go beyond simple analysis, seeking to put forward practical policy options for the future. Hence, the project was designed with a view toward determining whether there are best practices that China could reasonably institute that would generate better outcomes. If so, could ASPI make the case to Chinese decision makers that these adjustments would demonstrably serve Chinese interests and address the problems defined by recipient states?

ASPI Vice President Danny Russel—whose three decades as a U.S. diplomat and experience as a presidential advisor and as Assistant Secretary of State for East Asia and the Pacific gives him a firm grasp of policymaking—led this effort.

He and I are grateful to the impressive task force of global experts in infrastructure finance, labor, environment, anticorruption, and Chinese law that Danny convened, whose members kindly shared their time to advise this effort. From this work, along with case studies done with partners and regional experts, Danny and his team were able to produce a carefully researched and well-informed set of findings along with a dozen specific proposals for improving the likelihood that BRI projects can yield beneficial and sustainable developmental, economic, environmental, civic, and social outcomes.

ASPI's approach to the BRI was validated, in part, by the positive reaction to several of these findings and recommendations by Chinese officials when Danny previewed them in Beijing in March 2019. Indeed, some of these recommendations appear to be reflected in the outcomes of the Second Belt and Road Forum held the following month.

Clearly this report marks the beginning, not the end, of ASPI's efforts to shed objective light on this immensely consequential initiative by China, and to illuminate practical pathways to reduce BRI's downsides and improve project outcomes.

Finally, I would like to thank the Ford Foundation and AIG for their support of this important project.

**The Honorable Kevin Rudd**
President, Asia Society Policy Institute
26th Prime Minister of Australia

# INTRODUCTION

**INFRASTRUCTURE SUPPORTS ECONOMIC GROWTH AND CAN IMPROVE SOCIAL WELL-BEING.** While the dynamic economies of Asia consistently drive global growth, there is widespread recognition that a shortfall in infrastructure investment could put a damper on the region's prospects. The Asian Development Bank (ADB) has warned that the region is spending only half of what is needed just to maintain its current growth and to deal with pressing problems such as climate change, leaving an infrastructure financing gap of over USD $800 billion a year.[1]

The launch of Chinese president Xi Jinping's signature One Belt, One Road policy initiative in 2013 raised hopes in Asia and beyond that China would begin to fill that gap. The initiative encompasses an estimated USD $1 trillion in a patchwork of projects across more than 125 countries. Its "Belt" seeks to develop infrastructure, trade, and investment links to connect China to Central Asia and on to Europe, while the "Road" focuses on coastal infrastructure and maritime connectivity stretching as far as the Mediterranean Sea.

The announced goals of the Belt and Road Initiative (BRI) are admirable. As outlined in the BRI Vision Statement, the initiative will help fill the pressing need for infrastructure development; bolster trade, financial, and people-to-people connectivity; enhance policy coordination; and facilitate financial integration.[2] Moreover, infrastructure investment on the scale offered by China is clearly welcomed in the developing world. Officials in developing countries point out that BRI projects are proposed, financed, and built far more quickly, and with fewer demands placed on host governments, than projects financed by international development banks or donor countries. The latter, officials say, have rigorous standards and time-consuming requirements that can be onerous for poorer countries with limited government capacity. Despite this—or perhaps as a direct result—BRI projects have generated a litany of problems. Controversies related to financing and unsustainable debt, corruption, environmental damage, legal issues, and community opposition have tarnished the BRI brand and fueled criticism of China's approach.

In 2018, the Asia Society Policy Institute (ASPI) embarked on a policy project to analyze a range of BRI infrastructure initiatives in a single region, Southeast Asia, which offers a microcosm of differing political systems and development levels, all with abundant experience dealing with China. ASPI, aided by a diverse, global task force of eminent experts in relevant fields (see appendix), undertook to examine BRI operations and impacts in five main areas: financial sustainability, transparency (including anticorruption and competitive procurement), labor practices, stakeholder engagement, and environmental protections. This analysis was based on in-depth case studies of major BRI rail, port, and energy infrastructure projects in four countries;[3] in-country meetings with relevant official and nongovernmental stakeholders; and additional research on BRI projects elsewhere in Southeast Asia—some in progress, some completed, and others renegotiated or at a standstill.

ASPI's "Navigating the Belt and Road Initiative" project is based on five premises:

- The BRI can help meet the immense demand for infrastructure development in Asia, which far exceeds what multilateral development banks (MDBs), international donors, and national governments can provide.

- The BRI is not going away—by enshrining the BRI into the Chinese Communist Party's constitution in 2017, China's leaders made clear that they are wedded to the initiative and will not abandon it, despite setbacks, pushback, and reputational costs.

- The scale and scope of the BRI is such that even modest improvements in its procedures and standards could provide significant benefits to project host countries.

- Chinese initiatives often evolve from general slogans into more carefully structured programs over time, through an extended trial-and-error process, which may allow for the adoption of improved procedures and standards.

- Lastly, the financial cost associated with BRI projects for the Chinese state may prove problematic for the Chinese government, particularly if economic growth slows, and Chinese citizens increasingly question the flow of public money to overseas projects. These pressures give Chinese leaders incentives to seek international commercial and public financing to increase prospects. This in turn will require BRI projects to be structured and operated according to international standards.

With this in mind, we undertook to identify the principal factors causing problems in, or resulting from, BRI projects. We tried to assess how incorporating established best practices or international standards might have avoided such problems and yielded better outcomes for the various stakeholders. With the help of task force members, we used industry and international standards as a comparative benchmark, but also identified relevant Chinese domestic laws, regulations, and procedures that would likely have improved outcomes had they been applied in BRI projects.

Based on this research and analysis, the project's second phase aimed to develop a constructive, actionable, persuasive, and evidence-based case to Chinese policymakers for the adoption of key international best practices and standards. We have supplemented the rationale for these recommendations wherever possible with reference to China's stated interests, commitments, and domestic practices. In addition to the Recommendation section, this report includes a graphic matrix showing the 12 key recommended practices and linking them visually with specific implementation steps, intended outcomes, and relevant Chinese and international precedents.

This report's findings and recommendations were presented in Beijing directly but privately to a diverse group of Chinese policymakers, finance and development officials, scholars, and business leaders in March 2019 during preparations for the Second Belt and Road Forum (April 26–29). Chinese interlocutors were generally receptive to many of the findings and appeared to give serious consideration to many of the recommendations. While numerous policy statements at the Second Belt and Road Forum, such as Xi Jinping's commitment to "open, clean, and green development," are consistent with the recommendations in this report, all of those who contributed to this study hope to see convincing evidence that the mechanisms for achieving such goals are being put in place and that key international standards and practices are being incorporated at each project stage.

**Daniel R. Russel**
Vice President, International Security and Diplomacy
Asia Society Policy Institute

# FINDINGS

## "Respecting Sovereignty" or Ducking Responsibility?

**INTERNATIONAL DEVELOPMENT PRACTITIONERS AND LOCAL STAKEHOLDERS IN SOUTHEAST ASIA POINTED** out during in-country consultations that Chinese dealmakers have routinely absolved themselves of the responsibility to ensure that key environmental and social impact assessments (ESIAs) and compensation and resettlement plans are developed and implemented. Chinese BRI project developers frequently turn a blind eye to practices that would not be tolerated within China's own borders. Chinese officials invoke the principles of "noninterference" and "respect for local law" to distance themselves from aspects of BRI projects that fall short of international standards and best practices.

But developing countries often lack the necessary institutions to support adherence to the rule of law or the application of international standards. National and local laws, regulations, and standards may be insufficient to protect local stakeholders' interests. In such cases, China's laissez-faire approach to infrastructure development makes it easier for Chinese actors to secure project deals and allows developers to benefit by cutting corners and evading responsibility for legal, social, labor, environmental, and other issues. Yet in the long term, Beijing's hands-off approach to BRI projects is not sustainable for either China or the project host countries. The lack of rigorous oversight in poorer developing countries with limited capabilities or weak governance has resulted in a range of problems that have begun to alienate local communities and taint the BRI brand.

An illustrative example of the laissez-faire dynamic is the Kunming–Vientiane Railway in the Lao People's Democratic Republic (hereafter Laos). As relayed during consultations in Vientiane, Chinese project managers neither developed nor sought to ensure the implementation of compensation and resettlement plans for this mega-project. Although work on the railway commenced in 2016, as of 2018 the compensation and resettlement plans were still being reviewed. As a small developing country, Laos lacks the capacity to properly monitor and ensure compliance with local laws, enabling developers to take advantage of land concessions and unlawfully clear communities off of their land. There are numerous documented incidents of villagers being forced to leave their homes without compensation as a result of the project.[4]

## Quick Agreements Undercut Project Sustainability and Raise Risks

One pattern prevalent in the BRI projects in Southeast Asia we examined is the push by Chinese officials, project developers, and sometimes host country actors to expedite the process—pushing for quick signoffs on project memoranda of understanding (MOUs) and contracts, thereby locking in deals before the necessary due diligence has been undertaken. Leapfrogging important project design, feasibility, and financing concerns generates significant risks and long-term problems. A rush to closure denies key parties, including local governments and stakeholders, the opportunity to properly evaluate the project's merits, goals, costs, and impacts. Moving too quickly during the nascent stages to secure an agreement reduces transparency, invites corruption, creates public suspicions and misunderstandings, undercuts the viability of the project, and raises overall risks.

Two major BRI projects that illustrate this dynamic are Malaysia's East Coast Rail Link (ECRL) and Indonesia's Jakarta–Bandung High Speed Railway. From the outset, the ECRL moved at an extremely fast pace. Malaysia's cabinet approved the project on October 21, 2016. Less than two weeks later, then Prime Minister Najib Razak traveled to Beijing to sign the financing and construction agreement. The contract for the project was awarded to the China Communications Construction Company on November 1, 2016 without an open bidding process. Even the ground-breaking ceremony was expedited to August 2017. As a result, the project's feasibility and design proved to be problematic and local businesses were unable to fully integrate into the project's supply chain.[5] It was only through the renegotiation of the project in April 2019, that Malaysia was able to raise the percentage of local content from 30 percent to 40 percent.[6]


Malaysian Prime Minister Najib Razak and Chinese President Xi Jinping at the First Belt and Road Forum in Beijing, Kenzaburo Fukuhara-Pool/Getty Images, May 15, 2017

In the rush to sign the deal and begin construction of Indonesia's Jakarta–Bandung High Speed Railway, comprehensive land acquisition assessments and feasibility studies were not properly conducted. Although the ground-breaking ceremony for the project took place in 2016, land acquisition for the railway remains incomplete, pushing the 2019 completion date back to 2021.[7]

## Project Preparation Assessment and Analysis

On a related note, one of the single biggest factors in flawed or failed projects was the lack of adequate pre-project viability analysis or thorough due diligence prior to the project sign-off and commencement. Once a project is agreed to, especially if it is funded by a Chinese state-owned and/or policy bank with state-backed insurance or similar guarantees, the incentives for the developers and host countries favor speeding up the project and bypassing the necessary due diligence. This has resulted in problems that necessitated politically and financially expensive changes to projects after they were underway.

The cursory, flawed pre-project assessment for the Malaysian ECRL used five-year-old exchange rates to calculate the total costs of the project, which ballooned from USD $7 billion to roughly $13 billion as work began. A misalignment of the initial project design with the design that was ultimately implemented by the contractors resulted in a 65-kilometer discrepancy in the length of the track.[8] In attempting to cancel the project in light of the massive corruption it uncovered, the new government under Prime Minister Mahathir Mohamad discovered that Malaysia would have to pay roughly USD $5.4 billion in compensation and penalty charges.[9]

As a result of major delays, in January 2018, Indonesian president Joko Widodo ordered a reevaluation of the Jakarta–Bandung Railway's design and feasibility. That review found a troubling lack of due diligence and described the project as deeply troubled.[10]

Malaysia and Indonesia are advanced economies with the wherewithal to conduct pre-project assessments and to remedy failures of planning or due diligence. However, developing countries hosting BRI infrastructure projects often lack the financial and human resource capacity to conduct project viability assessments and analyses. Typically, developing states are also unable or unwilling to pay for the services of international experts who can assist them in assessing the requirements, risks, and long-term effects of a project or in designing clear and realistic project goals. The government of Myanmar, for example, relied on pro bono help from friendly international experts and foreign embassy officials belonging to a Donor Assistance Group for assistance in reviewing project contracts and documents. The government team seeking to renegotiate Myanmar's Kyaukpyu deep sea port had to deal with Chinese counterparts who had limited expertise and only fragmentary information about the agreement details.

## Environmental and Social Impact Assessments

Local officials and civil society groups report that ESIAs are sometimes incomplete, conducted in a haphazard manner, falsified, or bypassed entirely, especially in countries where government enforcement of environmental standards is lax. This can create project "time bombs," meaning that the extent of environmental damage only becomes evident later in the project's life cycle. ESIAs, even when conducted, are rarely translated into the local language and made publicly available. Consultations by Chinese developers with local civil society and environmental groups are rare and, when they occur, are often insufficient. There has been a disconnect thus far between Beijing's proclamations on implementing a Green BRI and environmental practices on the ground.

The Lower Sesan II Dam in Steung Treng Province, Cambodia, Sion Ang/SOPA Images/LightRocket via Getty Images, November 30, 2016

In the case of the Lower Sesan II Dam in Cambodia, for example, an environmental impact assessment (EIA) was undertaken in 2009 by a private Cambodian consultancy firm and approved by the government in 2010. However, the study has been widely criticized for underestimating the impacts of the project and the lack of mitigation measures to address concerns over food security, nutrition and health, and protection of local communities and indigenous culture. The accompanying environmental management plan, prepared by the project's developer, was similarly flawed.[11] Subsequent independent studies have underscored the adverse impact that the Lower Sesan II Dam will have far beyond what the initial EIA presented. According to a 2012 report by the National Academy of Sciences, the expected reduction of fish stocks as a direct result of the dam is valued at USD $800 million per year, far beyond the initial estimate of $2.8 million annual loss in revenue.[12]

Additionally, extensive portions of the assessment report for the Pak Lay Dam in Laos were revealed to be plagiarized—simply copied and pasted from a report on an earlier dam project.[13]

## Project Financing and Debt

Beijing is seeking to multilateralize the BRI and open it up to international public and private investors. The challenge is that commercial banks, MDBs, and private international financiers will not invest in a project that has not been adequately de-risked or is not designed to be financially viable. The use of public money through government-backed insurance or Chinese development bank financing, which provides implicit or explicit government guarantee, has created a moral hazard in which "easy money" leads Chinese developers to take outsize risks or pursue unprofitable projects. This has led to financial losses, political backlash, environmental damage, and other negative outcomes. Projects that are not structured according to commercial lending standards can saddle host governments with unsustainable debt, and lead to politically and economically problematic outcomes, including debt-to-equity swaps and concessions.

The Kunming–Vientiane Railway in Laos, estimated to cost USD $5.95 billion, is the largest investment in the country's history. Laos's commitments under the terms of the project total roughly USD $1.78 billion, not including some $300 million in resettlement costs. This potentially represents roughly 12 percent of gross domestic product (GDP) in external public debt for a low-income country whose public debt level in 2016 had already reached a dangerous 68 percent of GDP.[14] Moreover, the financial feasibility of the project has been questioned because of estimates that the railway would lose money for at least the first decade of operation instead of the annual 4.35 percent profit that the joint venture company running the railway has stated that it hopes to make.[15]

BRI projects are often larger and more expensive than the host country can afford, leading to reliance on opaque work-arounds and side deals to compensate the developer for nonviable projects. These in some cases include natural resource concessions that are not objectively valued or are granted without public disclosure and comment, as well as land grants, often without clear titles. These work-arounds foster corruption and create significant social and political problems. Laos has made tax and land concessions to support the Kunming–Vientiane Railway project, significantly undercutting the benefits it will derive.[16] Past experience suggests that further concessions may be necessary to cover the government's obligations. In 2008, the Lao government had to cede land to a Chinese developer as compensation for back debts from a Chinese-built sports stadium in Vientiane.[17]

Another mega-project in Southeast Asia that was radically downsized when the new government examined the scale and terms of the project was the Kyaukpyu deep sea port in Myanmar. Myanmar's Kyaukpyu port project was found to exceed what Myanmar actually needed and could afford.[18] Ultimately, the renegotiated project was scaled back from roughly USD $7 billion to $1.3 billion, the port was downsized from 10 berths to 2; and the project was divided into phases, with each portion contingent on the success of the prior phase.[19]

## Local Stakeholder Engagement

A common feature of the BRI projects examined is the failure of project developers to adequately engage local stakeholders, civil society organizations, and communities to inform, consult, solicit input, or address their grievances. The Chinese approach heavily favors national government-to-government deals for the BRI. But dealing with a country's *power holders*, particularly in systems with weak governance, is not a substitute for dealing with the local *stakeholders* and affected populations. During the research for this project, we found that Chinese developers generally were not funded, staffed, or trained to deal with civil society groups or to handle local stakeholder grievances. The lack of effective stakeholder engagement and grievance handling exacerbates tensions with local populations and has negative social, political, and other effects.

Anti-Lower Sesan II Dam graffiti, Abby Seif, August 5, 2017

Although Malaysia is a federation of states and territories, the original negotiations for the ECRL project were conducted without the involvement or input of local Malaysian stakeholders or even the state governments where the railway would be built.[20] In Cambodia, the Lower Sesan II Dam has sparked protests as affected communities have faced difficulties in receiving promised compensation, resettlement, and employment opportunities.[21]

## Incorporating Local Labor, Businesses, and Training

BRI projects' heavy reliance on imported Chinese labor, inadequate local employment opportunities, weak safeguards for workers' rights, and lack of training programs are widespread complaints in Southeast Asia. Excessive reliance on Chinese labor reduces the projects' benefits to host countries and generates social tensions and other problems. Chinese developers point to plausible problems with the local labor pool, such as a lack of qualified candidates, a project's distance from urban areas, or an unsuitable local work ethic, as the rationale for using Chinese labor. Nevertheless, the shortage of opportunities for local labor and other benefits to the local economy results in dissatisfaction and resentment, as do the enclaves of Chinese workers, which contribute to social problems.

Both local and Chinese workers may be mistreated or exploited by developers or their subcontractors. Problems include unpaid wages, confiscated passports, unsafe work conditions, and forced labor. Dispute resolution and grievance mechanisms tend to be unclear if they exist at all, and compensation is often delayed. It is often difficult for either local or Chinese workers to complain about these abuses, let alone obtain remediation.[22]

The lack of skilled local candidates is particularly acute for higher-level management or technical positions. Local labor recruitment is usually done on a short timeline, which does not allow for capacity building through "up-skilling" programs, creating a vicious cycle. In the case of the Kunming–Vientiane Railway, provisions for local recruitment and training were not put in place early enough to ensure local participation in higher-level jobs on the railway. As a result, local workers were hired principally for low-skilled service positions such as drivers, security guards, and maintenance staff. Even in countries where China has funded technical colleges and training facilities, insufficient efforts have been made to establish links to upcoming projects to foster skills transfer that would create post-construction project management and produce technically skilled employees. In Myanmar, despite the existence of a technical college in the Kyaukpyu area, civil society representatives said that, so far, no one from the college has gotten a job on the port.

At the positive end of the spectrum is the collaboration on the Malaysia ECRL project between the developer, a Chinese state-owned enterprise (SOE), and Universiti Malaysia Pahang, which has launched a three-month skills training program for Malaysian workers. The program aims to train 3,600 engineering students in railway design or construction and carries the promise of a job on the project after graduation. ECRL project developers have pledged that 70 percent of the workforce will be from Malaysia—a far higher ratio than other BRI projects in Southeast Asia.[23]

## Competition and Transparency

Host countries and foreign contractors frequently have difficulty bidding on BRI-related contracts for a variety of reasons. Language can be a problem, as can equipment compatibility and quality control. But many, if not most, project contracts are not competitively bid and may go either to other Chinese companies or to host country cronies with political connections. Established governmental or industry bidding procedures, even those used domestically in China, do not seem to be widely employed in BRI projects. The lack of an open, transparent, and inclusive procurement process generates corruption and waste through inflated prices and bribes. Heavy reliance on Chinese vendors and subcontractors also breeds resentment among the local population. One expert in Malaysia lamented in a meeting, "They even bring their own boards and nails!"

Conversely, to guard against the aforementioned challenges, the Myanmar government selected a respected Singaporean consulting firm to assist in bid evaluation and contract awarding for the Kyaukpyu port project. The evaluation was done in cooperation with a consortium of respected international firms and employed a scorecard system that screened for proven expertise and reliability.[24]

Transparency in the procurement process is needed to ensure that products and services are chosen on the basis of merit. But transparency in the form of accessible, complete, and timely information is also needed for other equally important reasons. One is simply to ensure that suppliers are able to submit bids, which would facilitate increased competition and result in better value. Another is to provide local citizens and stakeholders with relevant information, thereby surfacing potential problems early and building public trust. The lack of publicly available English- or local-language information about BRI projects undermines these objectives, including the ability of non-Chinese companies to participate in the way that Chinese leaders have called for. The official Belt and Road website contains no database or specifics about BRI projects, their contracts, ESIAs, subcontracting or procurement, or other key documents. Nor is it always easy to get details about BRI projects in the host countries. For example, Indonesia's investment chief complained that even cabinet ministers found it difficult to get information on the Jakarta–Bandung Railway project.[25]

## Corruption

Corruption on an epic scale was revealed in Malaysia following the electoral defeat of former Prime Minister Najib Razak and the exposure of the 1MDB scandal. A government investigation found that ECRL contract prices had been vastly inflated and that Chinese companies involved in the rail project appeared to have engaged in money laundering schemes called "round-tripping."[26] But the ECRL is an exception only in that corrupt practices were exposed and publicized; the pervasive use of bribery, cost padding, and kickbacks was also indicated in numerous other BRI projects in the region. Certainly, antibribery and anticorruption rules exist in China, where under President Xi Jinping they are often, if inconsistently, enforced. Most project host countries have their own antibribery laws, although enforcement varies widely. However, there seem to be no operational anticorruption mechanisms for monitoring, enforcement, and accountability in BRI projects. No examples of penalties for corruption in Southeast Asian BRI projects could be identified in the course of our research, and projects do not appear to have local-language websites or other accessible mechanisms for "whistle-blowing," which is how the vast majority of corruption cases are revealed.[27]

## Project Oversight and Coordination

Chinese embassies, at least in Southeast Asia, appear to have little visibility into projects implemented by Chinese companies and are reportedly often unaware of what developers are doing in the host country. This limits the ability of Chinese authorities to exercise oversight of BRI projects, and as a result, relevant ministries in Beijing are often caught off guard when issues arise in BRI recipient countries. This lack of coordination also prevents the use of the embassy's local-language capabilities and knowledge of the country's political and social conditions to prevent problems and avoid mistakes by a Chinese company. Additionally, Chinese embassies rarely participate in regular Donor Assistance Group meetings with other donor embassies and host governments, impeding coordination and transparency while leaving China out of the communication loop when issues arise.

# RECOMMENDED PRACTICES

**THIS SECTION OUTLINES 12 RECOMMENDED PRACTICES** covering various stages in a BRI infrastructure project. Each recommendation outlines what implementation of the proposed practice would entail and then describes the expected benefits to China and project host countries. The recommendations also cite China's relevant domestic practices, policies, and regulations, as well as its international commitments relating to infrastructure development or the overseas operation of Chinese enterprises. Also included for reference are examples of the best practices and standards used by international and regional organizations and multilateral development banks that provide China with potential templates to draw from.

## 1: Require and conduct a rigorous, comprehensive, and transparent project preparation process.

**How would it work?** Before signing the contract for a BRI project, Chinese authorities should require that a rigorous and transparent project preparation process be conducted. Whether funded solely by Chinese banks and developers or in collaboration with the host country and other actors, the project preapproval process should produce a detailed assessment of the financial, environmental, social, workforce, technical, legal, and procurement considerations of the proposed BRI project. The requirements for the pre-project assessment should be on a par with international standards and China's domestic practices.

**What would it accomplish or prevent?** A foundational building block for any successful infrastructure project is a comprehensive project preparation assessment. Rigorous project preparation would provide BRI financing institutions and developers, as well as host country officials and stakeholders, with a reliable overview of the proposed project and a basis for assessing its viability. Identifying environmental, social, and political risks at an early stage would allow for preventive or mitigating measures to be built into the project design and other decisions. A design based on a careful project preparation assessment should produce a higher-quality and more sustainable project, thereby generating greater value for all project participants. Conducting a transparent and thorough pre-project analysis can bolster community acceptance of the project and trust in its developers. Due diligence at this early stage, enabling appropriate steps be taken to address identified risks, is critical to attracting private capital and international finance to any project, which is a stated goal of China's leaders.

**China's domestic and international development practices:** Domestically, the National Development and Reform Commission (NDRC), together with the Ministry of Housing and Urban-Rural Development, recently adopted "Guiding Opinions on Boosting Development of Whole-Process Engineering Consulting Services,"[28] which call for the use of comprehensive consulting services in the two phases of project decision-making and construction of municipal infrastructure and other fixed assets, and emphasize the importance of conducting comprehensive project feasibility studies. Internationally, the China Banking Regulatory Commission (CBRC) issued in 2017 the "Standardization of Banking Services Enterprises Going Global: Strengthen the Guidance of Control and Risk Prevention,"[29] which holds that financial institutions should conduct an independent, comprehensive, and in-depth assessment of the environmental, legal, social, and political risks in evaluating the feasibility of a project. The China International Contractors Association (CHINCA) issued its "Guidelines of Sustainable Infrastructure for Chinese International Contractors" in 2017, stating that during the process of project funding, a project feasibility report that covers design, environmental, and social risk assessments; risk avoidance measures; economic assessments; and the country's investment climate *must* be undertaken.[30]

**International best practices and standards:** There are abundant international best practice templates for conducting a high-quality project preparation process. The G20 published its "Principles for the Infrastructure Project Preparation Phase," in 2018,[31] and Asia-Pacific Economic Cooperation (APEC) issued its "APEC Guidebook on Quality of Infrastructure Development and Investment."[32] Both documents describe the key components and questions that need to be addressed in undertaking project preparation assessments and analyses. The World Bank document "A Diagnostic Framework for Assessing Public Investment Management" outlines the essential features and necessary steps prior to embarking on the construction phase of an infrastructure project with public investment.[33] The ADB provides multiple guidelines on how to conduct project preparation assessments including a technical assistance report, poverty and social analysis, resettlement and environmental assessments, and a project design and monitoring framework.[34]

## 2: Establish a BRI project preparation fund.

**How would it work?** A project preparation fund (PPF) would award grants and other support to BRI project applicant states, particularly less developed nations with resource and capacity constraints, to enable them to conduct or commission needs and feasibility analysis reports. The PPF grants would enable developing countries to access high-quality international advisory and consulting services to help design or evaluate projects to ensure that they are appropriate, bankable, feasible, and sustainable. Specifically, a PPF grant would fund an early analysis of the economic, financial, environmental, social, labor, legal, procurement, and technical considerations of a proposed project. PPF advisory contracts would be competitively and internationally bid, giving the results greater credibility.

**What would it accomplish or prevent?** Setting up a PPF would mitigate the host countries' lack of capacity and/or resources and expertise necessary to evaluate relevant costs, benefits, and the spectrum of environmental, social, and other risks. These advisory reports would enable the governments to identify and prioritize projects that align with their development goals. Employing a PPF fund in this way would yield projects that are fiscally sound and sustainable. It would help developers and project host country officials and stakeholders identify and navigate issues that could delay or derail projects. And it would signal to public and private sector investors that the project is bankable and sustainable. This, in turn, would boost the prospects for international public and private sector financing for BRI projects, especially given that the PPF would help fund international private firms conduct the assessments and analyses. Rigorous assessments and analyses during the project preparation stage, before political and financial decisions have been made, reduce the risk of failure and lower the cost of projects by identifying potential issues and problems early in the design phases and prior to project approval. These measures would address some of the criticisms leveled against the BRI.

**China's domestic and international development practices:** In its "Guiding Principles on Financing the Development of the Belt and Road," China has already explicitly committed to using public funds for the planning and construction of major projects.[35] Although these principles do not directly call for the creation of a PPF, they do call for using existing public funding mechanisms and coordinating with other funding channels, potentially foreign assistance funds, to provide financial support and technical assistance to countries in need. Even though a PPF has yet to be created for the BRI, the Asian Infrastructure Investment Bank (AIIB) in 2016 established a PPF,[36] and in 2017, China's Ministry of Finance and the New Development Bank signed a PPF agreement.[37]

**International best practices and standards:** The World Bank,[38] the European Bank for Reconstruction and Development (EBRD),[39] and the ADB[40] have prepared or established project preparation facilities. The primary objective of these facilities is to provide assistance to developing countries and their relevant agencies to prepare infrastructure projects for private sector participation, and to potentially structure them as public-private partnerships (PPPs).

## 3: Develop a BRI FIDIC-based "standard contract" with required, recommended, and optional provisions.

**How would it work?** BRI project developers should use the applicable International Federation of Consulting Engineers (FIDIC) standardized contracts, adapted for each specific jurisdiction and project. Given the BRI's huge geographic footprint, drawing from the suite of FIDIC standardized contracts would help both the project developers and host countries by enhancing clarity, efficiency, costs, and consistency and by managing expectations of the relevant parties. Certain important provisions should be mandatory for BRI projects, whereas other sections or clauses may be recommended or optional, depending on the nature of the project. Oversight should be applied to ensure that BRI project contracts meet FIDIC contract conditions. BRI contracts, in normal cases, should made public in keeping with the principles of transparency in public procurement, with necessary redactions for proprietary information.

**What would it accomplish or prevent?** Using internationally recognized FIDIC contracts would better protect the legal rights and interests of the parties involved. The use of FIDIC contracts would align Chinese construction companies and infrastructure developers with international norms and best practices. Such contracts would facilitate structuring BRI projects on a PPP basis. This practice would promote the internationalization of the BRI, which is a stated goal of Chinese leaders, and expand the pool of interested financiers, contractors, and suppliers by enhancing transparency in the negotiation and project procurement process. FIDIC contract terms could bolster project oversight and monitoring through the role of engineering consultants, who provide technical supervision and construction management. Additionally, the use of FIDIC contracts could help trim project timelines, avoid delays and the resulting costs, prevent problems among the participating parties, and reduce project risks by providing a standardized dispute resolution process.[41]

**China's domestic and international development practices:** FIDIC contracts have been widely used by MDBs and foreign contractors engaged in infrastructure projects in China. While the Chinese government may not use the FIDIC model, The Ministry of Construction and the State Industrial and Commercial Administration Bureau issued in 1991 and revised in 1999 "Model Conditions of Contract for Works of Building Construction," and the NDRC has released standard contracts for bidding and tendering in recent years. Moreover, China's State Council has adopted regulations requiring disclosure of major construction and other related information domestically.[42]

**International Best Practices and Standards:** The World Bank,[43] the EBRD,[44] and the ADB[45] all use FIDIC contracts in infrastructure development contracts.

## 4: Use blended finance to ensure that BRI projects are commercially viable and can attract international private and public financing (i.e., PPPs).

**How would it work?** Whenever possible, BRI projects should be structured as PPPs with the participation of commercial banks, MDBs, and/or private investors. Financing by Chinese policy and development banks, and any host country project funds, should routinely be combined with private sector investment, as attracting such financing necessitates steps that help ensure the financial viability of projects. Blended financing instruments such as investment grants, technical assistance, and loan guarantees can help attract international public and private financing by lowering transaction and project costs, reducing risks, and improving the likelihood of a project's success. Publicly disclosed official development assistance (ODA) and government grants or loan guarantees should be used as appropriate to provide financial support to high-priority projects that may not be otherwise commercially viable.

**What would it accomplish or prevent?** Commercial banks and investors routinely apply meticulous standards for evaluating risk and commercial returns, adding valuable expertise and rigor to project design while sharing risks and costs. Their inclusion would help ensure that BRI projects are scaled to affordability and commercial viability. Including commercial lenders would also facilitate transparency and better enable international firms to partner in or provide services and products to BRI projects. As China faces downward pressures on its economy, the participation of international banks and private investors would expand the pool of development finance funds available for ambitious infrastructure development goals.

When projects are justified in development or regional terms but are not affordable by the host country or financially viable as commercial enterprises, viability gap funding and other blended financing mechanisms should be employed. The selective use of government funds for blended financing mechanisms though ODA grants or contributions can render a high-priority, high-impact project attractive to private investors, and viable for developing countries with limited resources, without compromising the financial sustainability of the project. Blended finance—using public capital to mobilize private capital for sustainable infrastructure development, in this case—reduces pressure to use problematic work-arounds such as land grants or natural resource concessions. Such work-arounds, which are commonly used in BRI projects to compensate for a developing government's inability to finance a large-scale project, invite corruption and can foster local resentment. The careful use of government guarantees or insurance can attract international investors by lowering costs and risks while maintaining transparency. The use of blended financing in BRI projects would expand relationships between international lenders and Chinese developers and construction companies, creating new commercial opportunities.

**China's domestic and international development practices:** During his address at the Second Belt and Road Forum in April 2019, President Xi Jinping outlined the need to incorporate other forms of financing and encouraged the inclusion of international public and private financing and participation in BRI projects. Xi said that the BRI welcomes "the participation of multilateral and national financial institution in BRI investment and financing and encourage third-market cooperation. With the involvement of multiple stakeholders, we can surely deliver benefits to all."[46] The "Guiding Principles on Financing the Development of the Belt and Road" state that China encourages "policy financial institutions and export credit agencies of countries involved to continue offering policy financial support for [BRI]…and play their role in financing promotion and risk-sharing through various means such as loan, guaranty, equity investment, co-financing, etc."[47] Moreover, China promotes the PPP model in its domestic infrastructure development. In 2019, guidance from the Ministry of Finance[48] set standards for PPP projects, encouraged participation by private and foreign companies, and strengthened information disclosure through a national PPP information platform. These practices could be usefully applied in overseas PPP projects as well, for example, under the 2017 MOU signed by the NDRC with the United Nations Economic Commission for Europe to promote the PPP model in BRI countries. This MOU envisions assisting such countries to establish a sound PPP legal, regulatory, and governance framework to attract investment in infrastructure projects and identify PPP projects that comply with the commission's people-first principles.[49]

**International best practices and standards:** The World Bank has a blended finance facility,[50] while the ADB,[51] the Organisation for Economic Co-operation and Development (OECD),[52] and the EBRD, [53] among other MDBs, have begun to incorporate blended financing structures to encourage PPP and inclusion of private capital into infrastructure projects.

## 5: Ensure an open and transparent project procurement process.

**How would it work?** BRI projects should align with international best practices by employing an open and transparent project procurement process. This can be best achieved in most cases through the use of an e-procurement system. During the bidding process, all companies, including SOEs, should be required to submit their bids for contracts through the e-procurement system, and contracts should be awarded on the basis of best value for money and quality. Provisions can be made in underdeveloped countries to overcome technological, language, or other impediments to e-bidding by local firms.

**What would it accomplish or prevent?** There is a clear public interest as well as demonstrated economic benefits from an open and competitive procurement process. Employment of an e-procurement system at all stages of the procurement process would increase efficiency and reduce procurement time through an automated, electronic system. The system would help reduce corruption and fiscal and operating risks through reliable and effective monitoring of the procurement process. Doing so would improve transparency and accountability in the procurement process and help ensure value for money in awarding contracts. Such a process would build trust among participating companies and, in turn, facilitate the participation of international private firms and MDBs. Ultimately, good procurement practices would enhance the quality and sustainability of the projects.

**China's domestic and international development practices:** Domestically, China has enacted laws and regulations to support open and transparent procurement process, including the 2003 Government Procurement Law revised in 2015, which the Ministry of Finance oversees, and the 2000 Tendering and Bidding Law, supervised by the NDRC, which governs procurement activities for public and private entities. Moreover, China has been using e-procurement domestically since 2014. In 2005, the China Tendering and Bidding Association, administered by the NDRC, established in collaboration with the World Bank the website chinabidding.com.cn, which publishes procurement notices in real time under the Tendering and Bidding Law. The website allows bidders free access to information and coordinates bidding activities. In 2013, over 80 percent of government procurement contracts in China were allocated through open bidding procedures.

The Joint Communiques of the Leaders' Roundtable from the First and Second Belt and Road Forums underscore the importance of an open, transparent, and nondiscriminatory procurement process.[54] Additionally, the AIIB's procurement policy encourages the use of an e-procurement system as it facilitates efficiency, economic gains, and transparency in the procurement process.[55]

**International best practices and standards:** The OECD recommends the use of an e-procurement system as it improves transparency, efficiency, and accountability throughout the procurement process, and provides a compendium of good practices in employing the system.[56] The ADB's "Standard Bidding Documents and User's Guide to Procurement of Works" provides detailed instructions for bidders on how to prepare and submit their bids, the contracts, employer requirements, and the awarding evaluation and qualification criteria.[57] Additionally, ADB's "E-Procurement: Guidance Note on Procurement" details the steps on developing the system, its benefits, the necessary policies and regulations, and how to address the risks involved.[58]

## 6: Conduct rigorous, transparent, community-engaged, and publicly available environmental and social impact assessments.

Laotian farmer watering his garden in Louang Namtha province, Laos, where the Chinese workers were carrying out drilling works in preparation for the railway, Hoang Dinh Nam/AFP/Getty Images, March 10, 2011

**How would it work?** Once a BRI project is approved and prior to construction, China should require that an ESIA be conducted to examine at least the following areas: environmental risks; social risks and impacts, including gender, indigenous people, and cultural heritage considerations; land acquisition, land rights, resettlement, restrictions on land use, and displacement; security; community health and safety; stakeholder engagement and information disclosure; and labor issues, including labor supply and training, labor influx and impacts, working conditions, and the risk of child labor, forced labor, discrimination, or other abuses. The ESIA should be undertaken in consultation with local stakeholders and affected communities throughout the process in an open and transparent manner.

**What would it accomplish or prevent?** A rigorous, transparent, community-engaged, and publicly available ESIA would provide a key tool for BRI project managers and host government agencies to develop procedures to mitigate or avoid adverse environmental and social impacts during the project's life cycle. A good ESIA leads to better outcomes, reduced risk, and benefits to both host countries and China. Having a reliable and comprehensive ESIA would provide project developers and local stakeholders the capacity and capability to avoid environmental and social "time bombs" that could result in protests, project delays, or cancellation.

**China's domestic and international development practices:** Various Chinese laws and regulations specifically stipulate ESIAs or EIAs be conducted for domestic and overseas projects. The 2002 Environmental Impact Assessment Law as revised in 2016 stipulates that before construction commences on domestic projects with significant environmental impacts, the EIA documents must be reviewed and approved by the appropriate relevant departments.[59] The CBRC's 2017 "Guide to Strengthen Risk Prevention and Control"[60] encourages financial institutions engaged in infrastructure projects to learn from the Equator Principles and other international best practices, establish environmental and social risk control systems, conduct environmental and social assessments in evaluating the projects feasibility, and strengthen monitoring of social and environmental risks. The CBRC's 2012 "Green Credit Directive" sets out mechanisms to ensure proper environmental and social risk due diligence, monitoring and supervision, and completion of an environmental and social risk report. Furthermore, the directive states that "banking institutions shall promise that appropriate international practices or international norms will be followed… so as to ensure alignment with good international practices."[61] The NDRC, the People's Bank of China (PBOC), the Ministry of Commerce (MOFCOM), and the Ministry of Foreign Affairs (MFA) jointly issued the "Code of Conduct for Overseas Investment Operations by Private Enterprises" in 2017, stating that before the construction of any overseas project, private enterprises involved should undertake environmental assessments of the proposed construction site.[62] The China Export-Import Bank's 2007 "Guidelines for Environmental and Social Assessments" similarly explicitly calls for EIAs to be undertaken, and it details the specific sectors and aspects that the assessments should cover.[63]

The AIIB has well-developed guidelines on conducting ESIAs, consultations with local stakeholders, establishing a grievance mechanism, and transparency/disclosing information.[64]

**International best practices and standards:** The World Bank's "Environmental and Social Framework" outlines the requirements and standards for conducting environmental and social assessments, how to compile the report, the issues that need to be evaluated, and the need to develop differing channels for stakeholder engagement.[65] The ADB's "Environmental Assessment Guidelines" details the procedures and requirements for undertaking an EIA; explains how to develop environmental management plan; and provides a framework for conducting public consultations, reviewing the EIA, and establishing a monitoring and auditing system.[66]

## 7: Require and enable stakeholder engagement throughout the project life cycle, including by establishing a local grievance mechanism.

**How would it work?** Chinese authorities should require that each BRI project establish a mechanism to receive and address issues or complaints raised by project workers (both Chinese and local), contractors, affected stakeholders, and civil society. Such channels should not replace but supplement other existing legal or other processes. The mechanism should be publicized in Chinese and relevant local languages and include information on how to register complaints and how they will be handled. Typically, a grievance mechanism would entail the creation of a call center with language-capable staff, the development of a website and other communication channels in Chinese and relevant local languages, and collaboration between project management and local government and civil society organizations, as well as appropriate Chinese authorities and stakeholders, to report problems and obtain assistance in addressing complaints. It is crucial that a confidential complaint channel is available and a nonretaliation principle is respected and that their existence is publicized to workers and other stakeholders.

**What would it accomplish or prevent?** By providing an accessible mechanism for feedback from local stakeholders and impacted communities, BRI developers would have an early warning system to detect emerging problems. This would generate useful information, insights, and contacts that can be valuable to the success of projects. Directly engaging local stakeholders, instead of working exclusively through national and local government officials, this mechanism would build community trust and buy-in to the project. Providing a local-language project point of contact and a complaint handling mechanism can also keep false rumors from gaining currency and prevent local protests that could disrupt or derail BRI projects. This type of mechanism would help resolve disputes in an early, efficient, and inexpensive manner.

Local community in Krabei Churn, Cambodia impacted by the Lower Sesan II Dam, Sion Ang/SOPA Images/LightRocket via Getty Images, December 14, 2016

**China's domestic and international development practices:** China has domestic guidelines and directives requiring local stakeholder engagement in major project development[67] and establishing complaint and grievance mechanisms. CHINCA's "Guide to Social Responsibility for Chinese International Contractors" explicitly states that companies must establish a negotiation mechanism that supports the participation of employees, as well as a two-way communication mechanism to respond to employee complaints and expectations.[68] Domestic regulations also recognize the important role of whistle-blowers in reporting wrongdoing and the need to protect them from retaliation, including with respect to environmental protection.[69] In the workplace setting, Chinese laws and regulations acknowledge the need for mechanisms to address employee concerns, such as the China's Labor Dispute Mediation and Arbitration Law provision for local governments, in conjunction with trade unions and representatives of enterprises, to establish a tripartite coordination body to jointly study and resolve labor issues and disputes.[70]

Further, the AIIB established its Project-Affected People's Mechanism and Grievance Redress Mechanism in 2018.[71]

**International best practices and standards:** The World Bank Group's "A Guide to Designing and Implementing Grievance Mechanisms for Development Projects" and "How-To Note: Feedback Matters: Designing Effective Grievance Redress Mechanisms for Bank Financed Projects" provide procedures on how to design and implement a grievance mechanism, best practices, the offices and personnel needed to operate the mechanism, and differing approaches to resolve grievances and disputes.[72] The ADB's "Building Capacity for Grievance Redress Mechanism" and "Accountability Mechanism Policy" provide comprehensive guidelines and steps to establish and operate a grievance and complaint handling mechanism; details on how to file, process, and handle complaints; and procedures to review the mechanism.[73]

## 8: Better regulate the use of Chinese workers in overseas projects.

**How would it work?** Companies that choose to send workers from China or third countries to work on BRI projects should be required to document the need for and the size of the imported workforce; study the impacts of this labor influx on the local environment, resources, and communities; conduct host country stakeholder consultation; exhaust options for locally sourced labor; and demonstrate plans to avoid adverse consequences and, when possible, provide for local labor training. The primary contractors should be ultimately responsible for protecting the rights of all project workers, including those employed by subcontractors, and ensure wages are paid, work-related injuries are fairly compensated, and workers have access to meaningful complaint or grievance mechanisms.

**What would it accomplish or prevent?** The arrival of a large number of Chinese or foreign workers in BRI project countries has created resentment among local populations. The influx of Chinese (or third-country) workers can cause damage to the local environment, divert scarce or valued resources, or create social ills such as human trafficking. Labor rights safeguards for both imported and host country workers, along with accessible and effective mechanisms to address their grievances, could help prevent abuses that might result in strikes, protests, or disruptions that impede projects and exacerbate tensions. Better managing Chinese overseas labor issues will also help improve the reputation and international acceptance of BRI.

**China's domestic and international development practices:** China's domestic regulations for the construction industry, specifically the 2004 joint measures issued by the Ministry of Construction and the Ministry of Human Resources and Social Security, recognize the principle of holding the developer ultimately responsible for wage payments to workers, even those employed by subcontractors, and even require companies to set aside funds in the case of a future wage dispute involving project workers. The CBRC 2017 "Guide to Strengthen Risk Prevention and Control" explicitly states that financing institutions and companies involved in projects should establish complaint response mechanisms. China has a number of regulations protecting overseas Chinese workers on paper and even a complaint mechanism for them to use, for example, CHINCA's Dispatched Labour Service Personnel Complaint Center.[74]

**International best practices and standards:** The World Bank has comprehensive resources on managing the adverse impacts associated with a labor influx, which it defines as a contractual duty of the project developer.[75] The United Nations and the International Labour Organization[76] have a series of conventions, policies, and guidelines that describe practices to protect the rights of migrant workers.

## 9: Expand and improve the use of local labor and businesses, including through "up-skilling" programs.

**How would it work?** BRI project developers should maximize the use of local labor and companies and limit their reliance on imported Chinese labor and materials. In developing countries, this may require creating or supporting technical and management training programs for local workers, both for the project itself and for the eventual transition to local operation in build-operate-transfer projects. Such training programs may require significant lead times to create an adequate pool of qualified local labor and should be factored into the project designs and budgets. Institutional linkages with Chinese technical and management schools have helped with up-skilling and created a pipeline of qualified local personnel to support BRI projects.

**What would it accomplish or prevent?** Increased local employment generates community buy-in for projects, which, in turn, reduces problems and risks, thereby enhancing long-term sustainability and operations. Expanding or developing technical and managerial training programs in the early stages of a BRI project would help ensure a flow of qualified candidates, addressing widespread complaints that BRI projects rely excessively on imported Chinese labor and offer only low-level service positions to local workers. Such training programs facilitate the spillover of technical know-how to BRI host countries, reduce the number

Chinese workers operating a drilling machine in preparation for building the railway linking China to Laos in Bopiat Village, Louang Namtha province, Laos, Hoang Dinh Nam/AFP/Getty Images, March 10, 2011

of Chinese workers, create better integration with locally employed staff, ameliorate community resentment, and promote trust and goodwill. Reducing the size of the imported Chinese labor pool could reduce costs and the political or social problems associated with large overseas Chinese enclaves. In bolstering the use of local materials and products, project contracts should establish local content requirements. Incorporating more local workers into the project will help mitigate host country backlash, promote economic development, and address widespread complaints about BRI projects.

**China's domestic and international development practices:** The NDRC, MOFCOM, PBOC, and MFA issued the "Code of Conduct for Overseas Investment Operations by Private Enterprises," which calls for private enterprises engaged in overseas activities to actively hire and create employment opportunities for locals.[77] CHINCA's "Guide to Social Responsibility for Chinese International Contractors" states that developers and firms should prioritize the procurement of local products and services to advance local operations and cultivate local employees.[78]

**International best practices and standards:** The ADB's "Domestic Preference: Guidance Note on Procurement" provides comprehensive guidelines on how to approach incorporating and using local goods and services in procurement.[79]

## 10: Adopt "Clean BRI" anticorruption/antibribery oversight, enforcement, and reporting mechanisms.

**How would it work?** Building on the "Clean Silk Road"[80] initiative outlined at the April 2019 Belt and Road Forum, China should adopt a Clean BRI platform making anticorruption a cornerstone of the BRI. This should include putting in place a whistle-blower mechanism and safeguards for individuals to report corruption in BRI projects. The commitment to safeguard against bribery and corruption should be incorporated into BRI legal, policy, and project-related documents and contracts. Companies and personnel participating in BRI projects should be required to adhere to clearly defined standards reflecting international antibribery conventions and industry best practices. All project companies should be required to establish adequate internal mechanisms to prevent, detect, and address corruption to qualify for BRI projects, train their staff to be able to address and mitigate corruption, report on anticorruption compliance, and obtain anticorruption certification for those programs from a reputable body. Publicly enforcing the provision in China's Criminal Law that outlaws bribing foreign officials and officers of public international organizations would help deter such behavior.

**What would it accomplish or prevent?** Corruption is a leading factor in excessive project costs, delays, ultimate project value, and project failure, producing suboptimal resource allocation. Addressing corruption would improve the efficiency and sustainability of the projects by ensuring that public money and contracts are allocated in a transparent and market-based manner. This, in turn, would help mitigate fiscal risks to the project host countries and to China. A Clean BRI platform would facilitate the participation of international companies and institutions. Fostering a level playing field for interested parties to compete increases the opportunities and lowers the risks in participation. Furthermore, these measures would enhance transparency throughout BRI projects and help mitigate local and international concerns.

**China's domestic and international development practices:** Bribery and corruption are illegal under Chinese domestic law and norms of the Chinese Communist Party is currently waging a domestic anticorruption campaign. The Supervision Law provides for tip-offs and penalizes those who do not protect informants.[81] Bribery is prohibited under the NDRC's 2017 "Code of Conduct for Overseas Investment Operations by Private Enterprises."[82] The NDRC's 2018 "Guidelines on Enterprise Compliance Management of Overseas Operations" explicitly call on all Chinese enterprises to comply with specific requirements on anticorruption, antibribery, anti–money laundering, and related activities.[83] The State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) and the World Bank jointly held a "Training Workshop on Corporate Compliance for Chinese Enterprises Operating in Belt and Road Countries" in January 2018.[84]

Additionally, the AIIB has a policy on prohibited practices which establishes reporting, whistle-blower protection, suspension, and debarment mechanisms to address fraud and corruption.[85]

**International best practices and standards:** The United Nations Convention Against Corruption covers anticorruption and antibribery regulations in the private sector, and focuses on preventive measures, criminalization and law enforcement, international cooperation, asset recovery, technical assistance, and information exchange. The OECD's "Convention on Combating Bribery of Foreign Public Officials in International Business Transactions" provides detailed guidance on handling and mitigating corruption. The ADB's document "Integrity Principles and Guidelines 2015" detail specific mechanisms, including the creation of a whistle-blower mechanism and witness protection protocols, offices, and policies to combat corruption. Other MDBs have signed on to these policies, albeit with specific organizational differences.[86]

## 11: Create BRI units in Chinese embassies in project countries.

**How would it work?** The Chinese government should staff dedicated BRI teams or units in embassies and consulates of countries that host major BRI projects. The teams should conduct oversight functions and monitor the activities of Chinese developers and workers. The unit could include representatives of relevant Chinese agencies and serve as a public and business point of contact regarding BRI projects. It should liaise with and advise Chinese developers, help ensure adherence to local laws, and facilitate project management coordination with host government and civil society organizations.

**What would it accomplish or prevent?** Creating BRI units would address the criticism that Chinese developers operate in an uncoordinated and sometimes problematic manner without the knowledge of the embassy and without local expertise. Embassies could provide valuable country-specific political, economic, commercial, and social information to project managers and enhance oversight of Chinese developers' compliance with international, local, or Chinese guidelines to help prevent some of the problems that plague BRI projects. An embassy team could play a constructive role in enhancing discipline among Chinese companies, contractors, and workers operating overseas, for example, by discouraging corruption, trafficking, or other problematic practices. These teams could also be an important resource for dispatched Chinese workers, who are often sent to isolated project sites where their passports are confiscated and lack any other avenue to obtain assistance. The units could help ensure that disputes are appropriately addressed, advise and assist Chinese firms with local laws and procedures, and help coordinate with local government and civil society organizations, thereby improving the prospects of project success. These units could facilitate Chinese embassy participation in local donor coordination groups that share information and coordinate in-country development priorities and activities.

**China's domestic and international development practices:** The NDRC's "Code of Conduct for Overseas Investment Operations by Private Enterprises" encourages the creation of regular communication channels between local investment operations with the local Chinese embassies and consulates.[87] SASAC's "Guiding Opinions on Strengthening Prevention and Control of Overseas Integrity Risks of Central Enterprises" emphasize the need to strengthen supervision and management of overseas personnel, improve coordination among the supervision departments, and set-up a unit to prevent and manage overseas integrity risks.[88]

## 12: Develop a searchable, comprehensive, up-to-date, English-language BRI project database.

**How would it work?** Chinese authorities should create a comprehensive online BRI project database in English and, potentially, other languages (in addition to Chinese). The database should include a list of completed, on-going, and prospective BRI projects. The database should be searchable and kept current. It should include the most information possible on project financing, design, and execution. It should identify the entities involved, the scope and terms of the project, actual and projected numbers of laborers, and other salient information. Project-related documents should be posted and kept up to date. These might include contracts (with proprietary information redacted), ESIA reports, project timelines, procurement and bidding information, points of contact, among other key documents.

**What would it accomplish or prevent?** By providing transparency, a database would address a major criticism of BRI: the lack of information concerning projects and confusion over which projects are part of the BRI. Posting up-to-date project-related details and documents would give international companies and financing institutions easier access to information, thereby opening up opportunities to take part in BRI projects and potentially raising the quality and sustainability of BRI projects. A database would allow research institutions to analyze and report on the BRI and provide information useful to governments seeking to develop infrastructure or promote new projects that might connect with the BRI. The transparency afforded by such a database would further bolster international trust as well as understanding and the reputation of BRI.

**China's domestic and international development practices:** The "Belt and Road Ecological and Environmental Cooperation Plan" calls for the creation of a big data platform to bolster information sharing and improve cooperation.[89] The NDRC and the Ministry of Finance maintain open project databases for domestic investment, PPPs, and overseas investment projects.

The AIIB has a comprehensive database of proposed and approved projects on its website that provides documents relating to resettlement and compensation plans, ESIAs, and monitoring reports.[90]

**International Best Practices and Standards:** The ADB maintains a project database that provides access to key documents on projects financed by the bank.[91]

# CONCLUSION

**CHINA HELD ITS SECOND BELT AND ROAD FORUM IN BEIJING IN APRIL 2019.** The speeches by Chinese leaders and the policy documents produced in connection with the forum pointed in a direction that was consistent with the thrust of this report and our recommendations. President Xi Jinping explicitly declared that there would be zero tolerance for corruption and announced the establishment of the Clean Silk Road initiative. He called for adherence to international rules and standards in project development, operation, and procurement, and encouraged the participation of multilateral financing institutions in the BRI.[92] The forum's Joint Communique directly outlines the need to strengthen cooperation in local human resource development, education, and professional training and calls for "improving project preparation to ensure that projects are investable, bankable, economically viable, and environment-friendly."[93]

The messaging from Chinese leaders at the forum suggests that policymakers in Beijing have heard international criticism, were prepared to acknowledge that the BRI has faced some problems in its first five years, and were motivated to make an effort to publicly address some of the challenges. But the question remains whether those efforts are cosmetic or credible, aspirational or actual. Encouraging BRI policy initiatives[94] in the past calling for strong ESIAs, disclosure of project information to the public, and promotion of local employment have gone unenforced in the execution of many projects. The critical variable going forward is whether Beijing actually adopts, implements, and enforces the best practices that Chinese agencies have put forth.

The recommendations presented in this report are undeniably ambitious. But the BRI is an ambitious undertaking, now indelibly linked to the reputational standing of the Chinese nation and its leader, Xi Jinping. That link presumably serves as an incentive for the Chinese government to improve project outcomes and avoid setbacks and failures. Can the BRI in some sense emulate the path of the AIIB, which was perceived at its inception with justifiable skepticism? The AIIB evolved from the drawing board, where it initially appeared to be an opaque instrument of Chinese national policy, to begin operation as a credible MDB with international governance and standards that approach or match those of other multilateral banks. Certainly the international community would benefit if the BRI followed a similar trajectory.[95]

Some of the recommendations in this report call for implementation of existing rules or standards. Requiring and validating BRI project ESIAs and requiring transparency in major project documentation, as China does domestically, should be straightforward. Other recommendations, such as the creation of a searchable, comprehensive, English-language BRI project database, are admittedly enormous undertakings. But even the incremental step of posting information and documents on a sampling of major BRI projects, then expanding the database to include others, would carry significant benefits and enhance confidence in the initiative.

Serious and objective analyses of the BRI have been conducted by several institutions in the past year, and more are underway. But the public discussion of the BRI still includes large doses of criticism, wishful thinking, pandering, and self-congratulatory propaganda—none of which are likely to produce real benefits for project host countries or for China. In presenting real-world, practical recommendations to Chinese policymakers, the intent is to facilitate the adoption and implementation of international best practices and standards in all BRI projects. Similar advocacy by the international community is valuable and warranted. But it is equally important that more developed countries and international organizations assist those BRI project host nations with weak governance or limited capacity to enable them to safeguard their communities, environment, economy, and other national interests throughout the life cycle of their BRI projects.

## BRI RECOMMENDATIONS AND BEST PRACTICES MATRIX

| | REQUIRE AND CONDUCT A RIGOROUS, COMPREHENSIVE, AND TRANSPARENT PROJECT PREPARATION PROCESS | ESTABLISH A PROJECT PREPARATION FUND (PPF) | DEVELOP A BRI "STANDARD CONTRACT" WITH REQUIRED, RECOMMENDED, AND OPTIONAL PROVISIONS |
|---|---|---|---|
| HOW WOULD IT WORK? | **Chinese Government, Project Developers, and Contracted Companies**<br>• Prior to project approval, Chinese authorities should require that a rigorous and transparent project preparation process be undertaken.<br>• Conduct risk and life cycle assessments for new materials, processes, and methods.<br>• Cancel or substantially change projects found to be financially or otherwise nonviable.<br>• Design project based on careful assessment. | **Chinese Government**<br>• Establish a BRI PPF fund.<br>• Award grants as needed to support states considering BRI projects to fund analysis of needs, viability, and factors relevant to decision-making and project design.<br>• PPF advisory contracts should be open to international firms and competitively bid on. | **Chinese Government**<br>• Use International Federation of Consulting Engineers (FIDIC) standard contracts as a template for developing a standard contract for BRI with mandatory and optional provisions.<br>• Make BRI standard contract publicly available.<br>• Conduct oversight to ensure contracts meet FIDIC standards. |
| WHAT WOULD IT ACCOMPLISH OR PREVENT? | **Improve Project Oversight**<br>• Many developing countries lack the resources or capacity to conduct appropriate viability analysis.<br>• Minimize risk of project failure through thorough pre-project viability analysis and due diligence.<br>• Provide project financers and developers with a clearer understanding of the local political, social, environmental, and economic context.<br>**Invite International Participation**<br>• Nonviable projects do not attract private and international investment and can saddle host governments with unsustainable debt.<br>**Build Support for the BRI**<br>• Reduce the likelihood of debt-for-equity swaps and environmental or social damage, which can result in resentment toward China and the BRI. | **Host Country Capacity**<br>• Host countries may lack the capacity, resources, or expertise necessary to evaluate projects.<br>• Better alignment with host countries needs.<br>• Bolster developers and host countries. capacity to identify and navigate potential issues.<br>**Attract Private Capital**<br>• Projects that undergo a comprehensive assessment have greater viability and credibility on the international market and facilitate international public and private participation.<br>• Rigorous assessment during the pre-project stage reduces the risk of failure and lowers project costs. | **Project Quality**<br>• The lack of consistency between contracts yields inconsistent approaches and outcomes.<br>• Reduce risk of delays and resulting costs.<br>• Establish standard dispute resolution procedure mitigating potential delays and costs.<br>• Improve project oversight through the role of the engineering consultants.<br>**Increase Multilateral Support**<br>• Improve credibility of BRI by adhering to internationally-recognized standards. |
| REFERENCE | **International Standards**<br>• The G20 "Principles for the Infrastructure Project Preparation Phase" and APEC's Guidebook on Quality Infrastructure Development and Investment" delineate critical issues to address within each step of the project preparation process.<br>• The World Bank's "A Diagnostic Framework for Assessing Public Investment Management" outlines the essential features and necessary steps prior to embarking on the construction phase of an infrastructure project with public investment.<br>• The ADB provides multiple guidelines on how to conduct project preparation assessments.<br>**Chinese Precedent**<br>• The CBRC's "Standardization of Banking Services Enterprises to 'Go Out' and Strengthen the Guidance of Control and Risk Prevention" states that financial institutions should conduct an in-depth and independent assessment of the environmental, legal, and social risks in evaluating a project's feasibility.<br>• CHINCA's "Guidelines of Sustainable Infrastructure for Chinese International Contractors" outline what should be included in a project feasibility report.<br>• The NDRC and Ministry of Housing and Urban-Rural Development's "Guiding Opinions on Boosting Development of Whole-Process Engineering Consulting Services" emphasize the importance of conducting comprehensive project feasibility studies. | **International Standards**<br>• The World Bank, European Bank for Reconstruction and Development (EBRD), and ADB have prepared or established project preparation facilities.<br>**Chinese Precedent**<br>• The "Guiding Principles on Financing the Development of the Belt and Road" state that China will use public funds for the planning and construction of major projects.<br>• The Asian Infrastructure Investment Bank (AIIB) established a PPF in 2016.<br>• The Ministry of Finance and the New Development Bank signed a PPF agreement in 2017. | **International Standards**<br>• The World Bank, EBRD, and ADB all use FIDIC standard infrastructure development contracts.<br>**Chinese Precedent**<br>• China's Ministry of Construction, State Industrial and Commercial Administration Bureau, and NDRC use standard contracts in domestic tendering.<br>• China's State Council adopted regulations requiring disclosure of major construction and other related information domestically. |

# BRI RECOMMENDATIONS AND BEST PRACTICES MATRIX

| | ACTIVELY ENCOURAGE BLENDED FINANCING | ADOPT AND REQUIRE OPEN AND TRANSPARENT BRI PROJECT PROCUREMENT PROCESSES | CONDUCT RIGOROUS, TRANSPARENT, COMMUNITY-ENGAGED, AND PUBLICLY AVAILABLE ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENT (ESIAs) |
|---|---|---|---|
| HOW WOULD IT WORK? | **Chinese Government and Development Banks and Financing Institutions**<br>• Use blended financing instruments, including investment grants, viability gap funding, technical assistance, loan guarantees, and publicly disclosed official development assistance as appropriate for high-priority projects that are not financially viable or affordable but justified in development or economic terms. | **Project Developers**<br>• All companies, including Chinese state-owned enterprises, submit their bids for contracts through an established e-procurement system.<br>• Ensure contracts are awarded on a best value for money and quality basis. | **Project Developers**<br>• Conduct ESIAs after project approval and prior to construction that examine environmental and social impact management; land rights; security, health, and safety; stakeholder engagement and information disclosure; and labor issues.<br>• Publicize ESIA conclusions in the local language and in English.<br>• Implement the procedures to mitigate or avoid adverse impacts during the project's life cycle. |
| WHAT WOULD IT ACCOMPLISH OR PREVENT? | **Reputation and Sustainability**<br>• Diminish concerns that China is purposefully "debt trapping" less developed nations through the BRI.<br>• Expand the pool of development funds available for financing ambitious infrastructure projects.<br>• Expand relationships and facilitate new commercial opportunities between international and Chinese companies.<br>**Reduce Risks**<br>• Huge amounts of public money are spent on BRI projects, many of which are not commercially viable.<br>• Chinese developers can pursue unprofitable projects due to their easy access to government funds.<br>• Commercial banks and investors will apply rigorous standards to ensure fiscal viability of the project and commercial returns. | **Increase Project Efficiency and Quality**<br>• Reduce procurement time, corruption, and waste through automated system.<br>• Many project contracts are not competitively bid, allowing companies to be paid for services or equipment which are never delivered.<br>**Build Support for BRI**<br>• Build trust among participating parties and attract international private firms and development banks. | **Enhance Project Quality**<br>• ESIAs have been falsified or bypassed completely, leading to problems.<br>• ESIAs rarely engage stakeholders or are translated into local languages and made publicly available.<br>• Enforcement of environmental standards in host countries is often lax, resulting in expensive delays, local resistance, and liability issues.<br>• Proper ESIAs enhance transparency and investor confidence, reduce risk, and provide a comprehensive and realistic view of the challenges facing the project, as well as options for mitigation. |
| REFERENCE | **International Standards**<br>• The World Bank, ADB, EBRD, and OECD encourage PPP for infrastructure projects and have guidelines and frameworks on how to do so.<br>**Chinese Precedent**<br>• At the Second Belt and Road Forum, Xi Jinping called for multilateral development bank financing in BRI projects.<br>• The "Guiding Principles on Financing the Development of the Belt and Road" state that policy financial institutions and export credit agencies of the countries involved should continue to offer financial support for the BRI and play a role in financing promotion and risk sharing.<br>• The memorandum of understanding between the NDRC and the United Nations Economic Commission for Europe on promoting the PPP model for the BRI outlines how to establish a sound legal, regulatory, and governance framework for PPP projects and how to attract investment.<br>• The Ministry of Finance's 2019 "Guidance Note on Setting Standards for PPP Projects and Encouraging Private and Foreign Participation" provides standards for PPP projects and improving information disclosure through a national PPP information platform. | **International Standards**<br>• The OECD recommends the use of an e-procurement system as it improves transparency, efficiency, and accountability throughout the procurement process.<br>• The ADB's "Standard Bidding Documents and User's Guide to Procurement Works" and "E-Procurement: Guidance Note on Procurement" provide detailed instructions for bidders and the steps to develop and implement the system.<br>**Chinese Precedent**<br>• China has used e-procurement domestically since 2014.<br>• Chinabidding.com.cn, jointly created by China and the World Bank, releases procurement notices in real time.<br>• The Joint Communiques of the Leaders' Roundtable from the 2017 and 2019 Belt and Road Forums underscore the "importance of open, transparent, and non-discriminatory public procurement procedures."<br>• The AIIB's procurement policy encourages the utilization of an e-procurement system. | **International Standards**<br>• The World Bank's "Environmental and Social Framework" outlines the requirements and standards for conducting environmental and social assessments and how to undertake the assessments.<br>• The ADB's "Environmental Assessment Guidelines" details the procedures and requirements for undertaking an environmental impact assessment andprovides a framework for conducting public consultations.<br>**Chinese Precedent**<br>• China's Environmental Impact Assessment Law stipulates that before construction begins, ESIA documents must be reviewed and approved by relevant departments.<br>• The CBRC's "Standardization of Banking Services Enterprises to 'Go Out' and Strengthen the Guidance of Control and Risk Prevention" and "Green Credit Directive" encourage financial institutions to conduct ESIA's in evaluating the project's feasibility, and sets out a mechanism to ensure proper environmental and social risk due diligence and the need to complete an environmental and social risk report, respectively.<br>• The NDRC's "Code of Conduct for Overseas Investment Operations by Private Enterprises" states that before construction, firms should undertake environmental assessments of the propose construction site.<br>• The AIIB has well developed guidelines on conducting an ESIA, consulting with local stakeholders, and information disclosure. |

# BRI RECOMMENDATIONS AND BEST PRACTICES MATRIX

| | REQUIRE AND ENABLE STAKEHOLDER ENGAGEMENT THROUGHOUT THE PROJECT LIFE CYCLE | BETTER REGULATE THE USE OF CHINESE WORKERS AND PROTECT LABOR RIGHTS | EXPAND AND IMPROVE UTILIZATION OF LOCAL MATERIALS, LABOR, AND BUSINESSES |
|---|---|---|---|
| HOW WOULD IT WORK? | **Project Developers and Contracted Companies**<br>• Establish a local-language grievance mechanism to answer questions and handle complaints in coordination with local processes.<br>• Publicize the mechanism in the local language and through a webiste and include information on how to register complaints/related procedures.<br>• The mechanism should be confidential and be based on a nonretaliation principle. | **Project Developers**<br>• Assess and document the need for and size of the imported workforce.<br>• Analyze the impact of labor influx on the local community and develop plans to mitigate adverse consequences.<br>• Conduct stakeholder consultation, exhaust options for locally sourced labor, and provide for local training.<br>• Establish complaint handling mechanism to ensure that workers' rights are upheld. | **Project Developers and Contracted Companies**<br>• Allow adequate lead time for training to create a pool of qualified local labor.<br>• Encourage use of local materials in project procurement processes.<br>• Encourage partnerships with local business in project tendering/procurement.<br>• Create and/or support technical and management training programs for local workers in construction and for eventual transition to local operation build-operate-transfer projects. |
| WHAT WOULD IT ACCOMPLISH OR PREVENT? | **Communication and Early Warning**<br>• Chinese developers are currently not funded, staffed, or trained to deal with civil society, resulting social issues.<br>• Provide project developers with an early warning system to better detect emerging problems and useful contacts to mitigate issues.<br>**Build Support for the BRI**<br>• Reduce tensions between local communities and Chinese developers, thereby reducing the likelihood of protests causing project delay or cancellation. | **Mitigate Local Resentment**<br>• Foreign labor influx can cause local resentment, environmental damage, and social ills.<br>• Ensure benefits for the local economy and communities.<br>**Protect Labor Rights**<br>• Grievance mechanisms can provide an early warning system of potential problems.<br>• Prevent labor abuses and resulting protests or project disruptions. | **Integrate Into Host Country**<br>• Increase buy-in for projects to reduce risks and enhance long-term sustainability.<br>• Reliance on Chinese labor reduces project benefits and generates social tensions for and in project host countries.<br>• Foster relevant skills transfer to local workers improves longer-term project operations.<br>**Support Local Economy**<br>• The import of Chinese material, products, and labor does not promote the economic development of the host country.<br>• Enhance cooperation between Chinese and local businesses. |
| REFERENCE | **International Standards**<br>• The World Bank's "A Guide to Designing and Implementing Grievance Mechanisms for Development Projects" and "How-To Note: Feedback Matters: Designing Effective Grievance Redress Mechanisms for Bank Financed Projects" provide procedures on how to design and implement a grievance mechanism, best practices, and how to operate the mechanism.<br>• The ADB's "Building Capacity for Grievance Redress Mechanism" and "Accountability Mechanism Policy" provide comprehensive guidelines on how to establish and operate a grievance and complaint handling mechanism.<br>**Chinese Precedent**<br>• China's domestic Law on Labor Dispute Mediation and Arbitration calls for local governments to establish mechanisms to jointly resolve issues with union and enterprise representatives.<br>• CHINCA's "Guide to Social Responsibility for Chinese International Contractors" states that companies must establish negotiation and communication mechanisms to support the participation of employees and respond to complaints and expectations.<br>• The AIIB established its Project-Affected People's Mechanism and Grievance Redress Mechanism in 2018. | **International Standards**<br>• The World Bank's "Managing the Risks of Adverse Impacts on Communities From Temporary Project Induced Labor Influx" provides guidance on managing the adverse impacts from labor influxes and delineates the responsibilities for ensuring workers rights.<br>• The United Nations and International Labour Organization have a series of conventions, policies, and guidelines that outline practices to protect the rights of migrant workers.<br>**Chinese Precedent**<br>• The Ministry of Construction and Ministry of Human Resources and Social Security's 2004 joint measures recognize the principle of holding the project developer ultimately responsible for wage payments.<br>• The CBRC's "Standardization of Banking Services Enterprises to 'Go Out' and Strengthen the Guidance of Control and Risk Prevention" explicitly states that companies should preserve the rights of the local population and workers, respect local culture, and establish a grievance mechanism.<br>• CHINCA has a Dispatched Labour Service Personnel Complaint Center to address worker complaints and protect overseas workers. | **International Standards**<br>• The ADB's "Domestic Preference: Guidance Note on Procurement" provides comprehensive guidelines on how to approach incorporating and using local goods and services in procurement.<br>**China's Commitment to Local Stakeholders**<br>• The NDRC's "Code of Conduct for Overseas Investments of Private Enterprises" calls for private enterprises engaged in overseas activities to actively create employment opportunities for locals.<br>• CHINCA's "Guide to Social Responsibility for Chinese International Contractors" states that developers and firms should prioritize the procurement of local products and services to advance local operations and cultivate local employees. |

## BRI RECOMMENDATIONS AND BEST PRACTICES MATRIX

| | ADOPT "CLEAN BRI" ANTICORRUPTION/ ANTIBRIBERY OVERSIGHT, ENFORCEMENT, AND REPORTING MECHANISMS | CREATE BRI UNITS IN CHINESE EMBASSIES IN PROJECT HOST COUNTRIES | DEVELOP A SEARCHABLE, COMPREHENSIVE, UP-TO-DATE, ENGLISH-LANGUAGE BRI PROJECT DATABASE |
|---|---|---|---|
| HOW WOULD IT WORK? | **Chinese Government**<br>• Adopt a "Clean BRI" platform and make anticorruption a cornerstone of the BRI through legal and policy documents, contracts and MOUs, and establish whistle-blower and enforcement mechanisms.<br>**State-Owned Enterprises, Development Banks, and Contracted Companies**<br>• Formulate, implement, and report on clearly defined international anticorruption conventions and industry best practices.<br>• Obtain anticorruption certification from a reputable body to qualify for BRI projects.<br>• Train staff to address and mitigate corruption. | **Chinese Government and Chinese Embassies in Project Host Countries**<br>• Form units comprised of relevant Chinese agencies to conduct BRI oversight, coordination, etc.<br>**Newly Established BRI Units**<br>• Monitor activities of Chinese developers, contractors, and personnel.<br>• Serve as a public and business point of contact regarding BRI projects to promote transparency.<br>• Liaise with and advise Chinese developers, ensure adherence to local laws, and facilitate coordination with host governments and civil society organizations.<br>• Help ensure functioning of dispute resolution mechanisms and compensation processes.<br>• Participate in regular Donor Assistance Group meetings with other embassies and host governments. | **Chinese Government**<br>• Catalog all completed, on-going, and prospective BRI projects in one database, with the maximum possible information on project financing, design, execution, parties involved, project terms, etc.<br>• The database should be not only in Chinese but also English and other languages. |
| WHAT WOULD IT ACCOMPLISH OR PREVENT? | **Reputation**<br>• Evidence and accusations of large-scale corruption and bribery hurt the reputation of both China and the BRI brand.<br>• Safeguarding against corruption facilitates the participation of international lenders and contractors.<br>**Financial Incentive**<br>• Corruption lowers project efficiency and raises project costs.<br>• Mitigate fiscal risk by ensuring public funds are allocated in a transparent and market-based manner.<br>**Enhance Project Quality**<br>• Ensure that contracts are awarded on a value-for-money and quality basis.<br>• Corruption reduces the sustainability of infrastructure projects. | **Communication and Local Knowledge**<br>• Meeting with other donor embassies and host governments facilitates coordination and transparency.<br>• Chinese embassies currently have little visibility into BRI projects, limiting opportunities for project oversight.<br>• Embassies' local-language capabilities and political/social knowledge can help developers prevent problems and avoid mistakes. | **Clarify the Belt and Road Initiative**<br>• The existing "BRI Portal" contains minimal information.<br>• Address confusion over what projects are considered part of the BRI.<br>**Invite International Participation**<br>• Enhance project transparency and opportunities for public understanding, engagement, and participation.<br>• Improve access to BRI project opportunities for international financers and vendors, thereby raising project quality and sustainability.<br>• Enable analysis and research on the BRI, providing useful information to countries seeking to participate. |
| REFERENCE | **International Standards**<br>• The United Nations Convention Against Corruption outlines anticorruption regulations and provides preventative and enforcement mechanisms.<br>• The OCED's "Convention on Combating Bribery of Foreign Public Officials in International Business Transactions" provides guidance on handling and mitigating corruption.<br>• The ADB's "Integrity Principles and Guidelines 2015" detail mechanisms, offices, and policies to combat corruption.<br>**Chinese Precedent**<br>• At the Second Belt and Road Forum, Xi Jinping called for those involved in the BRI to "fight corruption together with zero tolerance" and established the Beijing Initiative for the Clean Silk Road.<br>• The NDRC's 2017 "Code of Conduct for Overseas Investment Operations by Private Enterprises" and 2018 "Guidelines on Enterprise Compliance Management of Overseas Operations" explicitly call for Chinese enterprises to comply with anticorruption, antibribery, and anti-money laundering requirements.<br>• SASAC and the World Bank jointly held a "Training Workshop on Corporate Compliance for Chinese Enterprises Operating in Belt and Road Countries" in January 2018.<br>• The AIIB's Policy on Prohibited Practices establishes reporting, whistle-blower protection, suspension, and debarment mechanisms to address fraud and corruption. | **Chinese Precedent**<br>• The NDRC's "Code of Conduct for Overseas Investment Operations by Private Enterprises" encourages the creation of communication channels between local operations and Chinese embassies and consulates.<br>• SASAC's "Guiding Opinions on Strengthening Prevention and Control of Overseas Integrity Risks of Central Enterprises" emphasize the need to strengthen supervision and management of overseas personnel, improve coordination between supervision departments, and establish a unit to prevent and manage overseas integrity risks. | **International Standards**<br>• The ADB maintains a project database that provides access to key documents on projects financed by the bank.<br>**Chinese Precedent**<br>• The "Belt and Road Ecological and Environmental Plan" calls for the creation of a big data platform to bolster information sharing and improve cooperation.<br>• The NDRC and Ministry of Finance maintain open project databases for domestic and overseas investments, as well as PPP projects.<br>• The AIIB has a comprehensive database of proposed and approved projects, which contains salient information regarding the projects. |

# APPENDIX: TASK FORCE MEMBERS

**WILSON ANG** is a Partner at Norton Rose Fulbright, and heads the Singapore firm's regulatory investigations and compliance practice. He focuses on conducting internal investigations on business ethics and anti-corruption matters, and advises on risk management, remediation measures and follow-on disputes. He has extensive experience designing and implementing compliance programs, conducting anti-corruption due diligence reviews, and handling complex and sensitive issues involving bribery, fraud, sanctions, money-laundering/terrorist-financing, cyber-security, competition law, and financial services regulatory violations in the Asia-Pacific. He works alongside the Asia-Pacific Economic Cooperation (APEC) Anti-Corruption and Transparency Experts Working Group (ACTWG), United Nations Office on Drugs and Crime (UNODC), Organisation for Economic Co-operation and Development (OECD), and the International Bar Association (IBA).

**BRIAN EYLER** is Director of the Southeast Asia Program at the Stimson Center. He has spent more than 15 years living and working in China, and over the last 10 has conducted extensive research with stakeholders in the Mekong region, leading numerous study tours through China and mainland Southeast Asia. Before joining the Stimson Center, he served as the Director of the IES Kunming Center at Yunnan University and as a consultant to the UNDP Lancang-Mekong Economic Cooperation program in Kunming, Yunnan province. His first book, *The Last Days of the Mighty Mekong* was published by Zed Books in 2019.

**AARON HALEGUA** is an attorney, consultant, and research fellow at the New York University School of Law's U.S.-Asia Law Institute and its Center for Labor and Employment Law. He is an expert on labor and employment law, access to justice and legal aid, dispute resolution, and business and human rights in the United States, China, and internationally. His current research interests include migrant workers, human trafficking, and labor standards on overseas Chinese projects. Aaron has consulted on labor issues in China, Myanmar, Thailand, Malaysia, and Mexico for Apple, International Labour Organization, Ford Foundation, International Labor Rights Forum, Brown University, and other institutions. He has published a variety of book chapters, law review articles, and op-eds. He is the author of the report "Who Will Represent China's Workers: Lawyers, Legal Aid, and the Enforcement of Labor Rights." Aaron holds a J.D. from Harvard Law School and speaks, reads, and writes Mandarin Chinese.

**JAMIE P. HORSLEY** is a senior fellow at the Paul Tsai China Center and visiting lecturer in law at Yale Law School. She is also a visiting fellow in the John L. Thornton China Center in the Foreign Policy program at Brookings. Her project work and research revolve around issues of governance and regulatory reform in China. She was formerly Executive Director of the Yale China Law Center. In 1981, she moved to Beijing on behalf of the international law firm of Paul, Weiss, Rifkind, Wharton & Garrison to assist companies venturing into the newly opening China market and, after being named a partner, later helped manage that firm's China practice from Hong Kong. She subsequently served as Commercial Attaché in the U.S. Embassies in Beijing and Manila; Vice President of Motorola International, Inc. and Motorola's Director of Government Relations for China; and a consultant to the Carter Center's China Village Elections Project. She earned her Juris Doctor at Harvard Law School.

**MICHAEL KRAMER** is an attorney and consultant specializing in the investigation of fraud and corruption in the developing world. He was co-founder of the International Anti-Corruption Resource Center. Before entering the private sector, he was a Special Attorney with the U.S. Department of Justice, Organized Crime and Racketeering Section, assigned to the investigation and trial of corruption and fraud cases throughout the United States. As a consultant on anti-corruption matters, his clients have included the World Bank, eight of the ten largest corporations in the United States, and federal and state agencies in the United States. He also served as Senior Advisor to the Independent Investigation Committee, headed by Paul Volcker, on the United Nations Oil for Food Program in Iraq. He has managed major corruption and fraud investigations and provided training to local agencies in more than 80 countries throughout the world.

**TANG SIEW MUN** is the head of the ASEAN Studies Centre and concurrently a senior fellow at the Regional Strategic and Political Studies programme at the ISEAS-Yusof Ishak Institute. His primary research interests are Asian security, ASEAN's relations with the major powers, and Japanese foreign policy. Prior to joining ISEAS, he was Director for Foreign Policy and Security Studies at the Institute of Strategic and International Studies (ISIS), Malaysia and Senior Lecturer at the Universiti Kebangsaan Malaysia. He holds a Ph.D. from Arizona State University in Political Science.

**JENNIFER L. TURNER** is Director of the China Environment Forum and Manager of the Global Choke Point Initiative at the Woodrow Wilson Center. She creates convenings, exchanges, and publications focusing on a variety of energy and environmental challenges facing China, particularly on water and green civil society issues. She also serves as editor for the China and water-energy posts on the award-winning New Security Beat blog. She most recently coauthored *China's Water-Energy-Food Roadmap* and *Scaling China's Sludge Mountains*. She received a Ph.D. in Public Policy and Comparative Politics in 1997 fro lm Indiana University, Bloomington.

**MIMI ZOU** holds the first academic appointment in Chinese law at Oxford. She is also the co-founder of the Oxford Deep Tech Dispute Resolution Lab. Dr. Zou's award-winning research focuses on Chinese and comparative commercial and business law and technology. She regularly provides expert commentaries on Chinese law for a range of international media outlets. Dr. Zou is a special adviser of the Great Britain China Centre, an organisation set up by the UK Foreign & Commonwealth Office. She obtained her law Doctorate and Masters degrees from Oxford, and First Class Honours degrees in economics and law from the University of Sydney. She is a qualified lawyer in Australia and England and Wales. Alongside academia, Dr. Zou has worked in international commercial law firms, the United Nations, and civil service for over 15 years. She has been recognised by the Asia Society as an 'Asia 21 Young Leader'. She is a finalist in the 2019 UK Asian Women of Achievement Awards and a former Young Australian of the Year finalist.

*We are also grateful to the several senior officials and staff from multilateral development banks and private firms who were valued members of the task force, but requested to remain unnamed.*

# ENDNOTES

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