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Title: China's Development Banks Go Global: The Good and the Bad

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China is redefining the global development agenda. While the West preaches trade liberalization and financial deregulation, China orchestrates massive infrastructure and industrial policies under regulated trade and financial markets. China transformed its economy and brought more than 600 million people out of poverty. Western policies led to financial crises, slow growth and relatively less poverty alleviation across the globe.

China is now exporting its model across the world. The China Development Bank (CDB) and the Export-Import Bank of China (EIBC) now provide more financing to developing countries than the World Bank does. What is more, China's finance doesn't come with the harsh conditions—such as trade liberalization and fiscal austerity—that western-backed finance has. China's development banks are not only doing good across the world, they are helping China's bottom line as they make a strong profit and often provide opportunities for Chinese firms.

China is pumping finance into cleaner energy abroad as well. According to a new study by the World Resources Institute, since 2002 Chinese firms have put an additional $40 billion into solar and wind projects across the globe.

However, China's global stride may be jeopardized unless it begins to incorporate environmental and social safeguards into its overseas operations. In a policy memorandum (pdf) for the Paulson Institute, I note how there is a growing backlash against China's development banks on these grounds. By remedying these concerns, China can become the global leader in development finance.

There is a growing number of cases where Chinese financial institutions may be losing ground over social and environmental concerns. Extraction from the Belinga iron ore deposit in Gabon was contracted in 2007 between the government in Libreville and the China Machinery Energy Corporation, with financing from EIBC. The project sparked significant local protest over its environmental impact, and, as a result, has been perpetually renegotiated and delayed, and may ultimately be denied.

Another example is CDB's multibillion-dollar China-Burma oil and gas pipeline projects, which have received similar local scrutiny. The Shwe gas project is co-ordinated by China National Petroleum Corporation, which has contracted out some operations to Sinohydro (the state-owned hydroelectric company). Local civil society organizations have mounted campaigns against land confiscation with limited compensation, loss of livelihood, the role of Burmese security forces in protecting the project, and environmental degradation (deforestation, river dredging and chemical pollution).

A third example is the Patuca hydroelectric project in Honduras, supported by EIBC and operated by Sinohydro. Approved by the Honduran government in 2011, one of the projects is said to entail flooding 42 km of rainforest slated to be part of Patuca national park and the TawahkaAsangni biosphere reserve. The project was denounced by local civil society organizations, which cited the shaky foundations of the project's environmental impact assessment. NGOs including International Rivers and The Nature Conservancy have also sought to reevaluate the project. Such campaigns, uniting locally affected communities with globally recognized NGOs that have access to media worldwide, have slowed projects and tainted investors' images.

Environment-related political risk can severely affect the bottom line of the major Chinese development banks to the extent that local skepticism and protests result in delays or even loss of projects. Doing the right thing on the environment and human rights would help maintain China's market access and help mitigate risks to China's development banks.

Adopting established international norms may help China's banks to secure markets in more developed countries. Chinese banks clearly seek to further penetrate markets such as the United States and Europe, where an even higher level of environmental and social standards exists. Establishing a track record of good practice in emerging markets and developing countries could help Chinese banks assimilate, adapt, and ultimately incorporate such practices into their daily operations, an experience that could prove essential as they also seek to navigate markets in Organisation for Economic Co-operation and Development (OECD) countries.

For decades, developing countries have pined for a development bank that provides finance for inclusive growth and sustainable development—without draconian conditions. If China's development banks can add substantial social and environmental safeguards, they can become the beacon of 21st century development finance.