Report

Understanding and mitigating social risks to sustainable development in China's BRI

Evidence from Nepal and Zambia

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April 2021

ODI

This report has been funded by the UK Foreign, Commonwealth and Development Office (FCDO). Views expressed do not necessarily reflect FCDO's official policies.

How to cite: Shieh, S., Chow, L., Huang, Z. and Yue, J. (2021) *Understanding and mitigating social risks to sustainable development in China's BRI: evidence from Nepal and Zambia*. ODI Report. London: ODI (www.odi.org/understanding-and-mitigating-social-risks-to-sustainable-development-in-chinas-bri-evidence-from-nepal-and-zambia).

Photo: The entrance to the Chambishi Mining Smelter in Zambia. Credit: Shawn Shieh

Acknowledgements

We are grateful to our interviewees, who gave us their time and insights that made this report possible. We also thank our ODI colleagues Linda Calabrese and Rebecca Nadin, external reviewer Gediminas Lesutis, and the ODI editors and proofreaders whose close reading and comments on drafts of the report led to a much improved final report.

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Acronyms

AVIC	Aviation Industry Corporation of China
BBC	Beyond Beijing Committee (Nepal)
BHRRC	Business and Human Rights Resource Center (UK)
BOOT	build-own-operate-transfer
BRI	Belt and Road Initiative
CCCMC	China Chamber of Commerce of Metals Minerals & Chemicals Importers & Exporters
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CNMC	China Non-Ferrous Metals Corporation
CRBC	China Road and Bridge Corporation
CSO	civil society organisation
CSR	corporate social responsibility
ECC	Economic and Commercial Counsellor's Office of the PRC Embassy
EIA	Environmental Impact Assessment
ESG	Environmental, Social and Corporate Governance
ESIA	environmental and social impact assessment
FOCAC	Forum on China-African Cooperation
GDP	gross domestic product
GRM	grievance redress mechanism
HR	human resources
HRW	Human Rights Watch
IBN	Office of the Investment Board of Nepal
IEE	initial environmental examination
ITC	International Trade Centre
ILO	International Labor Organization
IMF	International Monetary Fund
LAHURNIP	Lawyers' Association for Human Rights of Nepalese Indigenous Peoples
MFEZ	multi-facility economic zones
MUZ	Mine Workers Union of Zambia
NAPSA	National Social Pension Scheme (Zambia)
NDP	national development plan

POE	privately-owned enterprise
SDGs	Sustainable Development Goals
SEZ	special economic zone
SGR	standard gauge railway
SOE	state-owned enterprise
ZAM	Zambian Association of Manufacturers
ZCCZ	Zambia-China Economic and Trade Cooperation Zone

Executive summary

> The Chinese need to have a longer-term view here, otherwise their investments will be at risk (Zambian district commissioner in the Copperbelt).

> We Chinese need to be modest and realise we are in their country, and we need to respect their culture, to respect the people. Respect is the most important thing (Chinese manager and senior geologist at a privately owned mine in the Copperbelt).

> The key part of the 'consultation, contribution, and shared-benefits' principles lies in 'shared benefits', which host countries and communities can tangibly feel is generating joint ownership (ECC in the Chinese Embassy in Nepal).

This report's main findings are as follows:

Belt and Road Initiative (BRI) partner country stakeholders, including civil society organisations (CSOs) and unions, acknowledged there are benefits stemming from Chinese investment in their countries, and the literature reviews for the study provide comparative evidence that Chinese companies generally do not perform significantly worse on social risks compared with other foreign and local companies.

Chinese commercial activity in BRI countries should be placed in comparative perspective. Chinese companies behave much like they do in China and, to a significant degree, like other foreign companies behave in BRI countries where governance is weaker. The social risks to sustainable development observed in these countries were largely an outgrowth of these companies as profit-maximisers, prioritising profit and market share over social and environmental risks. These risks were heightened by other factors particular to Chinese investment: 1) Chinese companies come from a country where awareness and enforcement of social, environmental and governance standards is weak; and 2) language and cultural barriers make effective communication with civil society and communities challenging.

There are important differences between Chinese state-owned enterprises (SOEs) and privately owned enterprises (POEs) when it comes to dealing with social risks. Large Chinese SOEs have other objectives besides profit accumulation, such as commercial diplomacy and gaining access to strategic resources, that lead them to take these risks more seriously and address them in a more systematic fashion. There is also greater coordination between SOEs and the Chinese Embassy and Economic and Commercial Counsellor's Office (ECC), and Chinese trade associations back home, on responsible business practices overseas. Chinese SOEs are significantly more aware of Chinese government policies and guidelines than their POE counterparts, and SOE internal policies include more robust health, safety and environmental guidelines as a result.

Chinese investors and contractors have good technical and project management skills and capacity, and are well resourced to carry out and complete large-scale infrastructure projects in many of the BRI countries. But their awareness, commitment and capacity to meet environmental, social and governance (ESG) standards lag behind their scientific and technical standards and capacity.

The most important social risks to sustainable development identified in the fieldwork for this study were: 1) risks to rule of law and strong governance stemming from lack of transparency and information disclosure in financing and project agreements; 2) risks to health, the environment, gender equality and livelihoods stemming from lack of community consultation and grievance mechanisms; 3) risks to industry and innovation stemming from lack of local linkages and excessive importation of manufactured goods and labour; 4) risks to decent work stemming from low wages and substandard working conditions; and 5) risks stemming from language and cultural differences and insensitivities.

Host governments in Zambia and Nepal are best positioned to manage and mitigate these risks by better regulating foreign companies and holding them to higher standards to ensure that they contribute to their countries' sustainable development. These governments have good policies and laws on paper; the problem is that they lack the capacity and will to coordinate implementation and enforcement of those policies and laws.

Chinese policy-makers and lenders/investors also have a role to play in managing and mitigating these risks, either unilaterally or in coordination with host governments. There is a tremendous diversity of Chinese businesses in BRI countries, ranging from large central and provincial SOEs building airport terminals and hydropower plants to small businesses operating in informal and even illegal areas. The Chinese government is unable to coordinate, let alone provide guidance and assistance to, these companies. Yet the sheer scale and scope of these business activities mean that the Chinese government and lenders and investors need to do more to manage these risks, hold companies to higher ESG standards and strengthen their capacity to engage with communities and civil society groups in the host country.

Finally, Chinese companies need to bear some of the responsibility for managing and mitigating these risks, but they are unlikely to do so without external pressure and support. Local and Chinese civil society organisations and trade unions will play an important role in monitoring the behaviour of lenders, investors and contractors, holding them accountable to higher ESG standards and engaging companies to improve their CSR and community engagement strategies and practices.

1 Introduction

The BRI is an ambitious and evolving undertaking that stretches beyond the traditional Silk Road, leading through Central Asia into Europe, Africa and Latin America. Conceptually, the BRI aims to link different geographical regions through infrastructure construction (e.g. transport/economic corridors), and to link China with the rest of the world, physically, financially, digitally and socially.

The number of countries in the BRI has grown from 70 in 2016 to 138 in 2020,[1] and planned Chinese investment stands at over $1 trillion, although only a fraction of that has been realised to date.[2] The BRI is a complex, diffuse and multifaceted venture that extends well beyond large-scale infrastructure projects carried out by Chinese SOEs. It is also less coordinated by the Chinese state than previously portrayed.[3] While attention has been on the dominance of Chinese SOEs in infrastructure projects, the reality in regions such as Africa is that Chinese business activity is much more diverse than this.[4] Observers note that the BRI should be seen as extending beyond infrastructure projects to include aspects of extended market accessibility as well as altered supply chains in a wide range of sectors.[5] Estimates indicate that there may be as many as 10,000 Chinese enterprises in Africa, of which around 90% are privately owned.

The BRI's primary focus on energy and transportation infrastructure projects has the potential to make a significant contribution to strengthening and addressing the 'infrastructure gap' in BRI partner countries. But infrastructure projects and rapid investment activity can often exacerbate or give rise to a range of social risks for local communities.

Opening the Leaders' Roundtable of the Second Belt and Road Forum for International Cooperation in April 2019, President Xi Jinping called for a 'high quality', 'high standards', 'people-centred' and 'sustainable' BRI, signalling that China may be ready to take steps to address a range of financial, environmental and social risks.[6] For that to happen, China will need to work together with other BRI countries, and multilateral institutions, to carry out reforms and policies to address those risks, to ensure that the gains of BRI investment are more broadly shared, and the costs to sustainable development reduced.[7] The socioeconomic and environmental risks heightened by the Covid-19 pandemic, and related issues such as debt relief for low- and middle-income countries, may push China further in this direction.[8]

While Chinese state and business actors have made progress in addressing risks linked to BRI projects in countries with low governance

1 www.yidaiyilu.gov.cn/info/iList.jsp?tm_id=126&cat_id=10122&info_id=77298
2 Swedish Trade and Investment Council (2018).
3 See Lee (2018: ch. 1).
4 Dollar (2016); Sun et al. (2017).
5 Swedish Trade and Investment Council (2018); Horvath (2016); World Bank Group (2019).
6 www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1659454.shtml
7 Horvath (2016).
8 Tanjangco et al. (2020: 29).

capacity, there remains a significant imbalance in the Chinese approach to development, which gives greater weight to political and legal risks than to social and environmental risks to local communities. This report identifies the social risks associated with Chinese commercial activity in Nepal and Zambia and provides recommendations on how Chinese and host country stakeholders can better address them. The findings are based on an extensive review of the literature on social risks associated with the BRI, and fieldwork in Nepal and Zambia involving semi-structured interviews with a wide range of stakeholders (see Appendix 1).[9]

1.1 Defining the scope of social risks

For the purposes of this paper, the term social risk is used to include the risks: of displacement; to livelihoods; to sensitive cultural sites; of increased inequalities in income, opportunities and power relations; of conflict; and to health. In Nepal the focus was on understanding social risks associated with the recent entry of Chinese investment in hydropower projects, and road building and other construction projects linked to hydropower, and the potential impact on communities, women and indigenous groups. In Zambia the focus was on mapping the social risks arising from the large influx of Chinese investment in Zambia over the last 10 years. This has been diverse, involving both large, state-owned companies and smaller, private companies in the mining, construction, manufacturing and retail sectors, and their effects on inequality, livelihoods and labour conditions.

The focus on different sectors and issues in Nepal and Zambia led to the identification of different types of risk in each country. As a result, some risks are particular to one country because of the sector or issue examined, so the reader may not always see illustrative examples from both countries. For example, the risks stemming from community consultation and displacement were particular to Nepal because the focus was on hydropower projects, where these risks are particularly prominent. In contrast, in Zambia working conditions and livelihood issues figured more prominently.

The report starts by providing a brief country profile of Nepal and Zambia. Chapter 2 discuss findings based on research trips to Nepal and Zambia, organising those findings into a survey of the benefits and opportunities linked to BRI investment in Chapter 3, followed by a discussion in Chapter 4 of six major risks to sustainable development found in the fieldwork: transparency in investment financing; transparency in community consultation and ESIAs; language and cultural differences; local economic development and livelihood; decent work; and gender equality. The discussion of each negative risk is organised into: 1) a literature review; 2) examples of the risks the research found; 3) examples of risk mitigation; and 4) recommendations for how risks can be managed.

While this paper focuses on the social risks to sustainable development posed by Chinese investment, it also recognises that there is overlap and interaction between social risks and political, legal and environmental risks.[10] As the World Bank points out, ‘Social risks are closely related to environmental risks, as both communities and their environments are affected by transport projects, both directly and indirectly’.[11] Some of

9 Including government agencies, chambers of commerce and business associations, Chinese companies, civil society organisations, trade unions and communities.
10 Opitz-Stapleton et al. (2019).
11 World Bank Group (2019: 123).

the social risks to communities displaced by large-scale dam or mining projects, for example, were related to environmental risks from these projects affecting fish stocks and access to clean water. In turn, environmental risks such as the accumulation of tailings (waste) from mining led to social risks, including the rise of unregulated mining of tailings by gangs, which led to injuries and deaths.

As the definitions of risk in Box 1 suggest, there is overlap between political and governance risks and social risks, which include equality and economic opportunities. Moreover, political/governance risks such as debt and corruption can exacerbate social risks including inequality and conflict. As a 2017 World Bank report points out, 'an unsustainable debt burden would impact on poverty reduction in Zambia. It would reduce not only public investment and income growth but would also reduce fiscal space for social spending as the cost of servicing the debt increases'.[12] The problem of debt transparency and its implications for social inequality and conflict is particularly serious in Zambia, which defaulted on one of its Eurobonds in November 2020, becoming the first sovereign default in Africa during the pandemic. For this reason, the issue is included in our discussion of risks in Chapter 4.[13]

1.2 Case studies and methodology

The research was undertaken in the spring of 2019 by a team of four researchers under Social Innovations Advisory, Ltd. Desk research and preliminary interviews on BRI and Chinese investment in Nepal and Zambia were carried out, followed by field research in these countries (see country profiles in Chapter 2 and in Appendix 2), comprising semi-structured interviews with a wide range of stakeholders, including government agencies, chambers of commerce and business associations, Chinese companies, civil society organisations, trade unions and communities (see Appendix 1 for the list of organisations; questionnaires used can be provided on request).

Researchers first carried out interviews with stakeholders in the Nepali capital Kathmandu, then visited three hydropower project sites to interview company staff and conduct focus groups with affected communities, including women's groups, local politicians and representatives of indigenous people. In Zambia, the team conducted interviews in the capital Lusaka, before travelling to the Copperbelt to interview stakeholders and visit Chinese-managed copper and emerald mines, and multi-facility economic zones.

While the research team was able to gain access to many of the stakeholders the study intended to reach, there were some limitations to the field research. One was the short timeframe of the fieldwork in Nepal and Zambia, which meant that it was impossible to carry out interviews with all of the desired stakeholders, nor was there time for follow-up interviews. There was also difficulty accessing some interviewees; in Zambia, some Chinese informants suggested that Chinese companies were less willing to accept interviews given recent bad publicity concerning Chinese companies in the media. As a result, almost all the interviews with Chinese companies in Nepal and Zambia came through personal connections. In Nepal, thanks to the help of local partners, the research team was able to access project sites and affected communities. Nevertheless, due to time and travel limits, they were unable to get access to indigenous communities or

12 Simumba (2018: 15).
13 Hill and Mitimingi (2020).

carry out systematic interviews with women in communities affected by infrastructure projects. One final constraint is that the interviewees were not sampled randomly; findings are based only on the interviews that were conducted and do not fully reflect the situation in the two countries. These limitations should be kept in mind when reviewing the findings.

Box 1 Definitions of risk

Risk is the potential loss of life, injury, or destroyed or damaged assets that could occur to a system, society or community in a specific period of time, determined probabilistically as a function of hazard, exposure, vulnerability and capacity.

Risk = (Exposure x Vulnerability)/Capacity or Resilience

Vulnerability is the physical, socioeconomic and environmental factors that increase the susceptibility of an individual, community or country to the impacts of hazards.

Capacity is the combination of the strengths, attributes and resources within an organisation, community or society to manage disaster risks.

Resilience is the ability of a system, community or society exposed to hazards to resist, adapt to, transform and recover from effects of hazards, including preservation and restoration of essential structures and functions through risk management.

Social risk includes risks: of displacement; to livelihoods; to sensitive cultural sites; of increased inequalities in income, opportunities and power relations; of conflict; and to health.

Environmental risk includes the risks: to climate; of pollution of soil, air and water resources; to biodiversity and rural livelihoods; and of resource scarcity and interregional conflicts due to scarcity of transboundary resources.

Security risk includes the risks: of increased terrorism targeting investments; of shifting economic and power dynamics linked with large-scale projects; of conflict; and of trafficking or other illicit activities.

Political/governance risk includes risks: of limited access to jobs created during the investment phase; of unsustainable debt service obligations; of heightened inequalities; of increased potential for corruption; and to rule of law.

2 Country focus

2.1 Country profile: Nepal

Nepal is a small landlocked country in South Asia sandwiched between two major powers, China and India. Bordering the Himalayas, its territory is mostly mountainous. Nepal is one of the poorest countries in the world (ranked 149 out of 189 countries in the Human Development Index 2018,[14] and over 28% of the population is poor according to multiple dimensions).[15] The country is still coping with the effects of a decade-long insurgency that ended in 2006, and a major earthquake in 2015.

To achieve its ambitious long-term development vision to be an inclusive, equitable and prosperous middle-income country by 2030, Nepal has to tackle an array of physical and institutional challenges posed by climate change and environmental degradation, natural disasters, an unfavourable investment climate, suppressed agricultural activity, a fragile post-conflict situation, poverty and inequality, entrenched social exclusion and weak governance.[16]

External resources and foreign investment are crucial if Nepal is to unlock its infrastructure bottleneck and promote industrialisation and economic growth. Nepal benefits from infrastructure-related financial assistance from both India and China while maintaining a delicate balancing act with both countries in its foreign policy. In 2015–2016, a blockade on trade between India and Nepal over the treatment of the Madhesi ethnic group led the current Nepalese government, a coalition of communists and former Maoists, to move closer to China.

In May 2017, Nepal signed a memorandum of understanding (MoU) on Cooperation under the Belt and Road Initiative with China to promote 'mutually beneficial cooperation between Nepal and China in various fields such as the economy, environment, technology and culture',[17] and boost connectivity in areas including transit, roads, rail, trade, aviation and power. Nepal prepared a list of nine projects it hoped to be funded under the BRI flagship programme during the Second Belt and Road forum in April 2019, including roads, hydroelectricity plants, a cross-border railway, a cross-border transmission line and a technical institute.[18]

On 12–13 October 2019, President Xi paid a state visit to Nepal (the first Chinese president to do so for 23 years), and the two sides issued a Joint Statement.[19] The statement called for accelerating implementation of the Trans-Himalayan Multi-dimensional Connectivity Network and cooperation in hydropower, wind power and other new energy sources. China will also provide assistance in training technical personnel in rail, road and tunnel projects, inland waterways and shipping.

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14 http://hdr.undp.org/en/countries/profiles/NPL

15 National Planning Commission, Government of Nepal & Oxford Poverty and Human Development Initiative, University of Oxford (2018); National Planning Commission (2018: viii).

16 National Planning Commission (2015); National Planning Commission and Ministry of Population and Environment (2013: 3–4).

17 SCMP (2017).

18 Giri (2019).

19 https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china-2

Trade between Nepal and China declined significantly during the first months of the fiscal year beginning in July 2020, as border points were closed due to the pandemic. The border reopened a few months later, and Chinese leaders emphasised their commitment to maintaining strong bilateral relations. In July 2020, Foreign Minister Wang Yi held a video conference with the foreign ministers of Nepal, Pakistan and Afghanistan proposing a coordinated regional response and offering assistance in fighting the pandemic, including development of a vaccine, and committing to supporting these countries' economic recovery and development.[20] In November 2020, Chinese Defence Minister Wei Fenghe met the Nepalese president and prime minister to discuss strengthening bilateral ties and military cooperation.[21]

2.2 Country profile: Zambia

Zambia is a landlocked country in south-central Africa, sharing a border with the Democratic Republic of Congo, Tanzania, Malawi, Mozambique, Zimbabwe, Botswana, Namibia and Angola. From the 19th century until 1964, Northern Rhodesia, which would become Zambia, was a British colony. After independence Zambia was ruled as a one-party state under the socialist United National Independence Party until 1991, when multi-party democracy was established. Zambia has since remained a largely peaceful and politically stable country.

Blessed with rich copper reserves, Zambia achieved much of its growth through foreign investment in mining and copper exports. The country maintained a relatively high growth rate averaging 6.7% a year between 2005 and 2014. However, Zambia's dependence on copper as its main export makes it vulnerable to fluctuations in the world commodities market, as seen in 2015–2017. Widespread rural poverty and high unemployment remain the country's most significant problems, made worse by a high birth rate, a relatively high HIV/AIDS burden and growing government debt.[22]

Under pressure from structural adjustment programmes imposed by the International Monetary Fund (IMF) and the World Bank to boost production and create jobs, the Zambian government privatised the mining industry in the late 1990s.[23] Despite a surge in production and new jobs, privatisation put the brakes on the provision of social services to residents in mining communities, including medical services, schools, recreational facilities, water and electricity, as new private mine owners were not obliged to continue providing these services under the terms of the privatisation.[24] In the past decade, mining activities have shifted from the Copperbelt to North-Western province.[25] The new Industrial Policy set out in 2018 calls for increasing growth and diversification of the manufacturing sector from 8% to 15% of Zambia's gross domestic product (GDP) by 2027.[26]

20 www.chinaembassy.org.nz/eng/zgyw/t1801662.htm
21 www.xinhuanet.com/english/2020-11/30/c_139551536.htm
22 https://theodora.com/wfbcurrent/zambia/zambia_economy.html
23 Sikamo et al. (2016).
24 Simutanyi (2008).
25 https://miningforzambia.com/10-year-miracle
26 Ministry of Commerce, Trade and Industry (2018).

Diplomatic ties between China and Zambia were established in 1964, shortly after independence. A large number of Chinese nationals live in Zambia, with estimates ranging from 20,000 to more than 100,000.[27] Trade between the two countries has surged over the past two decades.[28] In 2018, bilateral trade reached $5 billion for the first time, with Zambia enjoying a trade surplus of more than $3 billion.[29] More than 90% of Zambia's exports to China are concentrated on a few commodity products, especially copper.[30] Chinese investments in the country span agriculture, manufacturing and tourism. Two major milestones in Chinese investment in the country were the acquisition of the Chambishi copper mine by the China Non-Ferrous Metals Corporation (CNMC) in 1998, and the establishment of the Zambia–China Economic and Trade Cooperation Zone (ZCCZ) in 2007, Zambia's first multi-facility economic zone.

In 2020, during the pandemic, Xi spoke to Zambian President Edgar Lungu to reiterate China's commitment to strong bilateral relations, including cooperating and providing assistance in the fight against the pandemic, and economic recovery and development. The focus, however, has been on Zambia's debt burden, which was already high before the pandemic, and has worsened following a decline in copper exports.[31] As noted, in November 2020 Zambia became the first African country to default on one of its foreign loans, and it has been involved in negotiations with China over debt relief. In late October, Zambia reached an agreement with the China Development Bank to defer debt repayments, but details are unclear on the size of the loan in question, or the debt repayments due.[32] Other international lenders have been reluctant to extend relief citing concerns regarding Zambia's unsustainable borrowing practices and lack of transparency on its debts, particularly to Chinese lenders.[33]

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27 Jalloh and Wan (2019).
28 Haggai (2016; 2017).
29 Li (2019).
30 http://www.trademap.org/Bilateral_TS.aspx
31 http://www.xinhuanet.com/english/2020-07/21/c_139227323.htm
32 Mfula (2020).
33 Olander (2020).

3 Benefits and opportunities linked to the BRI

3.1 Literature review

A number of studies have shown that Chinese investment has brought benefits, including jobs, skills, technology and financing,[34] and that Chinese companies are making improvements in response to criticism about skills and technology transfers.[35] Chinese-invested projects compare favourably to other foreign-invested projects in terms of labour conditions[36] and quality of construction work.[37]

A recent World Bank Group report[38] attempts to quantify the potential benefits that BRI transport projects would bring. Real income gains range between 1% for East Asia and the Pacific and 2% for corridor economies in sub-Saharan Africa. It is estimated that the BRI could reduce the proportion of people living in extreme poverty from 9.5% in 2015 to 3.9% by 2030.[39] Globally, BRI-related investments could lift 7.6 million people out of extreme poverty, 4.3 million in BRI corridor economies and 3.3 million in non-BRI countries.[40] However, significant challenges and risks need to be addressed through policy reforms and multilateral cooperation if these benefits are to be realised.[41]

While outward investment tapered off in 2020, there are positive signs of recovery and China has re-engaged with many BRI partner countries to strengthen bilateral commitments, focusing on combating the pandemic, vaccine development and economic and security ties. China has also shown renewed interest in supporting projects in clean energy, information and communications technology (ICT) and digital.[42]

3.2 Benefits and opportunities in Nepal and Zambia

Chinese and local stakeholders interviewed in Nepal and Zambia generally differed in their assessment of the benefits and opportunities. Chinese companies emphasised the benefits or opportunities arising from their commercial activities, and felt that these outweighed the social and environmental costs or risks. This view may partly be explained by their experience of working in China, where awareness and enforcement of ESG safeguards are weaker than in the West.[43] Local stakeholders, for their part, acknowledged the benefits of Chinese commercial activities, but very few agreed with the Chinese view that the benefits outweighed the costs and risks.

34 Sun et al. (2017).
35 Sun and Qi (2017); Meng and Nyantakyi (2019); Tang (2019).
36 Rounds and Huang (2017); Shaefer and Oya (2019).
37 Farrell (2016).
38 World Bank Group (2019: 14ff).
39 Ibid: 63.
40 Ibid: 65.
41 Ibid: ch. 3.
42 Tangjangco (2020: 30).
43 Shieh et al. (2020).

The Chinese Embassy and companies noted many benefits and opportunities of Chinese trade and investment in terms of development in Nepal and Zambia. These include:

- much-needed infrastructure improvements in the form of roads, airport terminals and power generation
- expansion of exports for Nepal and Zambia
- job creation (according to an interview with the Ministry of Labour in Zambia, 70,000 jobs were created in 2017, 60% of them the result of Chinese commercial activity. One Chinese official at the ECC Office in Nepal told the study that the ratio of Chinese to local employees in Chinese companies was 1:4)
- job opportunities for women and other marginalised groups, such as oppressed castes and indigenous people in the case of Nepal
- the transfer of Chinese development experience, such as the multi-facility economic zones in Zambia
- the influx of affordable Chinese goods and services
- transfer of management and technical skills
- a corporate culture that values hard work and discipline
- livelihood improvements through corporate social responsibility (CSR) projects (in the case of Nepal, donations from Chinese individuals and companies and humanitarian aid for disaster relief, including the 2015 earthquake, and poverty alleviation).

Local stakeholders interviewed in Nepal and Zambia noted many of the same benefits, citing job creation, infrastructure improvement, management skills and technology, funding and corporate culture. In the case of Nepal, they also pointed to contributions to local livelihoods through Chinese development and disaster assistance after the 2015 earthquake. China is also a major development partner for Nepal, providing $58.7 million in assistance in FY 2017/2018.[44] The Chinese government works with UN agencies through the South–South Cooperation Assistance Fund in strengthening post-disaster recovery efforts in developing countries including Nepal.[45]

In contrast to Chinese companies, local stakeholders paid attention not only to the quantity of jobs but also their quality, criticising the lack of decent jobs created and the limited benefits of skills transfer through training.

44 Ministry of Finance (2018: xii).

45 'The Chinese government supports the United Nations Development Programme to implement post-disaster relief projects in Dominica, Antigua and Barbuda, Bangladesh, Nepal and Pakistan through the South–South Cooperation Assistance Fund' (中国政府通过南南合作援助基金支持联合国开发计划署在多米尼克、安提瓜和巴布达、孟加拉、尼泊尔、巴基斯坦5国实施灾后救援项目), 27 February 2019, China International Cooperation Agency (www.cidca.gov.cn/2019-02/27/c_1210068165.htm)

Evidence of skills training was more obvious in Nepal, where Chinese companies have sent local teams to more established Chinese hydropower projects in Laos for training. A key factor driving these companies to be more proactive about skills transfer is that their projects adopt the build-own-operate-transfer (BOOT) model,[46] in which the company transfers the facility and ownership after a certain period of time.

In Zambia, training was generally limited to basic training for unskilled workers. According to most interviewees, few locals were hired at the management level, with the exception of human resource managers. When asked why local workers could not be trained for some of the jobs Chinese nationals were doing, Chinese companies replied that few Zambians had the level of education needed for management positions. Zambian trade unions and the Ministry of Labour noted that Chinese companies also brought in semi-skilled workers from China as cooks, truck drivers and boom operators, and asked why locals could not be trained to do these jobs.[47]

46 BOOT (build-own-operate-transfer) is a 'project delivery mechanism in which a government entity grants to a private sector party the right to finance, design, construct, own and operate a project for a specified number of years. This structure is very similar to the build-operate-transfer (BOT) structure, except that the private sector party owns the asset during the term of the agreement. The BOOT structure is often used to build power stations, water treatment facilities and sewage facilities' (https://uk.practicallaw.thomsonreuters.com/4-501-4896?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1).

47 Interview with leaders of a national trade union federation, Lusaka, Zambia, 12 April 2019; interviews with focus group of mine workers and a staff member of a local branch of a mine workers' union, Luanshya, Zambia, 15 April 2019; interview with, Ministry of Labour, Lusaka, Zambia, 11 April 2019.

4 Risks to sustainable development linked to BRI investment

Interviews in Nepal and Zambia revealed distinct differences between Chinese and local stakeholders in their assessment of negative risks. Chinese companies and businesspeople were most concerned about political and legal risks, ensuring that they were investing in the country with the government's support, and that they were complying with tax and immigration laws.[48] They were particularly concerned about how changes in government policy and market conditions, corruption among police and officials, weak governance capacity and litigation might affect them. However, they generally did not consider how their presence and behaviour might increase the risks to the host country's political and legal development.

In contrast to Chinese companies, local stakeholders saw social and environmental risks as a serious issue and pointed to shortcomings in the Chinese approach to risk assessment and management. Government agencies in the host country acknowledged these risks, while lamenting their lack of regulatory capacity to manage them, while labour unions, civil society groups and independent researchers tended to be critical of both the host government's and Chinese companies' failure to respond to these risks.

Among Chinese companies, there are also differences in their approach to social risks. Chinese SOEs tend to have more capacity than POEs to assess social risks, and are more willing to engage with communities through CSR, although in many cases they appoint an intermediary such as an interpreter or local shareholder to handle these issues.[49] Compared to their POE counterparts, Chinese SOEs are more aware of, and have more positive perceptions of, Chinese government policies and guidelines.[50] They point to several reasons for this:

- Policies and guidelines tend to be integrated into SOEs' internal company policies, particularly regarding health, safety and environmental considerations.
- SOEs are implementing large-scale projects that require more approvals, certificates and due diligence from government ministries, banks and insurance companies.
- SOEs maintain more regular contact with the Chinese Embassy and the ECC.

Chinese POEs generally find it more difficult to access concessional loans from Chinese policy banks such as China Development Bank, and there is a lack of accountability mechanisms and communication between POEs and the Chinese government and its representatives overseas.[51] Trade unions in Zambia state that they have made progress getting Chinese SOEs, particularly in the mining sector, to recognise unions and

48 Interview with general manager, Good Time Steel, Lusaka, Zambia, 11 April 2019; interview with the general manager and deputy general manager of a Chinese state-owned mining company, Kitwe, Zambia, 16 April 2019.
49 Dossani et al. (2020: 15).
50 Weng and Buckley (2016: 17–19).
51 Dossani et al. (2020: 21).

engage in collective bargaining, but this has not been easy and happens only when unions point out that unionisation and collective bargaining in the workplace is mandated by law. One union representative said some Chinese companies had told him they could not understand why they had to engage with unions given that they had already made payments to the Ministry of Labour.[52] Chinese POEs have been even more resistant to unionisation and collective bargaining. Smaller private Chinese operators in Zambia have also been involved in riskier activities in the informal or underground economy, such as gambling and small-scale mining operations, for instance in the Black Mountain near Kitwe, where a mining accident in 2018 resulted in 10 deaths.[53]

4.1 Risks related to transparency in investment financing

4.1.1 Literature review

Transparency is critical to the good governance of large infrastructure and resource extraction projects. Without disclosure of the terms of financing agreements and Environmental and Social Impact Assessments (ESIAs), stakeholders in BRI partner countries are unable to monitor the agreements and provide feedback to address problems arising from financial, social and environmental risks. This section focuses on risks related to debt and transparency. Other risks linked to debt, such as financial sustainability, are beyond the scope of this paper.

A recent World Bank Group report identifies fiscal risks in BRI projects as a major issue given 'concerns about the debt sustainability in some beneficiary countries, magnified by the poor quality of information on the investment and financing terms of BRI projects'.[54] China arguably has greater appetite for risk given its willingness to invest in countries with weak rule of law when compared with other foreign donors.[55] The World Bank also cautions that more understanding is needed of the terms of China's loans.[56] While most Chinese loans are concessional, they come with terms that may not be the most favourable for low-income countries.

Projects backed by concessional loans must be executed by Chinese contractors, which are often selected through a non-competitive negotiation process. A significant share of the goods and services in a project must come from China. Thus, Chinese construction firms have benefited from access to low-cost government lines of credit, as well as the 'tied' financing of China's overseas concessional loans.[57]

With respect to Sri Lanka, one study points to the need to look more closely at the terms of

52 Interview, leaders of a mine workers' union, Kitwe, Zambia, 17 April 2019.
53 Interview with World Bank, 9 April 2019; www.reuters.com/article/us-zambia-mining/ten-killed-in-collapse-at-zambian-copper-mining-dump-idUSKBN1JG1H3
54 World Bank Group (2019: 100).
55 Dollar (2016: 40).
56 World Bank Group (2019: 100–101).
57 Dollar (2016: 62).

'concessional loans'.[58] The concessionality of a loan is diluted when it is 'tied' to procurement from contractors in the lending country.[59] Tied loans are more likely to result in cost escalations, further undermining concessionality, and at a certain threshold would turn the loan from 'concessional' to 'adverse'. Of the 35 bilateral loans analysed by this study, Chinese loans were at greatest risk of losing their concessional status.

Transparency and corruption concerns in BRI projects also extend to procurement processes and the awarding of contracts, and the use of ESIAs. The World Bank notes that publicly available information about BRI projects is limited, but suggests that 'Chinese suppliers/ contractors win a majority of BRI projects'.[60] In addition, much of the financing comes from Chinese policy and commercial banks, which 'involves both explicit and implicit preferences for Chinese suppliers, reflecting the fact that financing often has a concessional or preferential element as well as policy objectives that restrict the financing to Chinese contractors'. The Bank cites the 2005 Paris Declaration on Aid Effectiveness, which calls on 'donor countries to move away from tying aid to sourcing goods and services from national firms'.[61]

Similar concerns have been raised about the sustainability and transparency of financing in BRI projects.[62] In terms of corruption, 'allegations [against] Chinese corporations have indeed surfaced since the launch of the BRI'.[63] Studies of development financing in several countries support the need for greater transparency in Chinese financing of infrastructure projects. Zhengli and Chen highlight the lack of third-party evaluation and supervision of financial flows in Chinese development financing. 'In the China-African Triangle, the feasibility study usually is conducted by the SOE that has won and will build the project'.[64] Likewise, Simumba, in his report on Zambia's growing China debt, notes: '[t]he terms of loan agreements in BRI countries are opaque and make it difficult to ascertain repayment terms or what is being offered in terms of security'.[65]

Questions have also been raised about the terms of the financing arrangements between China and Laos with respect to a rail link from Kunming,[66] as well as concerns about the lack of transparency in the ESIA process.[67] The Laos government's financing obligations are estimated at around just over $1 billion, or 6% of the country's GDP, raising concerns for a country that 'the IMF now classifies … to be at high risk of debt distress'.[68]

58 De Mel et al. (2020).
59 'According to the World Bank "an unsolicited proposal (USP) is a proposal made by a private party to undertake a public-private partnership (PPP) project submitted at the initiative of the firm, rather than in response to a request from the government" … "Projects that originate as unsolicited proposals often face widespread allegations of corruption and fraud" particularly in countries like Sri Lanka where the regulatory regime is weak' (de Mel et al., 2020: 10).
60 World Bank Group (2019: 108).
61 Ibid.
62 Swedish Trade and Investment Council (2018: 15).
63 Ibid.: 16.
64 Zhengli and Chen (2016: 11).
65 Simumba (2018: 21).
66 Morris (2019: 6–7).
67 Ibid.: 6–7.
68 Ibid.: 5.

In a reminder of the risks that can result from a lack of transparency in agreements, after Phase 1 of the Standard Gauge Railway (SGR) from Mombasa to Nairobi had been completed, the Kenya Court of Appeal declared in June 2020 that the contract was illegal: 'The judges ruled that the government failed to follow procurement laws while contracting China Bridges and Railway Corporation (CBRC) for the project and that Kenya Railways Corporation (KRC), which was the project's implementer on behalf of the government, head-hunted CBRC as a contractor before Kenya and China's Exim Bank sealed a financing deal. This, the judges ruled, went against the procurement law and the Constitution.'[69]

4.1.2 Findings from Zambia

Corruption was a major concern for Chinese companies in Zambia, particularly in infrastructure projects, and Chinese businesspeople mentioned making payments to ensure that projects could move ahead, but without considering whether doing so would increase corruption risks and erode the rule of law. In the construction industry, Zambia is estimated to be losing between 713 and 1,426 billion kwacha (ZMK) ($143–285 million), or 10–20% of the value of construction contracts, to corruption and related corrupt practices.[70] One Zambian trade union has accused Chinese companies of paying off labour inspectors.[71]

Chinese companies generally played down concerns about the governance, social and environmental risks posed by their investment. Their view was that these risks could largely be managed by cultivating good relations with the government and complying with local tax, immigration, labour and environmental laws. Interviews in Zambia suggested that, rather than holding themselves to higher ESG standards when complying with the law, Chinese companies, perhaps not unlike other firms, tended to adopt a short-term, minimalist approach to compliance without considering how their actions might negatively affect sustainable development in the host country in the medium or long term.

A number of government officials, researchers and civil society representatives in Zambia were critical of the lack of transparency in MoUs and contracts signed between Chinese companies and national and local governments.[72] This lack of transparency has led to a widespread perception among local populations that Chinese companies are enabling crony capitalism in BRI countries, many of which have weak regulatory institutions (see governance indicators for Nepal and Zambia in Appendix 2).[73] Brautigam highlights the link between crony capitalism and unsustainable financing of BRI projects:

> The Achilles Heel of China's bank financing model is that it relies heavily on Chinese companies to develop projects together with host country officials. This creates strong incentives for kickbacks and inflated project

69 Muthoni (2020).
70 Koyi (2018: 11).
71 Interview with leaders of a mine workers' union, Kitwe, Zambia, 17 April 2019.
72 Ofstad and Tjonneland (2019: 7–9)
73 This aligns with a point made by Brautigam (2019): 'With very few exceptions, the logic of China's growing presence in this arena can be explained primarily as commercial activities, albeit with an East Asian twist of "crony capitalism" that is at the heart of the BRI's actual risks'.

> costs. Particularly in election years, companies and public works ministers may collude to get projects approved.[74]

In Zambia, crony capitalism is of particular concern given the country's growing debt burden, including to China, which accounted for 27% of its total external debt in 2017.[75] Much Chinese debt is reportedly in the form of project financing, where information on terms is not readily available.[76]

> There is limited transparency in Chinese lending and financial flows to Zambia with little accurate data on loan conditions. The Chinese approach to finance is creating incentives for kickbacks and inflated project costs that may lead to rent-seeking and cronyism. Despite government denials, 'hidden loans' may also exist.[77]

On the terms and structure of financing, there is uncertainty about how Zambian debt is secured, and whether some of it is backed by sovereign guarantees to natural resources or government land and buildings, which Simumba suggests was the case for the Lusaka–Ndola Dual Carriageway project.[78]

Perceptions of crony capitalism, whether justified or not, risk undermining claims that Chinese investment is contributing positively to Zambia's development through infrastructure or CSR projects. The study team was given a dramatic reminder of this when treated to dinner with several long-standing members of the Chinese community, one of whom had also invited his friend, a tribal chief. Towards the end of the meal, in an effort to acknowledge the benefits of Chinese investment, the team said that they had heard that Chinese companies were building much-needed roads connecting communities to hospitals and schools. The tribal chief responded that Zambians did not see these road-building projects in such a benevolent light, viewing them instead as a way for local officials to get kickbacks from the companies involved. He then walked out of the room.

Negative perceptions of the behaviour of Chinese companies are compounded by a lack of transparency and difficulty in getting access to Chinese companies and officials for information: 'Local tabloids carry headlines such as: "China has controlled our economic lifeline." Or "Chinese have deprived us of our jobs and livelihood." Or "They do not respect us, they only want to make money". 'Such sentiments can also be heard at market places and on the streets.'[79] Rumours and reports of public asset takeovers, property acquisitions, illegal operations, shootings, racist behaviour and the expropriation of local jobs by Chinese nationals have led to a backlash against Chinese businesses and individuals.[80] Over the last decade, anti-Chinese incidents in Zambia have become increasingly common. Michael Sata, who won the presidency in 2011 at his fourth attempt, campaigned on an anti-Chinese platform, calling Zambia a province of China. Sata also drew the ire

74 Brautigam (2019).
75 Simumba (2018: 18).
76 Interview with Center for Trade Policy and Development, Lusaka, Zambia, 9 April 2019.
77 Ofstad and Tjonneland (2019: 2).
78 Simumba (2018: 21–23).
79 Jalloh and Wan (2019).
80 Cheelo and Nakamba-Kabaso (2018: 3–4).

of the Chinese government for getting too friendly with Taiwan.[81] In late 2018 there were two anti-Chinese riots in Zambia's second city Kitwe, one sparked by the accidental shooting of a Zambian by a Chinese store owner, and the other prompted by a rumour spread by an opposition politician that the government had sold the state-run timber company to Chinese interests. Several Chinese businesses were looted in the protests, and scores of protesters were arrested.[82]

4.1.3 Mitigating risks

Simumba offers the following recommendations to the Zambian government to mitigate risks associated with investment financing.[83]

To strengthen transparency, feasibility studies and repayment assessments should be conducted for each project, and made public. The Zambian government should commission and publish a full, independent audit of Zambia's current debt position (both internal and external), clearly outlining debt levels and repayment terms. The fact that, at present, non-disbursed but contracted debt is excluded from the Zambian government's official figures on its external debt stock must also be addressed and rectified.

To strengthen transparency and oversight of debt, the Zambian government, specifically the Ministry of Finance, should review and reform its debt management system to align it better with national planning. Currently, each ministry is responsible for planning and implementing its own sectoral investments, with guidance from the National Development Plan, the Medium-Term Expenditure Framework and the annual budget. A first step in this process would be to establish a database of projects (detailing their project cycles) and to ensure that this is aligned with debt management systems. Such a system has been beneficial in Colombia, and could be replicated in Zambia.

4.1.4 General recommendations (in order of priority)

Recommendations for host country governments in Nepal and Zambia

1. The governments of Nepal and Zambia need to strengthen measures to curb corruption and illicit activities stemming from lax enforcement and government inaction, such as smuggling and counterfeiting of products. Law enforcement agencies must act against illicit trade via raids and seizures of illicit products. Stronger monitoring of illicit trade is needed to protect domestic manufacturers.
2. When foreign companies invest in Zambia, they must discuss and sign a Development Agreement. The relevant government agencies should require that community and trade union representatives be involved in the development of this agreement, and that the agreement incorporate recommendations from the Environmental Impact Assessment (EIA). (This recommendation would also be relevant to risks related to displacement and community consultation in Section 4.2.)

Recommendations for host country governments and Chinese policy-makers

1. China, Zambia and Nepal should establish robust, official and empirically verifiable public information-sharing (or dissemination)

81 Reed (2006).
82 Interview with a District Commissioner, Kitwe, Zambia, April 2019; Rosen (2018); Jalloh and Wan (2019).
83 Simumba (2018: 26).

systems and norms to dispel misconceptions and misunderstandings about the presence of Chinese operatives, investments and debt. This should include the terms of Chinese financing and investment, the percentage of local workers employed and basic messaging in Chinese and English,or the appropriate local language, on signage advertising or describing Chinese operations in Zambia and Nepal. Other useful information for the private sector in Zambia would include guidelines on how private firms might participate in joint venture investments with Chinese counterparts, through which the $10 billion earmarked for Chinese company investments in Africa under the 2018 Forum on China-Africa Cooperation (FOCAC) will be channelled.

2. China, Zambia and Nepal should establish and promote a formal Code of Conduct along with a Doing Business in Zambia/Nepal Guide specifically for Chinese entities establishing themselves in these countries. The Code and Guide should be in Chinese and English and/or the official language of the host country. The Code should contain rules and norms about doing business, while the Guide should contain advisory notes based on the key laws and regulations, economic and political aspects, key social norms and so on in Zambia and Nepal. These documents should highlight the situation and rights of communities and indigenous people who may be impacted by infrastructure projects. (This recommendation would also be relevant for Section 4.3 on risks related to language and cultural differences.)

Recommendations for Chinese policy-makers

1. Chinese government agencies should provide incentives in their requests for proposals for more diverse public–private partnerships that involve joint investment from Chinese and other foreign-owned companies, particularly those that adhere to higher ESG standards, to create a larger, more diverse pool of investors in BRI projects committed to ESG standards.

4.2 Risks related to transparency in community consultation and ESIAs

4.2.1 Literature review

The social risks resulting from displacement and lack of community consultation in Chinese BRI projects have been the subject of several reports. One finds that Chinese companies give greater priority to environmental than to social risks, and highlights the cultural and language differences that make it difficult for Chinese companies to engage with local communities.[84] Reports examining community engagement by Chinese companies in Cambodia and Pakistan suggest that Chinese companies give less attention to social risks in part because of their experience in China, and in part because BRI partner countries do not make it a priority.[85] One analysis of China's policies and laws related to social inclusion finds that China lags behind other donor countries when it comes to gender and social inclusion policies.[86] Chinese policies and legislation for overseas investment provide little guidance as they 'contain general language on business practices and corporate social responsibility

84 Swedish Trade and Investment Council (2018).
85 Miller et al. (2016: 2).
86 Shieh et al. (2020: 5).

and … include very little in the way of concrete, actionable and enforceable criteria, measures and mechanisms for gender and social inclusion'.[87]

Other comparative and case studies suggest that statutory requirements for community consultation in infrastructure projects are more robust in countries where Chinese companies have significant investments, such as Kenya, Myanmar and Nepal, than in China itself.[88] In Myanmar, while Chinese companies are aware of international standards and the need for community engagement, they still struggle to operationalise community consultation. Many companies understand community consultation as CSR or charity, rather than a two-way channel for communities to voice grievances and seek redress.

There is ample evidence that, while BRI partner countries may have more robust laws requiring community consultation, they do not always observe the spirit of those laws. For example, Chinese SOE China Road and Bridge Corporation (CRBC) complied with ESIA requirements during the construction of the Mombasa–Nairobi SGR, including holding community meetings, but the ESIAs and community meetings were perfunctory and rushed due to the tight timetable set by the Kenyan president's office.[89]

There are numerous cases of community opposition when Chinese companies have not taken social risks seriously. The suspension of the Myitsone Dam project in Myanmar in 2011 due to public pressure is an early and often cited example.[90] In response to negative media reports in BRI partner countries, Chinese companies' approach to social risks appears to be changing. Weng and Buckley, for example, find that '[i]nterviewees discussed their own efforts – many outside of official corporate policy or local laws – to improve their social performance overseas through community engagement and skills training. While not without their challenges, these examples run contrary to the common perception that overseas Chinese businesses are indifferent to social impacts'.[91]

4.2.2 Findings from Nepal

In Nepal, the lack of transparency, grievance mechanisms and meaningful consultation with communities was pervasive in Chinese projects, leading in some cases to miscommunication and tension between Chinese companies and local actors. There were misunderstandings between companies and communities because, in one instance, the company did not follow up with communities on remediation measures recommended in the EIA report. In another case, the EIA had been written many years ago and did not reflect the project's current impact, yet the company had not carried out an updated EIA.

While Chinese companies placed importance on following labour and environmental laws and going through environmental studies such as the EIA or the Initial Environmental Examination (IEE), as required by law,[92] they viewed the EIA as

87 Shieh et al. (2020: 30).
88 Bian (2017).
89 Borodyna et. al. (2020).
90 Fuller (2011).
91 Weng and Buckley (2016: 6).
92 Any hydropower project of installed capacity of more than 50 MW is required to prepare an EIA. Projects with less than 50 MW of installed capacity have to go through a IEE. See Schedule-1, Section E of the Environmental Protection Rule of Nepal, 2054 (1997).

a technical exercise. According to a community focus group the study held in the Upper Madi area, the Chinese company neither disclosed the EIA report nor followed up with an updated assessment when the political and social environment changed.[93]

Most of the communities affected by Chinese hydropower projects said that they had never seen an EIA report. A Chinese manager responded to this charge by contending that EIA reports did not have to be publicly disclosed.[94] One company deemed that it had done enough for communities by conducting CSR projects, while the communities themselves complained that the company had not fulfilled its commitment since the agreement between the two parties did not clarify the quantity or standard of CSR activities.[95]

Companies involved in several hydropower projects had conducted the EIA almost a decade previously, while the country was in the midst of a civil war and without a functioning regulatory body, and only a few community members had been involved. Years later, when the civil war ended, the companies did not anticipate changes at the local level when they started up the project, nor did they consider updating the EIA or maintaining adequate communication with communities. Projects encountered local resistance due to their negative impacts on daily life, such as dust pollution, cracking of walls in homes and disturbance to livestock. One project recorded 153 days of stoppages because of protests during the first year of construction. The manager confessed that it took a year for the company to rebuild relations with the community until a coordination committee could be established to improve communication between the company and the community.[96]

Chinese companies acting as contractors rather than developers tended to rely on the developer (usually a Nepalese company) to deal with risks concerning community displacement and compensation. They also tended not to consider risks outside of the scope of their contract with the developer.[97] Due in part to language difficulties, many Chinese companies communicated with communities through a third party, such as their local partner/shareholder or an interpreter.

The lack of clarity in the roles and responsibilities of developers and contractors at times led to confusion within the community about who they should approach with concerns, further exacerbating the lack of transparency in the consultation process. Some community members complained that they did not know who was doing what and who they should talk to. 'It would be easier if they [the developer and contractor] were all Nepalese or Chinese,' some villagers said.[98]

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93 Focus groups with members of the affected community, project site in Nepal, 14 April 2019.

94 Interview with managers at a Chinese state-owned construction and engineering consulting company, Kathmandu, Nepal, 18 April 2019. According to the Environmental Protection Act of Nepal, it is not obligatory for companies to disclose EIA or IEE reports. The law does request the developer of the project to conduct at least one public hearing at the project site before the finalisation of the EIA/IEE report, and there are specific legal requirements to organise a public hearing. See Section 3(5) of the Environmental Protection Act of Nepal, 2076 (2019) and Section 7(2) of Environmental Protection Rules of Nepal, 2054 (1997).

95 Ibid.

96 Ibid.

97 Interview with managers at a Chinese provincial state-owned hydropower construction company, project site in Nepal, 16 April 2019.

98 The ad hoc approach to community engagement taken by Chinese companies was also found in a comparative study of a Chinese and US mining company in Ghana (Yang, 2017).

In one particularly egregious example of this shifting of responsibilities, a Chinese hydropower company relied on its Nepalese shareholder as an intermediary. That shareholder then chose to negotiate compensation for land use with each resident privately. Residents who lacked good information about the market price of the land, or who were not skilled at negotiating, received a lower price for their land than their neighbours, and were left feeling unfairly treated.

Interviewees occasionally mentioned individual cases of tension between Chinese companies and communities arising from the rapid migration and settlement of workers in project areas. One Chinese contractor reportedly built camps close to villages, creating conflict over water and other resources.[99] While the developer claimed that the Chinese company was infringing on the community's water source without its consent, the company complained about the community's disruptive activities, including disconnecting the water supply and petty theft, due to 'grievances over lack of employment opportunities'.[100]

Risks to indigenous communities from displacement

Nepal's indigenous nationalities (Adivasi Janajati) comprise 36% of the total population (approximately 8.5 million out of 26 million). The state officially recognises 59 indigenous communities.[101] Although indigenous people constitute a significant proportion of the population, throughout Nepal's history they have been discriminated against, marginalised and exploited in terms of land, resources, language, culture, customary laws and political and economic opportunities.[102] Nepal has adopted the United Nations Declaration on the Rights of Indigenous Peoples and ratified International Labor Organization (ILO) Convention 169. Despite prohibiting discrimination based on ethnic group and caste, the Constitution, revised and promulgated in 2015, is controversial as it is not enforced sufficiently and lacks recognition of the rights of indigenous people to self-determination.[103]

Against this backdrop, indigenous people in Nepal face multiple challenges to realising their rights. Many are experiencing increasing and aggressive pressure to give up their land for economic development and infrastructure projects.[104] The Lawyers' Association for Human Rights of Nepalese Indigenous Peoples (LAHURNIP) has provided legal support to dozens of cases concerning the violation of indigenous rights caused by infrastructure development projects or private sector investment. In the majority of cases, neither the state nor the private sector actively sought free, prior and informed consent with indigenous communities, nor did they provide due compensation to those whose land and property had been impacted owing to land acquisition for projects.[105] Activists filed lawsuits before various judicial bodies, and the Supreme Court in the case of the Kathmandu Valley Road Improvement Project.[106] They also

99 Interview with managers at a Nepalese power company, Kathmandu, Nepal, 11 April 2019.
100 Interview with managers at a Chinese provincial state-owned hydropower construction company, project site in Nepal, 16 April 2019.
101 www.indigenousvoice.com/en/indigenous-peoples/national.html
102 Ibid.
103 Committee on the Elimination of Discrimination against Women, Concluding observations on the sixth periodic report of Nepal (2018), CEDAW/C/NPL/CO/6, 14 November 2018, para. 41.
104 Interview with LAHURNIP in Kathmandu, Nepal, 11 April 2019.
105 Ibid. Also see LAHURNIP (2016).
106 www.culturalsurvival.org/news/community-radio-helps-indigenous-peoples-win-legal-battle-against-nepalese-government

filed complaints with multilateral development banks in cases such as the 220kV Marsyangdi Corridor Transmission Line funded by the European Investment Bank[107] and the Khimti-Dhalkebar 220kV Transmission Line financed by the World Bank.[108] These cases, though rarely against Chinese companies or investors directly, signal the legal and reputational risks if actors overlook the concerns of indigenous people.

With the growth of Chinese investment and contracting in Nepal, there is evidence that Chinese companies could have taken more seriously the risks to indigenous people due to displacement and compensation. In one project site, local indigenous activists said that 24 indigenous households had been affected by blasting to build a tunnel.[109] One house close to the tunnel collapsed due to the blasting work. Although the families affected eventually received compensation after the formation of a committee to negotiate with the company, such losses could have been avoided if the company had followed due process and identified and involved potential affected groups properly. While Chinese companies display some awareness of the risks of large-scale infrastructure projects for local communities, many do not understand the vulnerabilities of groups such as indigenous people, who tend to be excluded from community consultation.

Language and cultural differences make it particularly challenging for Chinese companies to understand complex social dynamics (see Section 4.3). A Chinese company's perception of indigenous people might also be influenced by its interpreter's views. According to one company manager, 'they [indigenous people] have a bad reputation in town' and 'they received money from European groups who support them to make trouble'. He added that some indigenous people's claims that transmission lines set up as part of a hydropower project negatively impacted their livelihood were deemed frivolous and lacking a solid basis. A Chinese manager related an incident where a group of villagers surrounded the company interpreter and would not allow him to leave. The company called the local authorities, who sent in the police, and the villagers dispersed.[110]

4.2.3 Mitigating risks in Nepal and Zambia

Chinese companies in Nepal and Zambia tend to hire local human resource (HR) managers, interpreters and public relations officers, and build business partnerships with local companies or individuals with local knowledge and authority to engage with employees, local governments and communities. These local staff possess better knowledge about the local culture and union activities than their Chinese colleagues, facilitating communication between managers and local employees. However, in an interview with the Mineworkers Union of Zambia, union staff pointed out that, in many cases, local HR managers are not empowered to make decisions, and usually take orders from their Chinese counterparts or have to wait for decisions from senior Chinese management.[111]

In Nepal, the Nepalese developer negotiating on behalf of CWE (a Chinese hydropower contractor) agreed to 23 CSR projects with

107 www.accountabilitycounsel.org/2018/10/press-release-communities-in-nepal-request-eib-complaints-office-for-mediation/
108 www.accountabilitycounsel.org/client-case/nepal-high-voltage-transmission-line/#timeline
109 Interview with indigenous activists, project site in Nepal, 15 April 2019.
110 Interview with managers at a Chinese state-owned hydropower company, project site in Nepal, 16 April 2019.
111 Interview with leaders of a mine workers' union, Kitwe, Zambia, 15 April 2019.

the local coordination committee formed by representatives of affected communities. However, there was no consensus on the projects' quality and quantity, which led to a dispute over how many were to be completed. See Box 2 for an example of good practice in project collaboration.

Chinese companies also negotiate community issues through local authorities. Some Chinese companies in Zambia, more often larger ones, have regular interactions with local authorities and tribal chiefs who own community land, and agree to make CSR contributions, such as building clinics and schools or providing support to the local police. The Chinese-owned and -managed Sinozam Hospital in Kitwe is widely regarded as one of the best-equipped hospitals in the district. The Zambia Chinese Association donated vehicles to the police in 2017.[112]

A Kitwe District Commissioner told the study that his office had engaged with the Zambia Chinese Association after two anti-Chinese riots in Kitwe in late 2018, and received 'a remarkable response with positive actions' on CSR projects, such as contributions to local schools. He also took the opportunity to discuss how to reduce unfair competition between Chinese businesses and local traders.[113]

In Nepal, the China Overseas Engineering Corporation negotiated compensation for the community with the ward chair.[114] Also in Nepal, a Chinese hydropower company worked with the local government to build garbage collection stations in communities.[115]

Box 2 Good practice: collaboration between a Chinese company and a CSO on social and environmental impacts of mining in Zambia

The Civil Society for Poverty Reduction is collaborating with a Chinese mining company on a greenfield project in the north-west of Zambia to mitigate the social risks of community displacement and the environmental impacts of mining projects. They aim to have quarterly community meetings to discuss how they can share revenue to contribute to improvements in communities, and to address issues around displacement, such as how to make compensation fairer as land is acquired for mining.[116]

The Chinese ECC Office in Nepal pointed to challenges with existing communication channels and platforms. While business associations can play a vital role in providing services, they lack full-time, professional staff. Staff are from different companies, and work for the association on a part-time basis. At the company level, risk management should be systematised and incorporated in day-to-day operations. However, very few Chinese companies or their staff have the capacity and awareness to do so. While Chinese companies are beginning to recognise the importance of CSR in building trust and improving communication with local communities, they are inexperienced

112 www.lusakatimes.com/2017/12/18/zambia-police-drafts-8-chinese-nationals-police-reserve-unit/
113 Interview with a District Commissioner, Kitwe, Zambia, 16 April 2019.
114 Ward is the lowest level of the governance system in Nepal. The ward chair is elected for five years. A number of wards within a specific area form a municipality or rural municipality.
115 Interview with managers at a Chinese state-owned hydropower company, project site in Nepal, 16 April 2019.
116 Interview with the Jesuit Centre for Theological Reflection and Civil Society for Poverty Reduction, Lusaka, Zambia, 10 April 2019.

in working with communities and civil society organisations. Chinese companies lack public relations staff with the necessary English language skills and international perspective.[117] In an interview with Chambishi Copper Smelter in Zambia, the company manager said that they had only one staff member, a Chinese national with good English skills, responsible for the company's CSR and public relations work. He described the good relations with local communities and the media that had been developed by this staff member.[118]

In Nepal, coordination committees have been developed for managing community relations and social risks (see Box 3).

There are limitations to these mechanisms. For example, women in a community affected by another hydropower project complained that the head of the coordination committee, originally elected by community members, did not serve affected groups' best interests since he was from another ward that was not negatively impacted by the project, and they were sceptical about his motives.[119] While the company mentioned in the good practice example in Box 3 was proactive in setting up a coordination commission, the communication gap and discord with indigenous groups remained. However, during research for this study, companies showed less awareness and fewer concerns about these issues.

Box 3 Good practice: building communication channels between local stakeholders and communities in Nepal

After struggling with conflicts with the community for some time, one Chinese hydropower company decided to support the community to establish a coordination committee to take charge of its CSR activities. While funded by the company, the committee operates independently and plays a crucial role in communication between the company and the community. Community leaders serve on the committee, which is responsible for reaching out to community members about their needs and flagging them as potential CSR projects to the company. The company then decides which requests should be prioritised, and asks the committee to follow up on implementation. The company has spent $800,000 on 156 projects, including: building schools, roads, hospitals, temples and a water supply system; husbandry support; and building eight crematorium sites. According to the company manager, '[the company] did not encounter resistance during the implementation of the projects and the community was satisfied with most of the outcomes … People also go to the committee when they have complaints about the company'.[120]

117 Interview with ECC of the Embassy of the People's Republic of China in Kathmandu, Nepal, 8 April 2019.
118 Interview with managers at a Chinese state-owned mining company, Kitwe, Zambia, 16 April 2019.
119 Focus groups with members of a women's group from the affected community, project site in Nepal, 14 April 2019.
120 Interview with managers at a Chinese state-owned hydropower company, project site in Nepal, 16 April 2019.

According to a social consultation expert who had previously worked at the Investment Board of Nepal (IBN) and the World Bank and Asian Development Bank in Nepal, lack of transparency in determining compensation for private land and buildings is the most common problem triggering community resistance to projects, along with a lack of skills training and employment for affected communities. To mitigate these risks, the expert recommended greater effort be put into community engagement activities, the disclosure of project-related information and setting up a functioning grievance redress mechanism (GRM) at the project site.[121] He stressed that stakeholder engagement alone does not work without a functional GRM. A GRM is instrumental in convincing the local community that project management is serious about solving problems during implementation of a project, and building trust. See Box 4 for an example of good practice in community engagement.

Box 4 Good practice: community engagement and CSR over management of water resources

Chambishi Copper Smelter engaged in dialogue with a community in Zambia that had alleged the company was depleting and polluting water sources. The company built water pumps for use by the community and for the company's operations, and invited local people to participate in monitoring the water system. As a result, the community understands how the water system operates, and the company reduces costs as it does not have to hire dedicated personnel to monitor the pumps. The company did not regard this as a CSR effort and did not publicise it as such, but rather saw a need and tried to address it in a low-profile way.

4.2.4 General recommendations (in order of priority)

Recommendations for host governments in Nepal and Zambia

1. The governments of Nepal and Zambia should significantly strengthen implementation and follow-up of ESIAs. One way they can do this is to incorporate ESIA findings into project design and implementation, ensuring that these are live documents that are updated as the situation changes. They should ensure that the relevant government agencies receive training on the issues and have the capacity to monitor a project's progress. They should also ensure that a GRM is put in place and maintained, and that there is third-party monitoring of social and environmental risks.
2. More resources should be allocated to public/community relations and CSR activities. The governments should hire dedicated bilingual local staff who understand how to engage with local communities, indigenous groups, and local media when making contributions to CSR projects. Local people are best placed to deal with local problems, but they need to be trained to understand Chinese companies' operations and culture.

4.2.5 Project recommendations for international development partners

1. To strengthen ESIA monitoring and implementation, international development partners should consider a project similar to the Zambia Mining and Environmental and Remediation Project, a joint initiative between the World Bank and the Ministry of Mines that seeks to strengthen the government's capacity to improve enforcement of regulations governing the environmental health impacts

121 Interview with Prem Khanal, World Bank consultant and previously of IBN, 6 March 2020.

of large mining projects. They should consider creating an Environment Protection Fund that companies are legally obligated to contribute to, which will be used to ensure that ESIAs are being enforced.

4.3 Risks related to language and cultural differences and insensitivities

4.3.1 Literature review

Cultural and language differences affect not only Chinese companies' engagement with communities; they also spill over into other areas, such as relations between managers and workers and skills transfer. According to a senior representative of a Chinese green investment consultancy: 'Localization and communication are issues that Chinese companies face. Localization should be understood as a bigger concept including local supply chain, local R&D, local managers, etc.'[122] One study in Ethiopia notes that 'workers in Chinese companies appear more likely than their counterparts in other foreign-owned and Ethiopian companies to feel abused by managers'.[123] Language and cultural differences also pose a significant challenge to companies' efforts to transfer skills in Africa.[124]

While recognising that Chinese companies need to do more in this area, it would be a mistake to regard these companies as exceptional in the difficulties they encounter communicating and interacting with locals. Several studies suggest the extent of self-segregation by Chinese overseas varies depending on whether the subjects are Chinese expatriates or migrants, and factors such as the local political environment, language barriers and corporate policies to mitigate crime and conflict.[125]

Pew surveys suggest that public attitudes towards China in emerging economies in the Middle East, Africa and Latin America are favourable when compared to views of China in the West. The surveys note a correlation between Chinese investment in these countries and positive public opinion.[126] These global surveys are supported by country-specific surveys in Zambia and Kenya. One study of Zambians' attitudes towards Chinese, Caucasian, Indian, South African and Lebanese people shows that Chinese are viewed less favourably than Caucasians and South Africans, but more favourably than Indians and Lebanese on areas including friendship, interactions at work, marriage and treatment by local authorities.[127] Another survey in Kenya found that 77% of respondents agreed with the statement 'China is helping Kenya', while only 8% disagreed. Even more striking, nearly 47% disagreed with the statement 'Chinese are more racist then Westerners'. More than 60% disagreed with the statement 'Chinese people do not interact with Kenyans'.[128]

4.3.2. Findings from Nepal and Zambia

Risks stemming from a lack of transparency and grievance/feedback mechanisms are compounded by Chinese companies' lack of awareness of international ESG standards, and lack of knowledge of the local language and

122 Swedish Trade and Investment Council (2018:14).
123 Schaefer and Oya (2019).
124 Meng and Nyantakyi (2019).
125 Lu et al. (2017); Yan et al. (2019).
126 www.pewresearch.org/global/2019/12/05/attitudes-toward-china-2019
127 https://chinaafricaproject.com/podcasts/podcast-zambia-africa-chinese-china-migrants-lu-yao
128 Lu et al. (2016).

culture. One World Bank-invested hydropower project in Nepal was suspended due to disputes between the Nepalese developer and the Chinese contractor, partly due to miscommunication. The developer had accused the Chinese company of non-compliance with social and environmental requirements, ignorance of relevant international standards and limited language capacity.[129] However, the Chinese contractor's staff believed that the differences between the two parties were over construction techniques. They proceeded with the work based on their own standards, which were not recognised by the developer, and the developer then terminated the contract.[130] While it is impossible for an outsider to determine who bore more responsibility for the project's failure, poor communication and cultural differences between the Nepalese and Chinese parties was a key factor affecting their cooperation.

In the case of hydropower project sites far from cities, language differences are significant since most local community members speak a local language that very few Chinese understand. Companies generally rely on local interpreters or staff to negotiate with local governments and communities, which can lead to misinterpretation of information or reinforced stereotypes about marginalised social groups such as indigenous people, who in some cases might be considered by local staff from other ethnic groups as trouble-makers.

Misunderstandings and conflict resulting from language and cultural differences was also a common theme in interviews with Chinese and local stakeholders in Zambia. Many of the Chinese companies and individuals interviewed for this study recognised the challenges of adapting to a very different culture. Some Chinese who had been in Zambia for many years had clearly succeeded in adapting and had made the country their home. In one dinner meeting, some Chinese expatriates prominent in the business community brought along two good friends who were tribal chiefs. They told the study that language and cultural differences were important in explaining why Chinese tended to keep to themselves, and as a result found it hard to integrate and gain acceptance. They did not see this problem going away in the near future.[131] At the same time, they and other Chinese pointed out that integration depended on several factors, such as the timing and nature of their arrival in the country, and their age.

One general manager of a Chinese steel company who had worked in Zambia and elsewhere in Africa for many years noted that when he first came to the country locals were friendly, but that this had changed with the arrival of the more recent cohort of Chinese, who only intend to stay a few years and make money, and have not learned the language or culture. Some of these new arrivals are also working in informal or illegal activities, such as small-scale mining and trading, and retail businesses that compete with Zambian businesses.[132] Another manager of a Chinese-invested emerald mine in the Copperbelt said that he was fortunate to receive training on Zambian culture and laws because he had worked for a Chinese SOE. More recent arrivals are attached to private companies or are individual entrepreneurs, and so do not benefit from language or cultural training and tend to

129 Interview with managers at a Nepalese power company, Kathmandu, Nepal, 11 April 2019.

130 Interview with managers at a Chinese provincial state-owned hydropower construction company, project site in Nepal, 16 April 2019.

131 Interview with two Chinese expatriates, Lusaka, Zambia, 8 April 2019.

132 Interview with general manager, Good Time Steel, Lusaka, Zambia, 11 April 2019.

have lower levels of education. Because they lack language and communication skills, these new arrivals tend instead to rely on making payments to local authorities and communities to resolve problems and earn goodwill.[133]

One younger Chinese woman who had worked for Chinese businesses and was now working for a project funded by the UK government said that language and culture was less of a barrier for the younger generation, who were better able to interact with locals.[134]

Interviews with Zambian stakeholders highlighted how language and cultural differences complicated relations between management and workers, and Chinese and local businesses. In the mining sector, when asked to compare Chinese mines with other foreign-owned ones, union leaders and workers perceived Chinese as more hardworking and stricter, and slower to comply with local labour laws and recognise the role of unions in representing workers.[135] They complained about Chinese managers harassing local workers and shouting at them in Chinese (this has also come up in comparative surveys of foreign firms in other parts of Africa). At the same time, they also recognised that other foreign-owned firms were no models, and that labour relations with Chinese firms had improved over the last decade. One union representative mentioned a Chinese firm based in Lusaka, Good Time Steel, as being a good model for management–worker relations.[136]

Union leaders also pointed to separate reporting and decision-making hierarchies within Chinese companies, where Chinese managers meet together, and Zambian managers (generally in HR) meet together, but the two groups do not make decisions collectively. Instead, decisions made by Chinese managers are transmitted to Zambian HR managers to implement. 'Zambian managers take orders from the Chinese' was how one union leader put it.[137]

Interviews with representatives of local authorities and business associations suggest that language and cultural differences are aggravated by competition between Chinese and Zambian businesses, and by self-segregation of Chinese and Chinese businesses, which make little effort to integrate with local businesses (see the next section on local economic development and livelihoods). The local District Commissioner in Kitwe in the Copperbelt spoke of growing tensions as Chinese traders moved into local markets and began competing with local businesses. The previous year, he had had to step in to mediate when fake reports of a local plantation being taken over by Chinese led to protests in which locals looted a Chinese store. He credited the Chinese business community with recognising the social risks created by competition with local firms, and met with representatives from the Chinese community several times to address the issue. He was keen to see more Chinese businesses join the local chamber of commerce.[138] The lack of Chinese companies joining local chambers and

133 Interview with manager of a private Chinese-invested mine, Kitwe, Zambia, 17 April 2019.
134 Interview with Chinese staff member of Partnership for Investment and Growth in Africa, Lusaka, Zambia, 12 April 2020.
135 Focus group with mine workers and staff of a local branch of a mine workers' union, Luanshya, Zambia, 17 April 2019.
136 Interview with leaders of a national trade union, Lusaka, Zambia, 12 April 2019.
137 Interview with leaders of a mine workers' union, Kitwe, Zambia, 15 April 2019.
138 Interview with District Commissioner, Kitwe, Zambia, 16 April 2019.

sourcing from local businesses was also brought up by the president of the Zambia Association of Manufacturing (ZAM), who noted that, while other foreign companies had become members, Chinese businesses preferred to join their own associations, such as the Chinese chamber of commerce, set up under the aegis of the Chinese Embassy.[139]

4.3.3 Mitigating risks

Providing guidance to Chinese companies
Since the operating environments in Zambia and Nepal are hugely different from that in China, it is important for Chinese companies to put extra effort into understanding the context, culture, legal requirements and business-related policies of each country. Chinese companies generally recognise the need to comply with legal requirements in areas such as taxation, labour practices and immigration laws. Some company managers in Chinese SOEs stated that resources and training were provided when they first arrived in Zambia to help them understand the country. Assessments of feasibility and risks may also be carried out before entering the market. POEs seem to prepare less before investing abroad.

The ECC in Chinese embassies provides guidance to Chinese companies through information-sharing and training, in line with the BRI principles of 'consultation, contribution and shared benefits' (共商共建共享). One representative of ZCCZ, which runs the Chambishi Multi-Facility Economic Zone in Zambia, spoke of implementing these principles by providing information on country context and laws, and recommendations for risk prevention through a country guidebook, regular notifications on their website and assistance in cases of emergency.

In Nepal, the ECC in the Chinese Embassy set out the role of the Embassy and ECC as: 1) to guide companies in line with the principles of 'consultation, contribution and shared benefits'; 2) to issue warnings and alerts regarding political, social, natural disaster and compliance risks; and 3) to provide assistance, for instance following safety incidents. The ECC is responsible for updating the Guide for Countries and Regions on Overseas Investment and Cooperation annually, and posting notices on the Embassy website. Beyond that, the ECC relies on business associations and chambers of commerce to disseminate information and mobilise resources.[140] The local Chinese business association has tried to improve Chinese companies' understanding of events and issues in their local area by organising regular meetings and training on safety production, managing WeChat groups for sharing information about major events in the region, emergencies, CSR activities, etc. Nevertheless, one Chinese manager[141] indicated that the function of Chinese business associations in host countries is limited or sometimes merely formalistic, since companies are competitors and there is a lack of trust between them.

Some Chinese business and trade associations have published guidelines on due diligence, such as the China Chamber of Commerce of Metals, Minerals & Chemicals Importers & Exporters' (CCCMC) Due Diligence Guidelines for Responsible Mineral Supply Chain. The CCCMC conducted pilot training in Zambia in early 2018 with Chinese mining companies to raise awareness of the guidelines among company managers.[142] However, awareness and implementation of these guidelines among Chinese companies in

139 Interview with president, Zambia Association of Manufacturers, Lusaka, Zambia, 12 April 2019.
140 Interview with the ECC of the Embassy of the People's Republic of China in Nepal, Kathmandu, 8 April 2019.
141 Telephone interview with a manager at a Chinese state-owned engineering company, Kathmandu, Nepal, 19 April 2019.
142 China Chamber of Commerce of Metals, Minerals & Chemicals Importers & Exporters (2018)

the host countries remain questionable. As the UN Independent Expert on the effects of foreign debt on human rights pointed out in his report on his mission to China: '[a]dditional efforts are needed to strengthen the implementation of existing guidelines in operational practices, to improve consultation with affected individuals and communities, and to enhance the responsiveness of financial institutions to their concerns'.[143]

Chinese trade and community associations in BRI countries also play a role in improving communication and understanding between companies and local communities. The Zambia Chinese Association, an umbrella group consisting of native-place associations[144] set up to facilitate people-to-people support in the Chinese community, has formed several working groups to provide personal security support, legal assistance, news dissemination and dispute resolution for Chinese nationals in the country.[145] Similar platforms among Chinese chambers of commerce and business associations offer regular meetings on safety production and WeChat groups disseminating information and notices about local news and events. These platforms serve as communication channels among Chinese communities to better understand the local context, and have the potential to help them further understand and overcome social risks through information exchange.

4.3.4 General recommendations (in order of priority)

Recommendations for host country governments in Nepal and Zambia

1. The governments of Nepal and Zambia should encourage Chinese stakeholders to participate in multi-stakeholder platforms, such as the Tripartite Consultative Labour Council and mining indabas (conferences) in Zambia, which involve government officers, companies, non-governmental organisations (NGOs), community representatives and other actors concerned with sustainable investment for the country's development. These platforms could provide a channel for resolving issues/risks stemming from BRI investments (this recommendation would also be relevant for risks to local economic development and livelihoods discussed in Section 4.4).
2. The relevant agencies of the host governments should provide training to Chinese businesses on local context and legal requirements, and consider a due diligence accreditation process as a prerequisite for starting businesses in the country.

Recommendations for Chinese policy-makers

1. The current approach of the Forum on China-Africa Cooperation (FOCAC) exchange initiative,

143 Bohoslavsky (2015).
144 Native-place associations are voluntary associations of people from the same town or province. They are ubiquitous in China and among the Chinese diaspora.
145 Interview with Secretary-General of Zambia Chinese Association, Lusaka, Zambia, 10 April 2019.

which focuses on Africa-to-China learning, should be revised to help Chinese people become more comfortable with operating in African countries' social, economic, political and legal spaces and systems. China-to-Africa learning will also help to address some of the challenges emanating from cultural differences between China and Africa.

Recommendations for host country governments and Chinese policy-makers and companies

1. In order to address language and communication barriers between China and BRI countries, social and linguistic learning and research centres should be developed in BRI partner countries and commissioned to conduct public education and research.
2. Governments and companies should prioritise training and hiring of bilingual community relations specialists with experience dealing with local communities, women and indigenous groups.

4.3.5 Project recommendations for international development partners (in order of priority)

1. International development partners should invest in capacity-building for trade, industry and business associations in China and host countries providing professional services to promote trade and business, particularly in the areas of sustainable investment and responsible business. This could include dialogues and exchanges on CSR and responsible business conduct with other trade associations and CSOs with experience in this area, such as the Center for International Private Enterprise, the European Chamber of Commerce and the US Chamber of Commerce.
2. International development partners should organise exchanges and forums with CSOs in Nepal and Zambia and Chinese and other foreign companies working in BRI partner countries. Foreign companies that have experience working with CSOs in these countries could participate and share reflections on how they engage with CSOs when dealing with social and environmental risks. International development partners should consider broadening this to include stakeholders focused on a particular industry, such as hydropower or mining, and invite other stakeholders from government, industry and academia to participate in discussions on how to deal with risks in these industries.
3. International development partners should support a Chinese consulting company or CSO to provide training to Chinese businesses on local context and legal requirements, and the benefits of joining domestic trade associations and chambers of commerce. Chinese entities can work with government bodies to develop an accreditation process as a prerequisite for starting businesses.

4.4 Risks to local economic development and livelihoods

4.4.1 Literature review

China's potential contribution to reducing poverty, increasing incomes and improving welfare and quality of life in less developed countries is substantial,[146] and the contribution of Chinese companies to jobs growth, skills training and the provision of affordable products has been largely positive. In the more than 1,000 Chinese companies interviewed for a McKinsey study, about 89% of employees were African, suggesting

146 Kaplinsky (2013).

that Chinese-owned businesses already employ several million Africans.[147] Chinese companies have also contributed to skills training and provided new products or services at lower cost. Like the McKinsey report just cited, Calabrese and Tang find that Chinese companies in Africa are mainly producing for local markets, rather than for export to other markets, thereby providing Africans with greater access to affordable goods.[148]

Less progress has been made in other areas, including local sourcing from African firms. By value, only 47% of Chinese firms' sourcing was from local African firms.[149] Calabrese and Tang note that, '[w]hile longer-term supply or subcontracting relationships would be highly beneficial in terms of increasing productivity of African firms, we see few examples of such relationships. Similarly, more established partnerships, such as joint ventures between African and Chinese firms, are the exception rather than the rule'.[150] Other studies have shown that workforce localisation rates for Chinese companies in Africa have been going up.[151] In Angola, localisation rates have risen from 50% to 75% over the previous 10 years,[152] but this is still lower than in non-Chinese firms. Huang and Chen point to the lack of long-term strategies from the Chinese government or SOEs to exert any positive social impact through infrastructure projects.[153]

The World Bank questions the aggressive promotion of special economic zones (SEZs) in many BRI partner countries:

> SEZ-related infrastructure investments in some countries became large fiscal drains that failed to attract investors, leaving "white elephants." And in some cases, investors have exploited SEZs to take advantage of tax breaks without delivering substantial employment or export earnings.[154]

Questions have also been raised about the bidding and procurement process. Morris, on the Kunming–Vientiane Railway, points out that:

> Although [China's Bidding Law] requires open bidding procedures for large projects (above approximately $300,000 in value), there is wide discretion for Chinese institutions to discriminate against potential foreign bidders through standard-setting, licensing requirements, and exclusion of consortia.[155]

Wissenbach and Wang's study of the Mombasa–Nairobi SGR in Kenya found that, despite local content regulations requiring companies to give preference to local companies and workers,

147 Sun et al. (2017: 11).
148 Calabrese and Tang (2020).
149 Sun et al. (2017: 47).
150 Calabrese and Tang (2020: 6).
151 Sanghi and Johnson (2016)
152 Oya and Wanda (2019)
153 Huang and Chen (2016: 10).
154 World Bank Group (2019: 90).
155 Morris (2019: 13).

local sourcing was neglected.[156] It took organised pressure by Kenyan cement manufacturers to reverse an agreement with Chinese stakeholders to import cement from China. As a result, all the cement used for the SGR project was purchased from Kenyan firms. Borodyna et al. suggest that local sourcing was constrained by the loan agreement with Exim Bank, which stated that 70% of construction content had to come from China.[157] The extent to which the SGR contributed to job creation in Kenya is also subject to dispute. Although the SGR generated tens of thousands of new jobs, the large majority of which were filled by locals, the trucking industry was devastated because cargo from Mombasa port was required to be transported on the SGR.[158]

4.4.2 Findings from Zambia

In its National Industrial Policy, the Zambian government 'places industrial growth at the core of its development agenda'.[159] The implementation of this policy 'is expected to result in greater citizen involvement in wealth and job creation through value addition activity nationwide by fostering backward and forward linkages, promoting the development of value chains and building a diversified industrial base around priority sectors'. However, the document also notes a number of challenges. Growth of the manufacturing sector has slowed in recent years, to around 2%, with the textile and leather industries experiencing a large drop 'caused by imports from more competitive economies such as China and Bangladesh and further compounded by the influx of second hand products from western countries'.

To stimulate industrial development, the Zambian government approved the establishment of several multi-facility economic zones (MFEZs) in the country, beginning with the Lusaka South MFEZ, established in 2010 and managed by a government shareholding company, the Industrial Development Corporation. Lusaka South was followed by two more MFEZs – Lusaka East and Chambishi in the Copperbelt – both managed by ZCCZ. ZCCZ was contracted by the CNMC, a large Chinese SOE that owns the Chambishi Copper Mine. A 2018 study by the Centre for Trade Policy and Development found that Lusaka South's development has been slower than expected due largely to the withdrawal of tax incentives, which were the zones' major attraction.[160] In Lusaka South over 40 companies had pledged investments, but only a handful have become operational, with around 1,000 jobs created. The Chinese-managed MFEZs have done better, with 36 companies in operation employing 7,600 workers, but most of these companies are Chinese. Very few Zambian companies operate in any of the MFEZs due to the high price of entry. Lusaka South has several local firms, while there is only one local firm in the Chinese-run MFEZs. Noting the lack of links with local companies in the MFEZs, and the reliance of MFEZ companies on foreign imports, one researcher called the Chinese-run MFEZ essentially a 'Chinese enclave',

156 Wissenbach and Wang (2017).
157 Borodyna et al. (2020: 37).
158 Ibid.: 39.
159 National Industrial Policy (2018: 8).
160 Mwiinga et al. (2018).

and criticised the Zambian government for not being more proactive in ensuring that the zones promoted local industry.[161]

In an interview for this study, the head of a Zambian business association stated that Chinese investment in Zambia had done more harm than good for local development.[162] She noted that large Chinese firms such as the Aviation Industry Corporation of China (AVIC) make up only 5% of the National Construction Council, yet command around 95% of construction contracts, to the detriment of smaller Chinese firms and local firms in the construction sector. These construction projects do not stimulate local manufacturing because most of the materials are imported from China. She related how she had invited AVIC representatives to her factory, which produces copper cables and other products. The representatives claimed that they did not know of the existence of the factory, and had already ordered copper cables from China. In her eyes, Chinese firms also tend to bring in more of their own workers than other foreign-invested projects, citing one Chinese construction project where local workers comprised only 40% of its workforce, compared with 75% for projects carried out by Indian firms.[163]

According to this interviewee, very few Chinese firms are members the association, which has launched a campaign to buy Zambian goods and put Zambian goods in stores. This gives the appearance that Chinese firms are not supportive of local procurement. Instead, Chinese firms have formed their own chamber of commerce with the blessing of the Chinese Embassy.

In 2019, ZAM wrote a strongly worded submission to the National Assembly about China–Zambia trade and investment relations. This put the blame on the Zambian government for not doing more to promote local industrialisation:

> [The Zambian] government has not put in place any strategies to benefit the manufacturing sector from Chinese investments. Instead they continue to turn a blind eye on what the Chinese investors continue to do that is destroying the sector. For example, one Chinese firm was caught counterfeiting locally manufactured shoes. Instead of government taking a strong stance to ensure an example is set to deter other would be offenders, the company was taken to court and simply fined KMZ10,000. Could this meagre fine equate to the huge losses faced by the legitimate company or the losses in government taxes due to counterfeiting? For all we know this company might have even continued making counterfeit products because the penalty is seemingly not punitive.

In line with the strong complaints registered by ZAM, the study found growing concerns among gemstone traders and other local traders and retailers facing growing competition from Chinese traders and retailers.[164]

161 Skype interview with Trevor Simumba, 28 March 2019.
162 Interview with president, Zambia Association of Manufacturers, Lusaka, Zambia, 12 April 2019.
163 See also Zambia Association of Manufacturers (2019).
164 Interview with Association of Women in Mines, Lusaka, Zambia, 12 April 2019. See also Jalloh and Wan (2019).

Koyi points to the disadvantages small and medium-sized local construction contractors in Zambia face when competing against Chinese construction companies for projects.[165] Chinese companies have greater experience and technical capacity, economies of scale and access to low-interest financing than local companies.

Concern about the negative impact of Chinese firms on local development and livelihoods is very real in Zambia, and perhaps in other countries in Africa. Chinese workers are present in numbers disproportionate to Chinese financing, and to migrant workers from other countries.[166] These Chinese workers may be bringing in an entrepreneurial culture and skills, but it is not clear that these skills are being effectively transferred to Zambia, and the large number of Chinese workers may be limiting African workers' opportunities for training and decent jobs. This is of particular concern given Africa's young and rapidly growing population.

4.4.3 Mitigating risks

Increasing local sourcing and managing competition between Chinese and local businesses

The Partnership for Investment and Growth in Africa, which ran from 2016 to 2021, may provide useful lessons. It was a partnership between the UK Department for International Development (now the Foreign, Commonwealth and Development Office) and the China Council for the Promotion of International Trade, the China-Africa Development Fund and the International Trade Centre, which aimed to increase investment-led exports and local development in agro-processing and light manufacturing sectors in Zambia, Ethiopia, Kenya and Mozambique. It organised and participated in trade missions and events, with the aim of boosting local manufacturing and creating jobs by increasing foreign direct investment . Particular attention was given to promoting responsible business practices through the provision of advice and monitoring projects' contribution to local development and gender equality (see Boxes 5 and 6).

Promoting local development also requires developing the competitiveness of local companies and their products in key sectors, and upgrading the workforce. Chinese companies often argue that they cannot find the products or workers they need through local sourcing. While not specifically targeting Chinese companies, Zambia's Seventh National Development Plan (NDP) (2017–2021),[167] which outlines the government's desired developmental outcomes and strategies, recognises and addresses this challenge. It places heavy emphasis on diversification and making economic growth inclusive, particularly in manufacturing, agriculture and tourism. It also acknowledges that achieving this requires improving human development, and specifically 'building inclusive and appropriate skills that respond to the demands of the labour market' and improving education to produce individuals with numeracy, ICT and literacy skills beyond a basic level.

165 Koyi (2018: 8–9) echoes Dollar's (2016: 65) concerns about Chinese construction companies crowding out African ones.
166 Dollar (2016).
167 Interview with Zambia Ministry of National Development Planning, Lusaka, Zambia, 11 April 2019; www.mndp.gov.zm/wp-content/uploads/2018/05/7NDP.pdf.

The NDP also acknowledges the need to improve access to domestic, regional and international markets for local products. In addition to expanding market access for Zambian products and services through negotiations at multiple levels, the government also plans to enhance the competitiveness of local products by providing support to producers and exporters and safeguarding local industry from imports and unfair trade practices. The NDP plans to achieve this by 'strengthening national quality infrastructure facilities, such as quality assurance and enforcement mechanisms, packaging, product development support, streamlining licensing procedures and removal of non-tariff barriers. Emphasis will also be placed on the promotion of local products on the domestic market, fair competition and consumer welfare'.

Box 5 Good practice: a Chinese company promoting local businesses and investing in its workers

Good Time Steel, a Chinese private steel manufacturing company registered in Zambia, sells its steel to local businesses making window and door frames, which are then sold locally. This creates a sustainable link between the Chinese company and local industry that is mutually beneficial to both parties.[168]

The company provides interest-free loans to its workers, addressing a critical need in a country where interest on bank loans can be as high as 30%. When asked whether the company is concerned that workers would leave after taking the loans, the manager said such cases were rare and workers generally appreciated the benefits.

Box 6 Good practice: empowering community women through local procurement[169]

A Chinese company reached an agreement with a community near the project site to purchase vegetables grown by women in the community to feed its staff. The company had previously purchased vegetables at a market some distance from the project site. A women's committee in the community approached the company with a proposal to supply it with Chinese vegetables grown by women in the community. This outcome was that the company got its vegetables for a reduced cost, and the women gained confidence in growing and marketing agricultural products, and increased their income.

168 Interview with the general manager of Good Time Steel, Lusaka, Zambia, 11 April 2019.
169 Focus groups with members of women's group from the affected community, project site in Nepal, 17 April 2019.

4.4.4 General recommendations (in order of priority)

Recommendations for governments in Nepal and Zambia

1. The Zambian and Nepalese governments should provide requirements or incentives for foreign (including Chinese) companies to source and supply locally to enable local businesses to benefit from business relationships with foreign companies, rather than being harmed by unhealthy competition with them. Procurement policies in Zambia reportedly have a clause requiring 20%–30% local content, but none of the government agencies interviewed for this study had clear knowledge about this, or how effectively it was enforced.
2. The Zambian and Nepalese governments need to reformulate their investment strategies and enact legislative provisions that mandate a domestic sub-contracting threshold. This measure could require foreign investors to partner with domestic firms and support local sourcing through the integration of domestic manufacturers into investor value chains. This will reinforce the simultaneous growth of local firms/ small and medium-sized enterprises and enable their upgrading, which will ultimately translate into increased job creation.

Recommendations for Chinese companies

1. Chinese companies should coordinate more closely with domestic trade associations and chambers of commerce to ensure effective monitoring of foreign investors' activities through data collection, and strengthen domestic associations' and chambers' advocacy capacity.
2. Chinese companies should provide more resources for worker training, particularly for semi-skilled and management jobs, and other educational opportunities for workers. There are some signs of this happening through Chinese companies supporting the establishment of vocational training centres in host countries and offering scholarships for workers to attend training and degree programmes in China.

4.4.5 Project recommendations for international development partners (in order of priority)

1. International development partners should support the establishment of vocational training centres offering a certificate valid throughout the country would help create a larger pool of skilled workers. Such centres should also consider recruiting from under-represented groups, such as women and oppressed castes. Trade unions in areas like construction could also consider setting up training centres for more highly skilled workers that could be certified (and perhaps insured with support from the government), creating a pool of skilled workers that Chinese companies and their suppliers could hire from, rather than importing Chinese labour. (This recommendation is also relevant to risks related to decent work in Section 4.5.)
2. International development partners should create a registry of local Zambian and Nepalese businesses (also translated into Chinese) to allow companies (including Chinese companies) seeking to source or sell locally to identify potential business partners. Such registries can be created by government bodies or industry associations. Collaborate with the Chinese Embassy and ECCs to disseminate this information to Chinese companies.[170]

170 This would link well with the Zambian government's recent effort to promote local content. See Ministry of Commerce, Trade and Industry (2018).

4.5 Risks related to decent work

4.5.1 Literature review

Various stakeholders in BRI partner countries raised concerns about health and safety, decent wages and other working conditions:[171] Chinese companies not paying wages on time, suppressing trade union activities and collective bargaining, the use of exploitative sub-contracting systems to recruit Chinese workers for BRI projects, the lack of a CSR culture, the absence in China of consumer and civil society oversight to hold these companies accountable, and large numbers of Chinese working overseas, sometimes illegally. In his study of the Kunming–Vientiane Railway in Laos, Morris estimates the local workforce for the project at around 24%, and concludes that 'decisions about the use of local labour … have favored Chinese workers over Lao workers'.[172] The study also raises concerns about weak protections for both Chinese and Lao workers.

The case of Sihanoukville, which has been characterised as an enclave of Chinese investment in Cambodia, is a reminder of the high-risk nature of some investments in BRI partner countries. Chinese investors poured speculative capital into the local casino, entertainment industry and property development.[173] In August 2019, Prime Minister Hun Sen announced a ban on all online gambling effective from 1 January 2020; as investors fled, construction sites suspended operations and stopped paying workers. According to a survey of Chinese and Cambodian workers on private and state-owned construction sites in the city, 97% of Cambodian and 75% of Chinese workers lacked a written contract and wage arrears were common, particularly after the ban was announced.[174] When asked whether they believed that the local labour law or the labour department could help them in case of a labour dispute, 98% of Chinese workers and 54% of Cambodian workers replied in the negative.

Halegua's account of Chinese workers in the US territory of Saipan is a reminder that the risks associated with BRI projects are also borne by the millions of Chinese workers who have gone abroad.[175] Workers' protests against their Chinese employers caught the attention of the media and eventually the US authorities, who 'found that each of 2,400 migrant workers hired by Chinese firms to build a casino in Saipan … paid recruiters, on average, $6,000 in fees, and that they were cheated out of millions of dollars in wages'.[176]

The issue of labour conditions in Chinese-invested companies in Africa has been hotly contested after several workplace conflicts, including shootings in Zambian mines. One report from Human Rights Watch (HRW) found that, 'while Zambians working in the country's Chinese-run copper mines welcome the substantial investment and job creation, they suffer from abusive employment conditions that fail to meet domestic and international standards and fall short of practices among the copper mining industry elsewhere in Zambia'. These abusive conditions include poor health and safety standards, lack of protective

171 HKCTU (2017).
172 Morris (2019: 16).
173 Ellis-Petersen (2018).
174 Franceschini (2020).
175 Halegua (2019).
176 Halegua and Cohen (2019).

equipment, long working hours and lower wages than at other international mining firms, and suppression of union activities.[177]

Sautman and Yan take HRW to task for singling out Chinese-owned mines in Zambia as 'the worst', arguing that Chinese company practices should be placed in context alongside the performance of locally owned mines and labour and human rights violations across different sectors in Africa.[178] In that context, Chinese mining companies in Zambia were not substantially worse than other foreign companies, and performed better than locally owned mining companies. Rounds and Huang found that differences in labour practices in nine US and 11 Chinese companies in Kenya were more a function of the size of the firm, the industry and length of operation, rather than nationality.[179] For example, the higher degree of informality in Chinese enterprises could be explained by the fact that the Chinese sample included more construction companies, where informality is prevalent.

In her study of labour conditions in Chinese- and foreign-owned mines and construction projects in Zambia, Lee finds that labour conditions in mines have deteriorated since privatisation in the late 1990s.[180] Chinese companies did not differ much from other foreign companies in bringing in employees from their home countries to staff top management positions, though Chinese SOEs tended to have longer-term contracts but at lower wage levels. Other large foreign private companies used more subcontractors and contracted more local labour than Chinese companies.

A series of studies by the Industrial Development, Construction and Employment in Africa Programme at the University of London provides these tentative conclusions:

1. While the absolute number of Chinese workers in Africa is significant, reaching a high of 263,000 in 2015, workforce localisation has grown in sub-Saharan Africa, with the proportion of Chinese workers in the region 'steadily declining from a peak of 78 per cent in 2011 to only 58 per cent in 2016'.[181]
2. Wages in Chinese firms tend to be lower than wages in non-Chinese firms in the same sector.[182] Chinese firms also differ when it comes to non-wage benefits.
3. Chinese firms seem to perform slightly better in reported incidence of accidents and injuries.
4. There is evidence of more work culture and language clashes in Chinese companies.
5. In Angola and Ethiopia, rates of unionisation and collective bargaining are lower in Chinese firms than in local and other foreign-owned firms. A major reason for this is that Chinese and other foreign-owned manufacturing firms are more likely to be located in industrial parks, where unions are often actively discouraged.

Finally, Oya makes the important point that studies of labour relations in Africa should be understood in the context of 'decades of structural adjustment and waves of liberalization and privatization', which have led to 'a systematic weakening of labour institutions and mass informalization and casualization of labour'.[183]

177 HRW (2011: 1).
178 Sautman and Yan (2012).
179 Rounds and Huang (2017).
180 Lee (2018).
181 Oya (2018); Schaefer and Oya (2019).
182 Oya and Wanda (2019); Schaefer and Oya (2019).
183 Oya (2018).

4.5.2 Findings from Zambia and Nepal

In Zambia and Nepal, we found a mixed picture with regard to risks to decent work, with Chinese companies performing somewhat better with regard to health and safety, and less well on wages and working conditions. Overall, local stakeholders credited Chinese companies with a willingness to address workplace issues, and to recognise and work with unions to improve safety, wages and other workplace-related problems over time.

In Nepal, one social risk that was given priority by both the Chinese Embassy and companies was safety. One administrative manager of a private contracting company noted that Chinese-invested enterprises were required to attend meetings with the Chinese Embassy on safety issues.[184] Regardless of the attention to safety, risks were found in the fieldwork in Nepal. According to interviews with one community, local employees from the affected community working on construction sites did not receive the same personal protective equipment (gloves, safety shoes, hard hats) as Chinese workers until they protested. They also asked for and received workplace insurance collectively after a landslide killed several Nepalese workers from other areas.[185]

One fatality of a Chinese construction worker (due to a landslide caused by a thunderstorm) was recorded at a project in Nepal carried out by a private Chinese contracting company. The manager indicated that the company did not allow Nepalese workers deemed unskilled and less experienced in complicated construction environments to do dangerous jobs.[186] Nonetheless, this incident raises questions about whether companies are providing adequate safety measures to protect Chinese workers in hazardous conditions.

In Zambia, according to information on its website, the Chinese Embassy organises meetings for Chinese companies to help them 'strengthen risk prevention, raise awareness of safety precautions, get along with local people ... attach importance to production safety and safety risks and formulate emergency plans'.[187]

Interviews in Zambia suggest that the Embassy's meetings on production safety may have only a limited effect on Chinese companies, as trade unions in Zambia consistently rated Chinese mining companies lower when it came to safety issues compared with other foreign-invested companies. The unions and NGOs interviewed generally rated Chinese-owned mines lower than other foreign-owned mines on health and safety, although some recognised that Chinese companies are putting in place better health and safety practices. Some of these concerns about safety came from news reports of small-scale Chinese operations hiring local youth to engage in the more high-risk work of processing mine tailings.[188]

For the larger Chinese mining companies, union representatives complained about a reluctance to buy protective clothing for workers and include safety equipment in collective bargaining talks.[189]

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184 Interview with managers at a Chinese provincial state-owned hydropower construction company, Kathmandu, Nepal, 12 April 2019. See also Ministry of Foreign Affairs of the People's Republic of China (2019).
185 Focus group with affected community, project site in Nepal, 14 April 2019.
186 Interview with managers at a Chinese provincial state-owned hydropower construction company, project site in Nepal, 16 April 2019.
187 See for example Embassy of the People's Republic of China in the Republic of Zambia (2018).
188 Interview with the Jesuit Centre for Theological Reflection and Civil Society For Poverty Reduction, Lusaka, Zambia, 10 April 2019.
189 Interview with leaders of a mine workers' union, Kitwe, Zambia, 15 April 2019.

In a focus group in Luanshya, mine workers complained about issues with dust, sanitation and drinking water in the mines and a lack of safety officers. They mentioned safety incentives such as bonuses issued if there were no accidents, but saw these as mostly cosmetic. They also criticised Zambia's Mine Safety Department for not doing a better job of enforcing safety standards.[190]

In terms of wages and working conditions, a comparative study of workers in Chinese and US companies in Kenya suggests that Chinese companies are willing to tolerate a higher level of casual labour, although greater casualisation in Chinese firms might also be a function of sector and firm size.[191] A recent study of labour relations in a Chinese construction firm in Zambia was in line with this finding, although casualisation in the construction sector is higher than in other sectors given the short-term nature of the work and difficulty of unionising workers in the sector.

Workers in the large Chinese firm building the new terminal at Kenneth Kaunda international airport in Lusaka were casual workers employed on short-term contracts, which carries no benefits except contributions to the National Social Pension Scheme (NAPSA).[192] Some of these casual workers were being paid less than the minimum wage. Casual workers are not meant to be hired for longer than six months, but the law does allow them to be rehired on a short-term contract if there is a period of at least three days between contracts. The Chinese firm was taking advantage of this practice to keep its workers on short-term contracts indefinitely.[193] According to the workers interviewed, the firm was not making contributions to NAPSA as required by law.

In the mining sector, there is an acknowledgement that Chinese companies had changed the employment landscape in the Copperbelt and North-West Provinces by opening previously closed mines and investing in new ones. Compared with other foreign-invested private companies, Chinese SOEs have an advantage given Chinese government support for overseas exploration.[194] One union interviewed said that around three-quarters of new investment in the area came from China.[195] A union representative noted improvements in mines such as the Collum coal mine, where a Chinese manager opened fire on Zambian workers in 2010. In that case, the Chinese company acceded to a union request to place a Zambian manager at the mine.[196] Unions also credited Chinese companies, particularly larger SOEs, with recognising and engaging with unions on collective bargaining, but only when unions fought back, sometimes threatening lawsuits, and told the companies that unionisation and collective bargaining were legally mandated.[197]

Several mine workers' unions in Zambia told this study that they welcomed Chinese investment. What they wanted from Chinese companies (and other foreign-invested companies) was adherence to labour laws, the provision of decent jobs and

190 Interview with focus group of mine workers and staff of a local branch of a mine workers' union, Luanshya, Zambia, 17 April 2019.
191 Rounds and Huang (2017: 13–14).
192 Koyi (2018: 20).
193 Rounds and Huang (2017: 14) found Chinese companies engaging in similar practices in Kenya.
194 Lee (2018: ch. 3).
195 Interview with leaders of a mine workers' union, Kitwe, Zambia, 15 April 2019.
196 Interview with leaders of a mine workers' union, Kitwe, Zambia, 15 April 2019.
197 Interview with leaders of a national trade union, Lusaka, Zambia, 11 April 2019; Lee (2018: ch. 3) notes that Chinese SOEs such as the CNMC stalled union recruitment efforts in the first few years of operations.

respect for workers and unions. They consistently pointed to lower wages, verbal harassment of workers and lack of attention to safety issues in Chinese-owned companies compared with other foreign-owned companies, based on a comparison of collective agreements in different companies.

In a focus group session, mine workers became agitated about poor communication between management and workers in Chinese mines, and spoke of Chinese managers harassing them and shouting at them in Chinese, while also speaking among themselves in Chinese. They also said that their gross wages, including incentives, were just above the minimum wage, and some positions were paid under the minimum wage and were significantly lower than wages at other foreign-invested mining companies, such as Mopani. Chinese companies were also stricter about bonuses and wage increases. Bonuses are given out as incentives for meeting production and safety targets, but workers said that a production team can have bonuses taken away even though it has met targets because another production team did not do so. These bonuses can be as much as 50% of a worker's basic wage. Workers also mentioned that Chinese companies were worse than other foreign-invested mining companies in contributing to NAPSA[198] and investing in the social infrastructure of communities in mining areas through CSR projects, and were apparently contributing more to the local police than to communities.[199]

Finally, there are also risks to Chinese workers in these countries that should not be overlooked. According to Halegua and Cohen, '[O]fficial statistics reported there were nearly 1 million overseas Chinese workers in 2018 (excluding the large number of undocumented Chinese migrants), and researchers studying Chinese projects in places such as Asia, Africa, the Middle East and the Pacific Islands have found abhorrent labour conditions for foreign workers'.[200] Chinese workers may be more vulnerable to exploitation and abuse than their local co-workers; they are isolated, do not speak the local language and, unlike local workers, are not members of unions and lack recourse through government labour departments. Indeed, one Chinese woman who had worked for a small Chinese company in Zambia told the study that labour disputes between Chinese employers and Chinese workers in Zambia were common, particularly over unpaid wages, which she herself had experienced with her Chinese employer.[201]

4.5.3 Mitigating risks

Managing labour disputes

The legal requirements around unionisation and collective bargaining in Zambia are very different to those in China. The Zambian Constitution and the Industrial and Labour Relations Act allow workers to join and form independent trade unions and engage in collective bargaining. In China, all trade unions have to be affiliated to the government-controlled All-China Federation of Trade Unions, and while 'collective consultation' is officially encouraged, collective bargaining is rare. Some Chinese managers interviewed in Zambia have learned to engage with independent trade unions in their companies and engage constructively with them (see Box 7).

198 This was also mentioned by an official at the Ministry of Labour.
199 Focus group of mine workers and staff of a local branch of a mine workers' union, Luanshya, Zambia, 17 April 2019.
200 Halegua and Cohen (2019). See also Halegua's (2019) case study of Chinese worker abuses in Saipan.
201 Interview with Partnership for Investment and Growth in Africa staff, Lusaka, Zambia, 10 April 2019.

Unionisation and collective bargaining in Chinese companies in Zambia is not widespread. It is more common in sectors like mining, where unions are more organised, and less common or non-existent in other sectors, including construction, where the temporary nature of projects and employment make it difficult to unionise workers. For example, workers in China Jiangxi's project building the new airport terminal in Lusaka were not unionised, and had no mechanism for dialogue or collective bargaining with management.[202] In an interview with the Federation of Free Trade Unions in Zambia, unionists spoke about the main challenges involved in unionising in the construction industry given that most projects are short-term, ranging from a few months to a couple of years, and the time it takes to recruit members and have the union recognised by the company.[203]

The Mineworkers Union of Zambia (MUZ)[204] noted that there had been strikes and work stoppages in Chinese mines without the involvement of a trade union. In one case, MUZ tried to intervene in the work stoppage but was not able to get access because the company did not allow it and its workers were not members. The union stated that it was keen to help prevent work disturbances if given access.

On a macro level, Zambia's Industrial and Labour Relations Act stipulates the establishment of a Tripartite Consultative Labour Council,[205] consisting of representatives from trade unions, employers and the Ministry of Labour and Social Security. The Council enables the government to consult workers' representatives and employers on policy and legislation relating to labour matters, manpower development and utilisation. Over the years, the Council has met regularly to discuss issues including minimum wage adjustments and maternity welfare. Participation by Chinese businesses and workers has so far been limited, and the inclusion of these parties could be considered in future.

Box 7 Good practice: unionisation and collective bargaining in Zambia

While the legal requirements around unionisation and collective bargaining are significantly different in Zambia and China, some Chinese managers interviewed appreciated the importance of trade unions to their companies and engaged constructively with them on a regular basis. One Chinese manager said that the process of negotiating the first collective agreement was demanding, but made the resolution of labour disputes and future collective bargaining negotiations much easier. These annual negotiations have become an important mechanism for reducing risk by providing the company with an institutional partner that can deliver on agreements for regular negotiation of wages and working conditions, and the resolution of labour disputes.

202 Koyi (2018: 14).
203 Interview with staff of a trade union federation, Lusaka, Zambia, 11 April 2019.
204 Interview with leaders of a mine workers' union, Kitwe, Zambia, 15 April 2019.
205 www.mlss.gov.zm/wp-content/uploads/2018/07/chapter-269-industrial-and-labour-relations-act-2.pdf

One of the key topics discussed at the Council was the Employment Code Act,[206] which came into effect in June 2019. The Code replaces the previous Employment Act, the Employment of Young Persons and Children Act and the Minimum Wages and Conditions of Employment Act. In consolidating different pieces of labour-related legislation, it is widely seen as a progressive move that can help improve workers' welfare and the protection of labour rights. For instance, it requires employers to prioritise employing Zambian citizens over expatriates for job vacancies except under certain conditions, such as when locals with the required skills are not available. Employers are also required to have an apprentice for any position filled by an expatriate, and report plans and training for the apprentice, who will eventually succeed the expatriate. According to the Zambian Ministry of Labour, there had been a previous succession plan policy to provide for skills transfer to locals, but it was never implemented or enforced.[207]

Despite improved legal protections for workers, as raised in several interviews with unions and the Ministry of Labour, enforcement of labour laws has been challenging as the Ministry is insufficiently funded and therefore unable to hire enough labour inspectors.[208]

On the positive side, the Ministry stated that it has seen improvements by some Chinese companies on legal compliance after regular interactions between the Ministry, the Chinese Embassy and business associations, and would continue to make efforts to promote the new Employment Code among Chinese companies and communities.

4.5.5 General recommendations (in order of priority)

Recommendations for host country governments in Nepal and Zambia

1. The Ministry of Labour in Zambia mentioned that there is supposed to be a succession plan policy to have foreign workers work with a local worker in an apprenticeship arrangement to provide for skills transfer. That policy, however, has never really been implemented – implementing it should be a priority.
2. The Ministry of Labour in Zambia admits that its programme for foreign workers has not been effective. The new Employment Code Act is a step in the right direction, but more needs to be done to ensure that foreign workers are not being brought in to do work that could be done by local workers, and to ensure that they do not overstay their visas.
3. The Zambian Federation of Trade Unions notes that Zambia had a system of vocational schools until 1991, when privatisation began. This should be revived with support from Chinese companies.

4.5.6 Project recommendations for international development partners (in order of priority)

1. International development partners should organise exchanges and forums between international labour groups and African trade unions/CSOs, to build their capacity to address labour issues in BRI partner countries with Chinese companies through collective bargaining. International labour groups such as China Labour Bulletin have long experience

206 www.parliament.gov.zm/node/7948
207 Interview with Ministry of Labour, Lusaka, Zambia, 11 April 2019.
208 Interview with Ministry of Labour, Lusaka, Zambia, 11 April 2019.

with labour organising and collective bargaining in Chinese workplaces, and also experience in promoting collective bargaining and union organising overseas in India's garment sector, which is predominantly made up of female workers. African trade unions are engaging with Chinese companies in collective bargaining, but would benefit from sharing experiences with international labour groups with Chinese expertise, which could serve as a bridge between African trade unions and Chinese companies. International labour groups, African trade unions and Chinese companies could also hold joint workshops on labour laws, union organising and collective bargaining to promote good practice. The Zambian Congress of Trade Unions identified Good Time Steel, a private Chinese company in Lusaka highlighted earlier in Box 5 as an example of a Chinese company carrying out responsible business practices, which could be more widely promoted.

4.6 Risks related to gender equality

4.6.1 Literature review

The small but growing literature on gender equality in Chinese BRI-related projects suggests that gender is not yet a priority among Chinese stakeholders. One report analysing the Chinese gender and social inclusion policy landscape, finds that, while the 'Chinese government has made substantial progress in improving outcomes for women across a number of areas, including education and economic participation' and has 'numerous gender and social inclusion policies and legislation for women, persons living with disabilities, youth and the elderly', many of these policies and laws tend to be aspirational and lack incentives and mechanisms for implementation and enforcement.[209] As a result, government agencies, schools and companies lack awareness of these policies, and non-compliance is widespread.

Lu et al. come to a similar conclusion, finding that, while 'China has a general commitment to promote gender equality and women's rights at a global level and possesses a comprehensive legal and policy framework on gender equality, which provides a good legal basis to develop gender … China has not issued any BRI specific gender policy or technical guidance for agencies or enterprises involved; and the idea of gender-mainstreaming, although entering the official discourse, has not been effectively integrated in the policy-making process of government organizations and public institutions. Furthermore, there is a lack of gender budget and segregated data on gender in BRI implementation'.[210]

Broussard argues that, by not adopting a gender lens when investing overseas, the Chinese government and Chinese companies have missed an opportunity to highlight China's significant progress on gender equality and commitment to international conventions on gender equality such as the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), the Beijing Declaration and the Platform for Action and the Sustainable Development Goals (SDGs).[211] She points out that China's achievements in raising female participation in the workforce, schools and government is something that many BRI partner countries could emulate: 'China should also export

209 Shieh et al. (2020).
210 Lu et al. (2018: 3).
211 Broussard (2019).

its valuable experience in achieving economic prosperity through women's empowerment. Developing countries need to hear this message coming from a successful middle-income country like China'.

Several case studies bear out these general findings. One report found that gender and social inclusion were considered marginally or not at all in the construction of the Mombasa–Nairobi SGR by the Chinese contractor CRBC.[212] 'ESIAs conducted as part of the project did not disaggregate the impacts on women and other marginalised groups, and there was little understanding of the indirect impacts of job losses as a result of the construction of the railway, or the effects on the livelihoods of women and other marginalised groups. Land compensation was a particularly fraught issue for women, who usually do not hold titles to land deeds and had few opportunities to seek redress'.

One study of Chinese investment in agricultural enterprises in Laos and Cambodia finds that Chinese-invested enterprises in these countries promote local development by boosting local farmers' income and providing infrastructure in the form of training and construction, which in turn can benefit female farmers and local residents, particularly in the areas of healthcare and education.[213] However, Chinese investors and management generally have very limited awareness of gender equality, and as a result give little attention to the risks and opportunities for women. The study concludes that, if agricultural enterprises do not adopt a gender lens, their business operations may not only fail to benefit local women, but also widen the existing gender gap.

Yeophantong finds that Chinese factory owners and managers do not take gender seriously in management–worker relations in Cambodia's $7 billion garment industry, which accounts for three-quarters of the country's exports and 40% of its GDP.[214] Most of Cambodia's garment factories are owned by investors from mainland China, Hong Kong and Taiwan, while most of the 800,000 workers employed in the sector are young women who have migrated from rural areas for their first formal employment. Interviews with workers and managers in Cambodia reveal a lack of organisational resources and awareness of what constitutes 'sexual harassment'. Moreover, 'fears of reprisals and dismissals among the workers, can contribute to the under-reporting of harassment incidences as well as a broader failure among factory management to recognise sexual harassment and gender-based violence as "real" problems in the workplace'.

4.6.2 Findings from Nepal

On paper, the Nepalese government has committed to gender equality. It ratified the CEDAW in 1991,[215] and the new Constitution adopted in 2015 guarantees equal economic and social rights for women and prohibits discrimination on the basis of gender.[216] The

212 Borodnya et al. (2020: 5).
213 Huang et al. (2018).
214 Yeophantong (2020).
215 https://tbinternet.ohchr.org/_layouts/15/TreatyBodyExternal/Treaty.aspx?CountryID=122&Lang=EN
216 See for example, Committee on the Elimination of Discrimination against Women, Concluding observations on the sixth periodic report of Nepal (2018), CEDAW/C/NPL/CO/6, 14 November 2018, p. 2.

government has also introduced political and legislative reforms promoting gender equality and the protection of women's rights.[217] Newly developed legal and policy documents contain provisions that recognise the gendered impacts of development projects and establish guidelines to address challenges in this area. For example, the Hydropower Environmental Impact Assessment Manual (2018) issued by the Ministry of Forests and Environment requires women and vulnerable groups to participate in stakeholder engagement processes so that their voices and opinions are taken into account.

Despite progress in the legal and policy framework, the government has limited ability to protect women and girls from discrimination stemming from patriarchal norms and social structures. There is also a lack of recognition of the rights of disadvantaged groups of women, such as indigenous women. The country's economic development and poverty indicators illustrate persistent inequalities in terms of poor outcomes for indigenous, Dalit, Madhesi and Tharu women, women of 'oppressed classes', widows in the Hindu community and rural women. The 2015 earthquake exacerbated food insecurity and lack of access to natural resources, housing, safe water and credit facilities for women from these groups.[218]

According to Kathmandu-based women's organisation Beyond Beijing Committee (BBC), aside from limitations in legal protection, there are other factors that affect women's empowerment in Nepal. First, the literacy rate for men is significantly higher than for women (men: 75.3%; women: 54.2%, according to 2016 statistics) despite government initiatives to increase the literacy rate among women. Second, local government agencies addressing women's economic empowerment lack capacity and technical support. Third, policy-makers tend not to consult women. The government budget to finance gender equality instead flows to skills training in areas traditionally occupied by women, and hence does not really address the problem. At the project level, women's needs and experiences are typically ignored because women lack meaningful engagement in the different phases of project development, from feasibility studies to planning and construction. World Bank specialists indicated there are challenges for investors in carrying out a social agenda that included gender equality, given problems enforcing policies on inclusion at the local level and the lack of awareness and will among contractors and subcontractors to carry out these policies.[219]

In interviews with communities and companies, risks to women in Chinese infrastructure development projects were largely overlooked by decision-makers and developers, most of whom are men. This is the case for both local and foreign-owned companies, including Chinese ones.[220]

Livelihoods and gendered roles

Interviewees noted that, while hydropower projects bring electricity to rural residents, thereby reducing the burden on women to

217 Ibid.

218 Committee on the Elimination of Discrimination against Women, Concluding observations on the sixth periodic report of Nepal (2018), CEDAW/C/NPL/CO/6, 14 November 2018, p. 15.

219 Interview with gender and social specialists at World Bank, Kathmandu, Nepal, 10 April 2019.

220 Focus group with a national women's NGO network, Kathmandu, Nepal, 10 April 2019.

collect firewood, they bring other hardships to women.[221] One women's group noted that the projects had changed the economic structure and social life of their community in ways that increased women's household responsibilities.[222] Men in the community who traditionally worked in agriculture moved into semi-skilled or unskilled work in construction. In this particular community, both a Nepalese and a Chinese contractor were undertaking construction at the same time. Initially, women were happy that their husbands were earning higher wages working for the Chinese company than at the Nepalese one. They quickly realised, however, that their husbands had to work 10 hours a day and occasionally during holidays, preventing them from fulfilling their family and community duties. Moreover, the facilities installed for the hydropower project blocked the path that women had taken to cut grass for cattle, forcing them to take routes that were steeper and less safe. Some women said that a blast at the construction site had led to a landslide, making it difficult for their children to get to school. After the project was completed, some men in the community became wage labourers at other construction sites, withdrawing from traditional farming activities.[223] In light of this profound change in the household division of labour, women will most likely have to assume the productive activities that used to be shared with men, in addition to the childcare responsibilities they typically perform. In the process, women risk becoming economically dependent on the wage income of the men.[224]

Public health and safety

Construction brings an influx of workers, raising further public health and safety issues for girls and women.[225] Incidents of sexual harassment and rape are likely to rise, though many incidents will go unreported due to an inadequate social support system and the stigma that women and girls face when reporting cases of sexual and gender-based crime. One women's group described a rape case at a hydroelectric project site in which the rapist was a male Nepalese construction worker from another area of the county, and the female victim worked for the Chinese company constructing the facility.[226]

Many interviewees pointed to a rise in traffic accidents during construction of the Kathmandu outer ring road by a Chinese company due to the absence of pedestrian crosswalks. The BBC pointed out that this affected women more than men since many men have left the country to work abroad. The interviewees further criticised the design of the project, which did not take into account the concerns of women and the poor. Some women's organisations also pointed to higher risks of sexual exploitation and trafficking of adolescent girls with the development of road infrastructure.[227]

221 Focus group with a national women's NGO network, Kathmandu, Nepal, 10 April 2019.
222 Focus groups with members of a women's group from the affected community, project site in Nepal, 17 April 2019.
223 Focus groups with members of a women's group from the affected community, project site in Nepal, 17 April 2019.
224 See for example, Hill et al. (2017: 5).
225 Focus group with a national women's NGO network, Kathmandu, Nepal, 10 April 2019. Interview with gender and social specialists at the World Bank, Kathmandu, Nepal, 10 April 2019.
226 Focus groups with members of a women's group from the affected community, project site in Nepal, 17 April 2019.
227 Focus group with a national women's NGO network, Kathmandu, Nepal, 10 April 2019.

Employment

One women's group complained that infrastructure projects created fewer job opportunities for local women than for men.[228] They said that the Chinese company had told the group that it would only consider hiring female employees who were literate and had computer skills. None of the community's female members were educated to a level that met the company's requirements.

Consultation and decision-making

While it is difficult to know whether women in host communities were fully involved in the EIA consultation for the hydropower projects the researchers visited in Nepal, the conclusion of the EIA and follow-up remediation, as well as the Chinese company's engagement with the community, showed that the needs, experiences and perspectives of women were largely neglected due to the lack of gender analysis and gender impact assessments. Nonetheless, there were some positive outcomes of the ongoing gender equality and inclusion scheme in the country. A leader of one women's committee, for example, was a young woman from the oppressed Dalit caste. It is also worth noting that female community members were active in fighting for compensation from the company. One elderly woman told the study 'we protested more than the men ... The men were not trustworthy because they were easily bribed [by the company side]'.[229]

4.6.3 General recommendations (in order of priority)

Recommendations for host governments and Chinese policy-makers and companies

1. A gender-responsive approach should be incorporated into ESIAs and due diligence processes, as well as multi-stakeholder engagement and community development throughout the project lifecycle.
2. Companies should have in place internal safeguarding policies concerning harassment and abuse of women, children and other vulnerable groups, and carry out staff training on the importance of adhering to these policies.

Box 8 Good practice: promoting gender and caste equality in the workplace in Nepal

One Chinese company interviewed for the study stated that it prioritises women and low-caste applicants when hiring local employees (half of its cleaners are from lower castes, and 60% of the 80 staff are female). The company also employs several female technicians in addition to cleaners, gardeners and kitchen staff, jobs traditionally done by women. One manager of another Chinese company said that he deemed the caste system inconsistent with a corporate culture that values talent and dedication. He has tried to work around it by communicating the company's values to the staff and promoting people from lower castes who demonstrate strong capacity.

228 Focus groups with members of a women's group from the affected community, project site in Nepal, 14 April 2019.

229 Ibid.

5 Cross-cutting recommendations

The following are recommendations that cut across the different risk areas.

5.1 General recommendations

1. Chinese policy-makers, lenders and investors and BRI partner country governments should promote greater alignment with the environmental, social and governance standards of multilateral development banks among Chinese policy-makers, lenders and investors and BRI partner country governments. These standards have been agreed by their members, and so reflect international consensus. They are tried and tested to reduce risks and are recognised by international investors, and so can be used to attract international finance. Meeting them is not only feasible but also desirable for Chinese and BRI country stakeholders, with capacity-building support from international development partners. Civil society groups should monitor and document to what extent practice on the ground meets these standards.
2. To enhance monitoring of foreign business activities with the aim of promoting ethical and humane work practices, labour unions and civil society should strengthen efforts to engage companies to comply with appropriate work conditions and regulations. This will encourage amicable resolution of labour disputes and reduce work-related altercations and violent escalations.

5.2 Project recommendations for international development partners

1. International development partners should partner with Chinese lenders, industry/trade associations and companies to develop training materials, trainings and other technical assistance projects in China and sites in BRI partner countries to sensitise Chinese companies to the business case for meeting international ESG standards, and provide them with the knowledge and skills to implement those standards in practice.
2. International development partners should organise events or networks for civil society organisations in the region that work on social issues related to Chinese investments to strategise together on monitoring and engaging Chinese companies and exchanging ideas on best practice. A follow-up project could be the creation of a bilingual information-sharing and advocacy platform for CSOs, lawyers and companies in China and BRI partner countries on ESG issues in BRI projects. This platform would produce, collect and disseminate best practice for CSOs and companies on dealing with ESG risks. China Development Brief, China's only bilingual platform covering CSOs, would be in a good position to convene meetings and workshops for Chinese and international CSOs working on social and environmental issues, and has expressed interest in doing something along

these lines next year. The Chinese Association for NGO Cooperation has connections with the Chinese government and government-organised NGOs, as well as with international development organisations.

3. International development partners should ensure that these initiatives integrate and utilise other important Chinese and international CSOs based in China and Hong Kong that have been working on environmental and social issues in relation to Chinese overseas investment. Chinese CSOs include Greenovation: Hub (G-Hub), GEI, Friends of Nature, Green Camel and China Dialogue. International CSOs include the Business and Human Rights Resource Centre, Oxfam Hong Kong, the Asia Society and the American Friends Service Committee.

6 Conclusion

Research for this study in Nepal and Zambia provides a glimpse of the scope and diversity of Chinese commercial activity in BRI partner countries, and a more in-depth understanding of the wide-ranging risks it poses to sustainable development in these countries. Discussions with stakeholders in the host government, Chinese embassies and companies, research institutes, civil society and local communities showed the potential benefits of BRI investment in contributing to jobs growth, skills and technology transfer, infrastructure development and connectivity and other indicators of sustainable and inclusive development. But the study also found many examples where Chinese commercial activity posed risks to sustainable development and risked eroding, rather than strengthening, the already fragile rule of law and governance capacity of these countries.

Here it is important to place Chinese commercial activity in a comparative, global context by pointing out that Chinese companies are behaving as Chinese companies behave in China, and, to a significant degree, like other foreign companies behave in BRI countries where governance is weaker. In other words, the risks to sustainable development in these countries are largely an outgrowth of companies, as profit-maximisers, behaving according to the logic of capitalism, with its tendency to prioritise profit over social and environmental risks.[230] These risks are heightened by other factors particular to Chinese investment: 1) Chinese companies come from a country where awareness and enforcement of social, environmental and governance standards is weak; and 2) language and cultural barriers make effective communication with civil society and communities challenging.

Differences between Chinese SOEs and POEs complicate the picture. Large Chinese SOEs have other objectives besides profit accumulation, such as commercial diplomacy and gaining access to strategic resources, that lead them to take these risks more seriously and address them in a more systematic fashion.[231] There is also greater coordination between SOEs and the Chinese Embassy and ECC Office, and Chinese trade associations back home, on responsible business practices overseas. As one study of Chinese business practices in Africa shows, Chinese SOEs were significantly more aware of Chinese government policies and guidelines than their POE counterparts, and SOE internal policies were more robust with regard to health, safety and the environment, and were likely shaped by government policies.[232]

With these caveats in mind, the social risks to sustainable development posed by Chinese commercial activity are numerous and need to be addressed if the BRI is to make a positive contribution to the SDGs. Of the risks discussed in this paper, the most important, in no particular order of priority, are as follows: 1) risks to rule of law and governance stemming from lack of transparency and information disclosure in financing and project agreements; 2) risks to health, the environment, gender equality and

230 Lee (2018); Bello (2019).
231 Lee (2018).
232 Weng and Buckley (2016: 6).

livelihoods stemming from lack of community consultation and grievance mechanisms; 3) risks to industry and innovation stemming from lack of local linkages and excessive levels of imports of manufactured goods and labour; 4) risks to decent work and greater equality stemming from low wages and substandard working conditions; and 5) risks stemming from language and cultural differences and insensitivities. As discussed in Section 4.1, these risks have led to growing concern and resentment in countries like Zambia, where Chinese businesses and entrepreneurs are arriving in greater numbers and with less understanding of and sensitivity to local conditions. Fuelled by rumours, 'fake news' and opportunistic politicians, these risks have led to a growing xenophobic backlash and even riots against Chinese businesses and individuals over the last decade. If these risks are not taken seriously and addressed, they will lead to significant human, material and reputational costs to the Chinese government, businesses and citizens and further the narrative of the BRI as a neo-colonial endeavour.

As the recommendations show, we believe that the host governments in Zambia and Nepal are best positioned to manage and mitigate these risks by better regulating foreign companies and holding them to higher standards to ensure that they contribute to sustainable development in these countries. Independent researchers, civil society groups and unions interviewed laid most of the responsibility for addressing these risks at the feet of their governments. These governments have good policies and laws on paper; the problem is that they lack the capacity and will to coordinate implementation and enforcement of those policies and laws. Host governments could do more, including requiring mandatory registration of all foreign companies with relevant government agencies, and carrying out regular monitoring and data collection of firms on issues such as employment, revenues and sales.

At the same time, Chinese policy-makers in governments and financial institutions, and Chinese companies and trade and industry associations, have a role to play in managing and mitigating these risks, either unilaterally or in coordination with host governments. There is a tremendous diversity of Chinese businesses in BRI countries, ranging from large central and provincial SOEs building airport terminals and hydropower plants to small businesses operating in informal and even illegal areas. As noted in the Introduction, the Chinese government (which is itself a collection of different ministerial and local interests) is unable to coordinate, let alone provide guidance and assistance to, all these companies. Yet the sheer scale and scope of these business activities, and their impact on so many dimensions of sustainable development in countries like Zambia, mean that Chinese government agencies, lenders and trade and industry associations need to do more to manage these risks, hold companies to higher standards and strengthen their capacity to engage with communities and civil society groups in host countries. Recent initiatives and reports show that Chinese companies and trade and industry associations are increasingly understanding the business case for addressing social and environmental risks, and proactively taking stronger measures to reduce these risks in an effort to head off political or social backlash against Chinese companies and citizens.[233]

Finally, while host governments and Chinese companies bear much of the responsibility for managing and mitigating these risks, they are unlikely to do so without external pressure and support. International development partners, including local and Chinese civil society organisations and trade unions, will play an important role here in monitoring companies' behaviour and holding them accountable to higher ESG standards. They can also play an important role in incentivising companies to improve their CSR and community engagement strategies and practices.

233 Syntao (2018); Shieh et al. (2020)

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Appendix 1 List of people/organisations interviewed

Table A1 List of people and organisations interviewed

Zambia	
Multilateral organisations	World Bank
	ILO Country Office for Zambia, Malawi and Mozambique
Government agencies	Kitwe District office
	Ministry of Commerce and Trade
	Ministry of Labour and Social Security
	Ministry of National Development Planning
	Zambia Environmental Management Agency
NGOs/CSOs	Jesuit Centre for Theological Reflection
	Civil Society For Poverty Reduction
	Zambia Extractive Industries Transparency Initiative
Researchers/trade promotion institutes	Trevor Simumba, independent researcher
	Professor Barry Sautman, Hong Kong University of Science and Technology
	Lu Yao, University of California, Davis
	Zambia Institute of Policy Analysis and Research
	Center for Trade Policy and Development
	Partnership for Investment and Growth in Africa
Trade unions	Federation of Free Trade Unions in Zambia
	Mineworkers Union of Zambia
	United Mineworkers Union of Zambia
	Zambia Congress of Trade Unions
Communities	Community at Kapoto Market, Kitwe
	Mine workers, Luanshya
Business/trade associations	Association of Zambian Women in Mining
	Zambia Association of Manufacturers
	Zambia Chamber of Mines
	China Council for the Promotion of Peaceful National Reunification in Zambia

Companies	Good Time Steel Company Zambia Ltd
	Chambishi Copper Smelter Ltd
	Tubombeshe Emerald Mining Ltd
	Zambia-China Economic & Trade Cooperation Zone (ZCCZ)
Nepal	
Multilateral organisations	United Nations Development Programme
	World Bank
Government agencies	Office of the Investment Board of Nepal (IBN)
	UK Department for International Development
	The Nepal office of the Yunnan Provincial Commerce Department
	Chinese Economic and Commercial Counsellor's Office of the Chinese Embassy (ECC)
NGOs/CSOs	Asia Foundation
	China Foundation for Poverty Alleviation (China)
	Mercy Corps
	International Rivers
	Green Watershed (China)
	Policy Entrepreneurs Incorporated (Nepal)
	Beyond Beijing Committee (BBC)(Nepal)
	Lawyers' Association for Human Rights of Nepalese Indigenous Peoples (LAHURNIP)
	Nepal Forum of Environmental Journalists
	Ratan Bandari, environmental journalist
	The Third Pole
Research institutes	National Research Center for Resettlement of Hohai University (China)
	Shanghai Institutes for International Studies (China)
	Kathmandu School of Law (Nepal)
	Prem Khanal, formerly of IBN and a social consultant to the World Bank
	Shiva Paudel, independent policy advisor
Communities	No. 7 Ward of Madi Rural Municipality
	Marshyangdi Rural Municipality

Companies	China Overseas Engineering Group Co. Ltd
	CWE & Madi Power Pvt. Ltd
	Kabeli Energy Limited
	NEA Engineering Company Ltd
	Power China & Sinohydro Sagarmatha Power Company (P) Ltd
	Power China Resources Ltd
	Zhejiang Hydropower& Installation Co. Ltd
	Yunan Provincial Energy Group
	Yunnan Xinzhi Books (新知书店)
	Kunming Design Institute of Power China
	Yunnan Construction & Investment Group
	Eastern Airlines (Nepal subsidiary)
Business/trade associations	Independent Power Producers of Nepal
	Nepal-China Chamber of Commerce and Industry

Appendix 2 Country profiles

1 Nepal

Table A2 Nepal country profile

Nepal	
Location	Southern Asia, between China and India
Government type	Federal parliamentary republic
Population	29,717,587 (July 2018 est.)
Ethnic groups	Chhettri 16.6%, Brahman-Hill 12.2%, Magar 7.1%, Tharu 6.6%, Tamang 5.8%, Newar 5%, Kami 4.8%, Muslim 4.4%, Yadav 4%, Rai 2.3%, Gurung 2%, Damai/Dholii 1.8%, Thakuri 1.6%, Limbu 1.5%, Sarki 1.4%, Teli 1.4%, Chamar/Harijan/Ram 1.3%, Koiri/Kushwaha 1.2%, other 19% (2011 est.) Note: 125 caste/ethnic groups were reported in the 2011 national census
Population growth rate	1.09% (2018 est.), ranked 102 out of 228 countries
Urban population	19.7% of total population (2018)
Infant mortality rate	26.9 deaths/1,000 live births
Life expectancy	Total population: 71.3 years; male: 70.6 years; female: 72 years (2018 est.)
Literacy rate	Total population: 63.9%; male: 76.4%; female: 53.1% (2015 est.)
GDP (purchasing power parity (PPP))	$79.19 billion (2017 est.)
GDP per capita (PPP)	$2,700 (2017 est.) ranked 195 out of 228 countries
GDP real growth rate	7.9% (2017 est.); 0.6% (2016 est.); 3.3% (2015 est.)
Labour force by occupation	Agriculture: 69%; industry: 12%; services: 19% (2015 est.)
Exports	$818.7 million (2017 est.)
Exports – commodities	Clothing, pulses, carpets, textiles, juice, jute goods
Export partners	India 53.1%, US 11.8%, Turkey 7.2% (2017)
Imports	$10 billion (2017 est.)
Imports – commodities	Petroleum products, machinery and equipment, gold, electrical goods, medicine
Import partners	India 70.2%, China 7.5% (2017)

Economic profile

Nepal is among the least developed countries in the world, with about one-quarter of its population living below the poverty line. Nepal is heavily dependent on remittances, which amount to as much as 30% of GDP. Agriculture is the mainstay of the economy, providing a livelihood for almost two-thirds of the population but accounting for less than a third of GDP. Industrial activity mainly involves the processing of agricultural products, including pulses, jute, sugarcane, tobacco and grain.

Nepal has considerable scope for exploiting its potential in hydropower, with an estimated 42,000 MW of commercially feasible capacity. Nepal has signed trade and investment agreements with India, China and other countries, but political uncertainty and a difficult business climate have hampered foreign investment. The United States and Nepal signed a $500 million Millennium Challenge Corporation Compact in September 2017 that will expand Nepal's electricity infrastructure and help maintain transportation infrastructure.

Massive earthquakes struck Nepal in early 2015, damaging or destroying infrastructure and homes and setting back economic development. Although political gridlock and lack of capacity have hindered post-earthquake recovery, government-led reconstruction efforts have picked up speed, although many hard-hit areas still have seen little assistance. Additional challenges to Nepal's growth include its landlocked location, inconsistent electricity supply and underdeveloped transportation infrastructure.

Table A3 Nepal's global rankings on governance and social indicators

Indicator	Global ranking
Human Development Index	0.574, ranking 149 out of 189 countries
Gender Inequality Index	0.480, ranking 116 out of 159 countries (2017)
Global Gender Gap Index	0.671, ranking 105 out of 149 countries (2018). Among four dimensions (Economic Participation and Opportunity, Educational Attainment, Health and Survival and Political Empowerment), Nepal placed 66th with regard to political empowerment and 110th regarding economic participation and opportunity.
Inclusive Development Index	Ranked 22 out of 74 emerging economies, even before China (which ranked 26) (2018).
Transparency International Index	Ranked 124 out of 180

2 Zambia

Table A4 Zambia country profile

Zambia	
Location	Southern Africa, east of Angola, south of the Democratic Republic of Congo
Government type	Presidential republic
Population	16,445,079 (July 2018 est.)
Ethnic groups	Bemba 21%, Tonga 13.6%, Chewa 7.4%, Lozi 5.7%, Nsenga 5.3%, Tumbuka 4.4%, Ngoni 4%, Lala 3.1%, Kaonde 2.9%, Namwanga 2.8%, Lunda (North Western) 2.6%, Mambwe 2.5%, Luvale 2.2%, Lamba 2.1%, Ushi 1.9%, Lenje 1.6%, Bisa 1.6%, Mbunda 1.2%, other 13.8%, unspecified 0.4% (2010 est.)
Religions	Protestant 75.3%, Roman Catholic 20.2%, other 2.7% (includes Muslim Buddhist, Hindu and Baha'i) (2010 est.)
Population growth rate	2.91% (2018 est.), ranked 10 out of 228 countries
Urban population	43.5% of total population (2018)
Infant mortality rate	59.3 deaths/1,000 live births
Life expectancy	Total population: 53 years; male: 51.4 years; female: 54.7 years (2018 est.)
Literacy rate	Total population: 63.4%; male: 70.9%; female: 56% (2015 est.)
GDP (PPP)	$68.93 billion (2017 est.)
GDP per capita (PPP)	$4,000 (2017 est.), ranked 178 out of 228 countries
GDP real growth rate	3.4% (2017 est.); 3.8% (2016 est.); 2.9% (2015 est.)
Labour force by occupation	Agriculture: 54.8%; industry: 9.9%; services: 35.3% (2017 est.)
Unemployment rate	15% (2008 est.); 50% (2000 est.)
Population below poverty line	54.4% (2015 est.)
Distribution of family income – Gini index	57.5 (2013); 50.8 (2004)
Exports	$8.216 billion (2017 est.)
Export products	Copper/cobalt, cobalt, electricity, tobacco, flowers, cotton
Export partners	Switzerland 44.8%, China 16.1%, Democratic Republic of Congo 6.2%, Singapore 6%, South Africa 5.9% (2017)
Imports	$7.852 billion (2017 est.)
Import products	Machinery, transportation equipment, petroleum products, electricity, fertiliser, foodstuffs, clothing
Import partners	South Africa 28.2%, Democratic Republic of Congo 20.8%, China 12.9%, Kuwait 5.4%, UAE 4.6% (2017)

Demographic profile
Zambia's poor, youthful population consists primarily of Bantu-speaking people representing nearly 70 different ethnicities. Zambia's high fertility rate continues to drive rapid population growth, averaging almost 3% annually between 2000–2010. The country's total fertility rate has fallen by less than 1.5 children per woman over the last 30 years and still averages among the world's highest, almost six children per woman, largely because of the country's lack of access to family planning services, education for girls and employment for women. Zambia also exhibits wide fertility disparities based on rural or urban location, education and income. Poor, uneducated women from rural areas are more likely to marry young, to give birth early and to have more children, viewing children as a sign of prestige and recognising that not all of their children will live to adulthood. HIV/AIDS is prevalent and contributes to low life expectancy.

Zambian emigration is low compared to many other African countries and is comprised predominantly of the well-educated. The small amount of brain drain, however, has a major impact in Zambia because of its limited human capital and lack of educational infrastructure for developing skilled professionals in key fields. For example, Zambia has few schools for training doctors, nurses and other healthcare workers. Spending on education is low compared to other sub-Saharan countries.

Economic overview
Zambia had one of the world's fastest growing economies for the 10 years up to 2014, with real GDP growth averaging roughly 6.7% per annum, though growth slowed during the period 2015–2017, due to falling copper prices, reduced power generation and depreciation of the kwacha. Zambia's lack of economic diversification and dependence on copper as its sole major export makes it vulnerable to fluctuations in the world commodities market. Prices turned downward in 2015 due to declining demand from China, and Zambia was overtaken by the Democratic Republic of Congo as Africa's largest copper producer. GDP growth picked up in 2017 as mineral prices rose.

Despite recent strong economic growth and its status as a lower middle-income country, widespread and extreme rural poverty and high unemployment levels remain significant problems, made worse by a high birth rate, a relatively high HIV/AIDS burden, market-distorting agricultural and energy policies and growing government debt. Zambia raised $7 billion from international investors by issuing separate sovereign bonds in 2012, 2014 and 2015. It issued over $4 billion in domestic debt and agreed to Chinese-financed infrastructure projects, significantly increasing the country's public debt burden to more than 60% of GDP. The government has considered refinancing $3 billion-worth of Eurobonds and significant Chinese loans to cut debt servicing costs.

Table A5 Zambia's global rankings on governance and social indicators

Indicator	Global ranking
Human Development Index	0.588, ranking 144 out of 189 countries (2018)
Gender Inequality Index	0.517, ranking 123 out of 159 countries (2017)
Global Gender Gap Index	N/A
Inclusive Development Index	Ranked 67 out of 74 emerging economies (2018) Transparency and Accountability score – 49 (somewhat weak) Rule of Law – 61 (moderate) Accountability – 68 (moderate) Elections – 25 (weak) Public Management – 68 (moderate) Civil Service Integrity – 46 (somewhat weak) Access to Information and Openness – 26 (weak)
Corruption Perceptions Index	Ranked 117 out of 180 (2020)