China in the World

Beyond China’s own progress toward the SDGs, the country has a large and steadily growing influence on SDG achievement around the world. This impact occurs through direct economic, social and environmental effects of Chinese activities, through China’s role as a provider of development assistance and knowledge, through China’s growing investments in infrastructure and other sectors in developing countries around the world, including through the BRI, through China’s growing role as a source of innovation in a wide range of fields, and through China’s voice in multilateral fora.

**China’s global economic role**

In 1978, before the start of reform and opening up, China’s economy comprised 1.7% of the global economy.[[1]](#footnote-1) China’s trade was 0.6% of the world’s total. As of 2018, China comprised 15.8% of the world’s economy and had become the world’s largest trading nation. During those 40 years real growth in the Chinese economy averaged 9.4%; in the rest of the world it averaged 2.6%.

China’s transformation from a poor and nearly autarkic economy into the world’s second largest economy, largest importer of many products and second largest source of outbound foreign direct investment, has provided significant benefits to the people of many nations, in particular developing economies of Asia, Africa and Latin America. China accounts for 63% of the world’s imports of iron ore, 43% of copper imports, 63% of soybean imports, and 18% of raw petroleum imports. China has been the largest trading partner of ASEAN for nine consecutive years, and was the destination of 17.9% of ASEAN exports in 2017, and the source of 22.3% of ASEAN imports.[[2]](#footnote-2) China has also been the largest trading partner of Africa for the last nine years, with total trade volume in 2018 reaching USD 204.2 billion up 19.7% from 2017.[[3]](#footnote-3)

To cite another example, according to the World Tourism Organization the number of outbound tourists from China increased from 4.5 million in 2000 to 150 million in 2018. China was the world’s largest outbound tourism market in terms of spending in 2018. Tourism spending rose 8% year-on-year to USD 277 billion, nearly double the size of the next largest, the United States.[[4]](#footnote-4)

These boosts to economic growth do not come without risks. Commodity exporters have to confront the danger of an undiversified economic base closely linked to commodity cycles, and volatility in income that can have traumatic effects on vulnerable households. This is not a new problem for such countries, but China’s heavy demand for commodities has magnified the risk.

China is the world’s largest importer of material resources.[[5]](#footnote-5) The per capita material footprint (the material demand for the full consumption value chain) and domestic material consumption (representing the need for production purposes) of China is almost double the average values for the Asia-Pacific region.[[6]](#footnote-6) At the global level, recent estimations show that natural resources use and extraction has contributed to 50% of global climate change impacts, 90% of global biodiversity loss and water stress and 11% of global species loss.[[7]](#footnote-7)  Specifically, life-cycle assessment of aluminium production show that Chinese import demand is responsible for 50% of climate change impacts, human-toxicity, eco-toxicity and air pollution impacts of the aluminium production chain globally.[[8]](#footnote-8) One other example, with 19% of the world’s population China consumes more coal than the rest of the world combined.[[9]](#footnote-9) China’s efforts to make its growth environmentally sustainable and promote sustainable natural resource management inevitably will have significant positive impact on environmental outcomes both within China and beyond its borders.

**China’s role as source of development knowledge and technical assistance**

China has emerged as an important source of official technical assistance and development finance for developing countries. Still a developing country itself, China seeks to position itself as a new type of assistance provider, working under the framework of South South Cooperation (SSC) and based on principles of solidarity, equality, sovereignty, national ownership and non-conditionality.[[10]](#footnote-10) As its financial capacity grows China has been deploying a broader and more diversified set of financial instruments and investment modalities to support development. In China’s 2019 SDG Progress Report [[11]](#footnote-11) the Government includes SSC and assistance to other developing nations as one key area of its current and future efforts to achieve in almost all SDGs, a reflection of the emphasis that China is placing on SSC.

This assistance and finance has particular appeal to many potential beneficiaries precisely because of China’s extraordinary development achievements of recent decades. Other developing countries are often eager to learn from China’s experience. This knowledge sharing takes many forms, and many bilateral and multilateral development organizations are actively supporting it. The MOFCOM Academy for International Business Officials (AIBO), the International Poverty Reduction Center of China (IPRCC) under the Leading Group on Poverty Alleviation and Development (LGOP), the recently established IMF-People’s Bank of China International Capacity Development Training Center in Beijing are among many institutions that together hold programs for thousands of trainees yearly. As part of its extensive SSC program with the Chinese Government, FAO designated five Chinese institutions as FAO Reference Centres to serve as international training centres to provide agriculture technology assistance to other developing countries. There are many other examples of such programmes, which are high among the priorities of the Government of China.

In addition, China has established numerous university scholarship programs for students from developing countries. At the 2015 Sustainable Development Summit, President Xi Jinping committed to providing 50,000 scholarships for citizens of developing countries to receive training and education in China and help nurture 500,000 professional technicians from the developing world in the coming five years.[[12]](#footnote-12) In 2016, the Institute of South-South Cooperation and Development was established in Peking University.

The Forum on China-Africa Cooperation (FOCAC), first convened in Beijing in 2000, has continued to serve as a central event in laying out plans for Chinese assistance to Africa. At the seventh FOCAC Ministerial meeting held in Beijing in September 2018 and attended by the UN Secretary General, China pledged USD 60 billion of financing to Africa, including government assistance and investment and financing by financial institutions and firms. The government finance would include USD 15 billion of grants, interest-free loans and concessional loans, USD 20 billion of credit lines, the setting up of a USD 10 billion special fund for development financing and a USD 5 billion special fund for financing imports from Africa. Eight new initiatives were announced taking FOCAC in some new directions, including green development and pledges to promote industrial development and exports to China. At the extraordinary virtual meeting held in June 2020, the strong relationship between China and Africa was reiterated, amid China’s support during the coronavirus pandemic, including debt cancelation for relevant African countries for interest-free government loans that are due to mature by the end of 2020.[[13]](#footnote-13) It should be noted that it has been difficult to track the actual delivery of pledges made at past FOCAC summits, and more transparency on these and other Chinese aid programs will be helpful.

In view of the increasing volume and complexity of its development assistance, China has recently taken steps to streamline and better coordinate its management. The new China International Development Cooperation Agency (CIDCA) was established in 2018 to increase coherence and coordination of the policy making and implementation of China Aid.[[14]](#footnote-14) CIDCA is a vice-ministerial agency directly under the State Council. CIDCA consolidates the former foreign aid functions of the Ministry of Foreign Affairs and the major part of the foreign aid policy portfolio of the Ministry of Commerce. It is a policy formulation and decision-making agency to ensure China Aid supports China’s diplomacy, anchored in BRI and SSC. Operational execution of China Aid and China’s foreign assistance remains with MOFCOM and line ministries such as National Health Commission, Ministry of Agriculture and Rural Affairs, Ministry of Science and Technology, and others. CIDCA is also expected to provide strategic recommendations on major foreign aid issues to China’s top leadership, particularly about how aid could better serve the overall goals of Chinese diplomacy. This focus on alignment with foreign policy goals is reflected in the governance structure whereby the new agency directly reports to the country’s two most senior foreign policy officials. CIDCA is also expected to facilitate more exchanges and other forms of cooperation with other donors/providers, as well as establishing policies and a legal basis for reporting and evaluation of China’s foreign assistance. As reform of the modes of China’s foreign assistance is expected under CIDCA, it is expected that additional stakeholders are brought in as implementers of foreign assistance, including an increased presence of Chinese CSOs as development actors in partner countries.

**Support for Multilateralism**

China is emerging increasingly as a strong proponent of multilateral approaches. In his speech at the World Economic Forum in Davos in January 2017, President Xi cast China as a “steadfast defender of free trade, globalization, and economic openness”. The new approach is aimed at increasing China’s global clout and promises a new contribution to global peace and development through initiatives such as BRI, the Asian Infrastructure Investment Bank and Shanghai Cooperation Organization (SCO).

China has strong and growing operational and political engagement with the global peacekeeping. Apart from its status as the largest contributor of military and civilian personnel among the five permanent members of the UN Security Council, China has become the second largest contributor to the peacekeeping budget (10% of assessed contributions in 2016-2018). Chinese government pledged to commit an additional 8,000 peacekeeping troops to the standby force.

As the only developing country permanent member of the United Nations Security Council, China positions itself as a representative of South interests and positions in that body. China has actively engaged with a full range of UN and other multilateral organizations, has played a leading role in groups such as the Shanghai Cooperation Organization and the BRICS initiative, which has also taken on a role of representing the interests of the Global South in development dialogue. China has participated actively in global economic governance reform discussions in the International Monetary Fund, World Bank and regional development banks, and the World Trade Organization.

China is not a member of the OECD Development Assistance Committee or of the Paris Club, and generally has refrained from joining pre-existing aid coordination arrangements that would impose outside constraints on China’s initiatives.[[15]](#footnote-15) However, for the first time in April 2020[[16]](#footnote-16), China participated in a co-ordinated, multilateral debt relief initiative - the Debt Service Suspension Initiative (DSSI), a debt standstill scheme for low-income countries to help alleviate some financial pressures while facing the health and economic crises brought by COVID-19. Furthermore, in November, alongside an extension of the initiative, China joined the G-20 on a “common framework” that would create a set of standards for countries not eligible for the DSSI, bringing creditors into a coordinated debt restructuring process.[[17]](#footnote-17) China has implemented the DSSI and put off debt repayment totalling over USD 1.3 billion.[[18]](#footnote-18) However, implementation and inclusion of the corporate sector remain key risks for the success of the initiative.

**China’s engagement with global humanitarian assistance**

China actively supports regional disaster response mechanisms and initiatives, including the Association of Southeast Asian Nations (ASEAN) Coordinating Centre for Humanitarian Assistance on disaster management, the ASEAN Defence Minister’s Meeting Plus Experts Working Group on Humanitarian Assistance and Disaster Relief and the ASEAN Regional Forum, as well as the Shanghai Cooperation Organization, and the Trilateral Cooperation Secretariat. As China continues to build domestic capacity in disaster management, it is also utilizing international initiatives such as the BRI, FOCAC and the assistance provided through CIDCA and the South South Cooperation Assistance Fund (SSCAF) to play a greater role in humanitarian aid and contribute more to international response efforts.

**China’s Growing Role as Source of Development Finance, including the Belt and Road Initiative**

The role of finance in promoting development has been a feature of China’s model since the establishment of the People’s Republic of China, and especially since the launch of reform and opening up.[[19]](#footnote-19) China sees its lending as a valuable means of building development governance capacity in borrowers. Recent research suggests that the China Development Bank (CDB) and Export-Import Bank of China (EXIM), two large state-owned development finance institutions which play roles similar to the German KfW and the Japan Bank for International Cooperation, now provide as much financing to developing countries as the World Bank.[[20]](#footnote-20) The Asian Infrastructure Investment Bank (AIIB) is the largest of a number of new financial institutions that have been created, including the New Development Bank (a BRICS institution) and the Silk Road Fund. The AIIB is designed to be a developing country-led MDB. The majority ownership is held by developing countries, it has no resident board and compared to other MDBs, it primarily focuses on lending for infrastructure development and growth compared to other MDBs.

While China has been a source of finance for infrastructure development in developing countries for many decades, including such famous initiatives as the Tanzania-Zambia Railway in the 1970s, that role has expanded rapidly since the launch of the BRI in 2013. While the definition of countries falling under BRI umbrella remains elusive, as of January 2020, China has signed bilateral agreements on BRI cooperation with 138 countries and 31 international organizations.[[21]](#footnote-21) This number is calculated on the basis of countries which have signed BRI cooperation agreements/MoUs with China according to China’s official documents and media portals, particularly the Belt and Road Portal.[[22]](#footnote-22) The 1st Belt and Road Forum (BRF) for International Cooperation held in May 2017 showcased the economic potential and global interest in the Initiative. The Forum was met with high expectations, as well as concerns on the likely impact of the unprecedented scale of investment and finance flows out of China. As a response to these concerns, the 2nd BRF held in Beijing in April 2019 enabled China and BRI partner countries to reach consensus on the promotion of ‘high-quality cooperation’, an approach to the joint construction of the Belt and Road which emphasises the importance of “open, green and clean approaches” matched with “goals of high-standard, livelihood-improving and sustainable development”, very much in line with China’s domestic “high-quality development” vision outlined in Chapter 2.[[23]](#footnote-23)

Although physical infrastructure is important for trade, attention is also being paid to help BRI partner countries improve their trade facilitation to ensure trade routes operate seamlessly across the various corridors, assistance which could be expanded. In 2018, the government of China contributed USD 1 million to help developing and least-developed countries implement the WTO’s Trade Facilitation Agreement (TFA) and to support the objective of full implementation of the Agreement by all WTO members. Yet, there is still room for further improvement especially through helping China’s trading partners digitalize their trade procedures. ESCAP found that helping its trade partners to digitally implement the WTO TFA and achieve cross-border paperless trade, could reduce China’s bilateral trade costs with the Asia-Pacific region by 14%.[[24]](#footnote-24) China has taken steps in this area by signing the Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific in 2017,[[25]](#footnote-25) with ratification and entry into force of the UN treaty expected in 2020/21. Such South-South cooperation would reaffirm China’s commitment to achieve SDG 17 partnerships for the goals.

Ambitious goals for trade, investment, inclusiveness, and cooperation are being set and achieved. But challenges remain in the investment environment, as different legal, political, environmental, and social conditions are found across the BRI region. Through policy and regulatory innovation and reducing inconsistencies in financing and investment standards, new avenues can be opened up for eliminating barriers impeding the coordination of BRI-related investments, while managing their economic social and environmental sustainability and facilitating alignment with the SDGs.

**Looking Forward: China as a potential source of global innovation knowledge**

China’s overriding focus on innovation as the key to fuelling its high quality and sustainable development is another way in which the country is positioning itself at the centre of the global effort to achieve the SDGs. China is already the world’s largest producer and user of renewable energy, of electric vehicles, and has major new hydrogen fuel cell initiatives underway. However the innovation drive cuts across many other sectors. With its large population, limited natural resources, and its goal to become an advanced economy, China will have no alternative but to continue developing new, greener, less resource-intensive and higher productivity approaches to all economic and social activities. As per the World Bank’s recent report “Innovative China”, cited earlier,[[26]](#footnote-26) this will require challenging new policy reforms and major improvements in the education system, among others. China’s efforts, if they are successful, will offer enormous opportunities for other countries, including developing and the most developed, to exchange and benefit from each other’s experiences.

**BRI and SSC Challenges**

From the perspective of achieving the SDGs the key challenge of China’s global engagement is two necessary alignments; 1) with the economic, environmental and social sustainability content of the 2030 Agenda, particularly the LNOB principle and the international norms and standards that it reflects; 2) with national development and SDG plans, and legal, social and political institutions, in partner countries. UN China – via the global network of UN Country Teams around world – is working to support countries partnering with China in building their absorption capacities, strengthening standards for environmental and social impact, and ensuring channelling China’s capacity and resources to priority areas in partnering countries for sustainable development.

The Chinese government is also making efforts to enhance the quality assurance processes of its development cooperation, with a particular emphasis placed on monitoring and evaluation. China’s officials have expressed challenges in evaluating its development cooperation projects in a comprehensive and consistent manner, as aid providers have to date lacked strong monitoring systems, compared to those of more seasoned traditional development partners.

There are also potential reputational risks for the BRI and for Chinese overseas development assistance and investment overall brought on by lack of transparency, especially given their very rapid growth. The still nebulous definition of what the BRI is creates the risk that private investments by Chinese individuals or companies will be conflated with “official” development initiatives or, relatedly, that debts incurred outside the BRI are perceived as official BRI borrowing. Abiding by the UN Guiding Principles of Business and Human Rights will aid Chinese companies in avoiding further reputational risk of real or perceived impact on human rights in local communities when they operate in sensitive contexts.

Regarding economic sustainability, the most often cited challenge is maintaining debt sustainability in countries who finance Chinese projects through loans. In response, China’s Ministry of Finance released the new “[Debt Sustainability Framework for Participating Countries of the Belt and Road Initiative](http://m.mof.gov.cn/czxw/201904/P020190425513990982189.pdf)”[[27]](#footnote-27) at the 2nd BRF in April, 2019. Former IMF Managing Director Lagarde stated that the IMF had worked closely with the Government in analysing the need for this framework[[28]](#footnote-28) and it has been recognized as an important step toward addressing this issue, which is of concern to Chinese lenders, other creditors and to the borrowers themselves.

China has actively sought to position itself as a global champion of environmental sustainability through initiatives such as “Greening the Belt and Road” announced at the Second BRF. China has invested extensively in renewable energy technologies along the BRI, but at the same time, the BRI has been an important conduit for Chinese investment and construction projects for coal-fired power capacity in countries along the BRI, particularly in South and Southeast Asia, led by China’s state-owned banks, energy corporations, and infrastructure providers.[[29]](#footnote-29) This puts China’s approach to infrastructure finance abroad at odds with the policies of most other international financial institutions including the World Bank and the European Investment Bank, who no longer provide financing for coal-fired power plants given their outsized environmental impact and lack of long-term economic feasibility. China is not the only country to continue financing and supporting these increasingly economic redundant and polluting technologies, financial institutions in Japan and the Republic of Korea are likewise strong investors in coal-energy plants globally. However, the most recent net-zero emission targets announced by all three countries and pledges to reduce overseas financial support to the sector are potential game changers and may well mark the turning point for investments in the coal sector.

According to the September 2019 Report from Tsinghua University “Decarbonizing the Belt and Road”, the developing countries along the BRI accounted for 28% of global CO2 emissions in 2015. Should these countries follow along the same conventional carbon-intensive growth pathways historically followed by the developed world, these countries’ share of global emissions would rise to 66% by 2050, resulting in carbon emissions double that allowed by the 2-degree Celsius scenario of the IPCC. Considering the vast development imbalance between China and the majority of the countries along the BRI, the onus cannot be only on destination countries to negotiate for cleaner and more sustainable energy infrastructure when approached with the option of cheaper short-term solutions.

Environmental sustainability is closely linked with social sustainability, and the BRI and other investment projects can affect communities in a wide range of ways, both directly and indirectly.[[30]](#footnote-30) Potential social impacts and risks of BRI projects that require assessment and monitoring include: direct or indirect threats to human security; a disproportionate impact on vulnerable people(s), including women and children; exacerbated discrimination toward individuals or groups in providing access to development resources and project benefits; lack of participation, local ownership, dialogue; lack of remedies and compensation; negative economic and social impacts relating to involuntary taking of land, displacement of local populations and related impacts associated with land use and natural resource tenure; impacts on the health, safety, and well-being of workers and project-affected communities; risk of trafficking or other sexual exploitation and risks to cultural and natural heritage. These problems are not unique to the BRI or China; they have arisen, and need to be closely monitored in all international business and investment activities.

**Transboundary Environmental Trends and Challenges**

Climate change mitigation is only one stark example of the transboundary, public good dimension of environmental issues. The countries of East Asia face a number of serious environmental threats that necessitate effective regional cooperation, and in which China’s impact is a central factor. Transboundary environmental challenges including air and water pollution, marine degradation. Dust and sandstorms have become major concerns, resulting in adverse impacts on human health and the environment.  Here, briefly, are a few of these issues.[[31]](#footnote-31)

**Water Pollution and Resource Management**

The pollution and water flow of the Lancang-Mekong River, which connects China with several ASEAN member States, is a typical case in point of transboundary water pollution. In addition to industrial based pollution upstream, the agriculture sector in China also contributes significantly to water pollution. For example, currently the Nitrogenous fertilizers usage per hectare in China is 3 times the world average and nearly twice the Asian average.[[32]](#footnote-32) The excess nitrogen content washes off to rivers and water bodies both within and across borders contributing to eutrophication and harmful algae blooms, including in coastal areas.

A global rise in temperatures will greatly affect the water resources contained in glaciers in China's high-altitude regions on the Tibetan plateau. This will necessitate strengthened transboundary cooperation on water issues between China and its southern neighbours in the coming years to ensure that regional resource needs are taken into account in policies governing the control and supervision of international waterways originating in China.

**Transboundary Air Pollution**

Fine dust, an air pollutant primarily originates from the combustion of fossil fuels from coal-fired thermal power plants and transportation. China is the world’s largest emitter of anthropogenic air pollutants, and measurable amounts of Chinese pollution are transported via the atmosphere to other countries, leading to increased occurrences of severe smog throughout Northeast Asia.[[33]](#footnote-33) Even though the air pollution levels in China have seen a significant drop in recent years, studies find that almost 20 % of the weekly average PM10 concentrations in Republic of Korea can be attributed to China,[[34]](#footnote-34) with this going up-to 30% in some seasons. A study led by Tsinghua University and the Health Effects Institute found that coal combustion was the single largest source of air pollution-related health impact, contributing to 366,000 premature deaths in China in 2013 alone.[[35]](#footnote-35) Welfare damages of both ambient particulate pollution, and household air pollution combined in China are estimated at 11.1% of GNI.[[36]](#footnote-36)

Considering the domestic impact as well as transboundary implications of air pollution, China has been active in regional and sub-regional cooperation mechanisms including the Acid Deposition Monitoring Network in East Asia (EANET), and the North-East Asia Clean Air Partnership (NEACAP).

At the same time China is also affected by transboundary air pollution originating in its neighbours, most importantly desert dust and sand events from Central and Inner Asian drylands including Mongolia’s Gobi Desert and the dried Aral Sea basin in Central Asia.[[37]](#footnote-37)

**Marine degradation**

All oceans in the region are witnessing increasing levels of marine degradation, resulting from eutrophication; maritime environmental accidents such as oil spills; the introduction of alien species; and marine litter. The rapid expansion of fishery and aquaculture in the region has had profound implications on ecosystem and food chain patterns - aquaculture in the region has increased by 1,200 % over the last thirty years. Five of the worlds ten largest contributors to marine litter are rivers originating in China (Yangtze, Yellow river, Hai river, Pearl river, Amur).[[38]](#footnote-38) Currently the Ocean Health Index for China (63/100) is lower than the world average (71/100)[[39]](#footnote-39).

**Dust and Sand Storms**

Dust and sandstorms constitute another major environmental concerns in the region. Originating principally in arid areas such as Inner Mongolia in China and the Gobi Desert in Mongolia (as well as increasingly north-eastern China), wind-borne dust particles are carried east affecting not only China, but also the Korean Peninsula and Japan.[[40]](#footnote-40) The impacts are large scale and affect a range of Sustainable Development Goals related to human health, productivity, agriculture and infrastructure (transport). The main cause of dust and sand storms is the rapid expansion of desertification in China and Mongolia, which has been accelerated by the degradation of land from overgrazing by livestock, deforestation, the gathering of fuel-wood, and mismanagement of water resources. In China alone, areas prone to desertification account for 34.6 % of the total territory.

While many of these environmental issues have a physical origin in China, frequently the foreign investments that underpin production facilities and the final consumption demand of goods originate from the neighbouring counties.[[41]](#footnote-41)  The responsibility for alleviating the problems therefore does not rest with China alone; there is a need to promote deeper regional dialogue to integrate solutions within cross- border trade and investment agreements. China, as the largest economy in the region, can play a leading role in this effort.

**Conclusion**

A number of important challenges and risks associated with China’s growing global role have been identified here. These should not diminish in any way the indisputably positive impact that China is having on SDG achievement in many other developing countries, through boosting incomes there (SDG 8 and potentially SDG 1), reducing global inequality (SDG 10), building infrastructure and industry (SDG 9), promoting higher agricultural productivity (SDG 2), improving global health (SDG 3) and sharing experience in virtually all aspects of sustainable development (SDG 17).

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