

Government Guide Mechanism for Overseas Hydropower Project Investment

Zhimin Wang, Lidan Guo
Business School of Hohai University,
Nanjing, China

Abstract—February 18, 2013, the Ministry of Commerce and the Ministry of Environmental Protection issued “Foreign Investment and Cooperation Environmental Protection Guidelines.” It is the first time for government department to guide foreign investment enterprises in environmental protection. Water resource as the most important one of the clean energy, the development and utilization attract general attention around world. Owe to the guideline of national strategy-“going out,” China's overseas investment in hydropower projects has achieved unprecedented development in recent years, but the difficulties and problems faced by investment also gradually exposed. On the basis of analysis of problems and causes of overseas hydropower projects investment, this study discussed the necessity for the government to guide this type investment, and further raised the overall framework of government guidance mechanism. All above is designed to provide a method support for regulating the investment behavior of enterprises and promoting the smooth development of foreign investment in hydropower industry.

Keywords-hydropower project; overseas investment; government functions; guide mechanism

I. INTRODUCTION

In recent years, with the accelerating pace of the country's “going out” strategy, China's investment in overseas hydropower project has achieved unprecedented development. However, at the same time of broadening the scope and increasing the scale of investment, foreign investment in hydropower project are increasingly showing their unique characteristics and problems. With the problems and controversies frequently seen in newspapers, such as: the Myitsone hydropower was suddenly stopped, Salween hydropower was attacked and Taiping River Project was threatened, etc., China's investment enterprises not only suffered a great loss, but also have to withstand the multiple pressures from western countries, host countries and international non-governmental organizations (NGO). There are lots of convincing indications reflecting that China's overseas hydropower project investment industry already facing enormous challenges and threats. To read a convenience, the following “investment” all refer to “overseas hydropower project investment.”

II. PRESENT SITUATION

A. The number and scale of investment is increasing

In recent years, the tendency of China's hydropower investment is thriving. The number and scale of the

project presented expanding trend. According to the statistics of “new Great Wall – China Overseas Dam Industry Guide” [1] from the International Rivers in 2013, until August 2012, there are 308 dam projects in 70 countries which constructed by Chinese enterprises and financial companies. Most of these dams are utilized to hydroelectric generation, which almost means that in the past four years, the number of dam projects that China has participated are growing in three times.

B. The regional distribution of investment is more concentrated

Investments are mainly distributed in developing countries, especially in Southeast Asia. Most of the dam projects are located in the Southeast Asian region, and now has gradually expanded to Africa, Latin America and South Asia and other regions, especially Pakistan. According to statistics, nearly half of China's overseas dams are built in Southeast Asia and at different stages of plan, construction or operation. Africa is the second major dam construction base. There are a total of 85 overseas Chinese dams, and accounts for 28% of China's overseas dams. The number of overseas dam projects in Latin America are also growing rapidly since 2008, currently accounts for 8% of the number of China's overseas dams.

III. GUIDE MECHANISM OF GOVERNMENT

For the above-mentioned problems and challenges facing our investment, the government guidance mechanisms should include three levels: objects, methods and measures, as shown in Figure 1. The level of objects contain two aspects: one is how to promote investment, the other is how to regulate investment. In order to establish a top-down mechanism that can gradually take into account both comprehensive and in-depth, the implementation objects should include both whole industry and individual enterprise. The methods level mainly consists of two parts, the first part mainly include establishing investment strategic alliance, regularly writing and updating the investment guidelines, constructing early warning systems. This part aims to promote investment. The Second part can regulate investment, including environmental assessment management and administrative examination and approval. Finally, there are measures which can ensure methods above can be implemented successfully: financial and fiscal incentives, laws and policies protection and information services support.

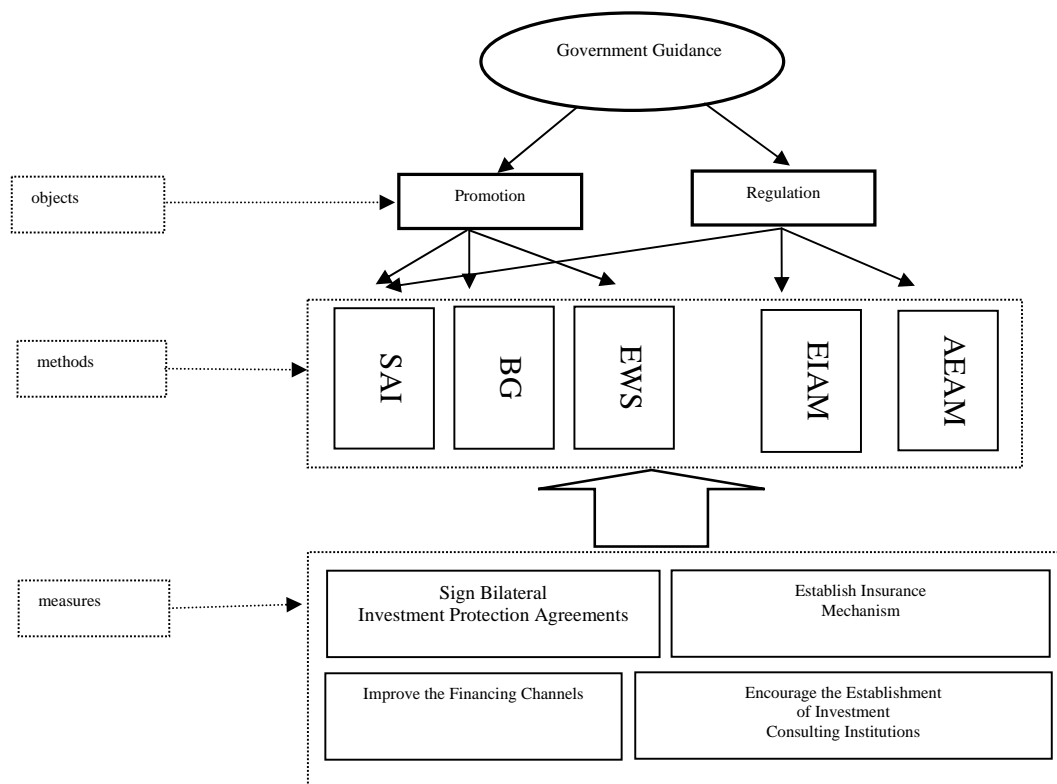


Figure 1. The frame of Guidance Mechanism of Government. **SAI** means Strategic Alliance of Investment; **BG** means Business Guidelines; **EWS** means Early Warning System; **EIAM** means Environmental Impact Assessment Management; **AEAM** means Administrative Examination and Approval Management.

A. Promotion

1) Strategic alliance of investment(SAI)

In our country, any form of alliance has not been established in overseas hydropower investment industry by now. This may owe to two main reasons, first, enterprises lack enough momentum to build alliances; second, no single enterprise or organization has the ability to provide an appropriate platform for alliance. Although the investment alliance is established under the guidance of government, it should become an alliance which operating in accordance with the marketing principle. This form of alliance which consists of upstream and downstream enterprises and research institutions should differentiate the responsibilities of government from corporate clearly in the course of operation, and it main design to obtain the advantages of cooperation. In the process of the construction of the union, the most important role of government reflects in two aspects. On the one hand, in order to create the basic conditions for enterprise alliance, government can guide the establishment of a platform for the Union, for example, holding government-led conferences, providing expert consultation about alliances, establishing efficient channels of communication, etc. On the other hand, in order to increase the motivation of corporate alliances, government can provide enterprises alliance policy support, such as the alliance location, tax preferences, and

allowance for investigation. In summary, the guiding role of government mainly works at the beginning or before the establishment of the alliance. After establishing the alliance, other parts of the process, such as: partner selection, operation mechanism, competition mechanism, venture management and exit management, etc. should be run by its own member enterprises according to market law and alliance needs. With its own characteristics, alliance should gradually formed a well-function management system, but it must also accept the norms and supervision from the government during its operation.

2) Business guidelines (BG)

The lack of a strategic planning about investment industry has led to ambiguous international orientation, chaotic investment layout, irrational investment structure, and many other problems in the development process of investment. Therefore, it's necessary for government departments to organize hydropower experts, intelligence officers, risk assessment experts, upstream and downstream enterprises and other related organizations to work out and improve jointly "Investment Guidelines." Investment guidelines should first combine short-term goals and long-term development planning of the industry. And second its contents should prioritize and focus at the various stages of development in this industry. Finally, the investment guidelines are required updating timely to keep dynamic and continuity, so that it can truly provide a

valuable reference for investment decision-making of enterprises. The preparation of investment guidelines can be in region or country as a unit, and its main contents should first include the introduction of investment environment in the host country.

For example, the political environment, economic environment, legal environment, and bilateral or multilateral policy, environmental policy, investment incentives or investment restrictions, etc. Second, investment advice should be comprised. For example, how to choose investment model and partner, how to get project information, financing and bidding rules, how to take the approval process and with what department aboard. Lastly, the most important is the risk evaluation of investment. This part not only should be necessary to analyze the sources of investment risk in the host countries, and then make a comprehensive evaluation, but what more important is to work out specific response measures and recommendations as well as channels and departments to get help for enterprises.

3) *Early warning system(EWS)*

By definition, early warning systems should contain at least two functions: forecasting and warning. The basic goal of investment early warning systems which can issue warning information in advance, is to predict the direction and trend of foreign hydropower project. And then according to the alarm signals from the system, government should take appropriate actions to prevent and control the risks faced by investing activities. Investment early warning system should include at least the following steps: First, on the basis of the characteristics and changes of the objects of early warning, analysis and identify what the sources of risks are, such as, negative international public opinion, irrational investment structure, the ignorance of the ecological environment protection, etc. all above are likely to be the sources that trigger investment crises. Second is to monitor the sources of risk. At this step it can set a number of reasonable indicators according to the characteristics of sources. Then to identify and analyze warning signs by measuring the specific indicators. In addition to expert consultation, you can also make use of quantitative empirical methods, like the analytic hierarchy process (AHP), structural equation model (SEM), principal component analysis (PCA) and fuzzy comprehensive evaluation (FCE), to select suitable warning indicators. The third is to develop and implement countermeasures according to the warning signs of risk prediction. Pre-control countermeasures which rely on measurement and analysis above is the purpose and key point of the entire system. Furthermore the key to make perfect pre-control measures is to consider the effect of its implementation and its role in the prevention and control of risk.

B. *Regulation*

1) *Environmental impact assessment management(EIAM)*

Currently, the research on the environmental assessment mainly focused on the technical level, such as, identifying indicators for evaluation, so it haven't formed an overall system for environmental assessment management yet. Before starting the work of environmental assessment for hydropower projects abroad, government must first make a strategic planning for EIAM. This planning covers the content and goals of the preliminary, mid and late work. The preliminary work include the design of operation mechanism, the recruitment of EIA expert, the determination of standards; the mid work include fostering professional team for environmental assessment and carrying out specific evaluation work; and the late work include subsequent preparation of the EIA report, feedback of results and recommendations of optimization of engineering construction. Carrying out EIA abroad is very different from interiorly, it need to take full account of environmental, social, and cultural differences between different host countries, so that the work of EIA can adapt well to local conditions.

2) *Administrative examination and approval management(AEAM)*

The relevant departments of administrative examination and approval in our country include Administration of Foreign Exchange, National Development and Reform Commission (NDRC) and Business Section, etc. In general, the decision of external investment which based on enterprises' own development strategy, is the result of market selection, so it is enterprise itself that should be responsible for assessment and control of investment risk. However, hydropower external investment enterprises are faced with two problems that they cannot overcome. First, the enterprises' budget, capability and access to information of risk assessment are seriously limited. Second, the particularity of resource exploitation investment result in the complexity of factors and the broad range of risk assessment. In view of the above-mentioned facts, corporate cannot be competent to assess risk possibly from home and abroad, especially from the host country. Through the link of AEA, the government should create a self-service platform for enterprises who intend to invest in some country to obtain information, and then combine with periodic reports and other means to make up for the lack of enterprises' capacity.

IV. MEASURES

A. *Complete the financing channels*

The serious absence of SMEs (small and medium enterprises) or private enterprises in external investment lead to the imbalance of investment structure. One of the main reasons of the absence of SEMs is that it is difficult for SMEs to finance. For project investment overseas,

SMEs have their own unique advantages, on the one hand, they can weaken the suspicions that investments of China's state-owned enterprises are manipulated by the government from international community and contribute to reduce the pressure of public voice; on the other hand, balance the structure of investment industry, so that better implement the strategy of "going-out" of the hydropower industry. Government can proceed from the following aspects, one is to relax the domestic credit conditions and expand the scale of credit offers; Second, improve the domestic financing mechanism and make full use of commercial banks; third is to broaden the financing channels overseas to help companies seeking international loans.

B. Establish insurance mechanism

One of the most important safeguards of overseas investment is the establishment of overseas investment insurance system. Many developed countries have national investment insurance scheme for the risks of the possible national collection in host country, war and profit repatriation [2]. Although China Export & Credit Insurance Company has introduced insurance products for the Chinese enterprises to invest overseas, overall, China's overseas investment insurance system is still in its infancy, what's more there is no appropriate laws and regulations to recognize this system in law. The Government should accelerate the improvement of overseas investment insurance system[3], by helping insurance agencies improve the comprehensive evaluation of its investment projects, the capacity of subrogation, communicate and negotiate with the host country, to protect the interests of hydropower investment.

C. Sign more bilateral investment protection agreements

Although China has signed a lot of bilateral investment protection agreement with the majority of developed countries and a few developing countries, however its purpose focus on expanding the introduction of investment [4]. At present, China Water Conservancy and Hydropower Engineering abroad is concentrated in developing countries, especially in Southeast Asia. Developing countries have great market potential and abundant water resources, this indicates the promising further for domestic hydropower enterprises to invest in these countries. Therefore it is necessary for the

government to actively enter into more comprehensive bilateral investment protection agreements with those developing countries, or to improve the content of protection of existing agreements.

D. Encourage to found investment consulting institutions

The government can learn the practice of western developed countries to found professional risk monitoring and evaluation institutions, similar to Moody's and Standard & Poor's in America. The functions of such institutions is to monitor and evaluate the political, economic, policy, legal developments, as well as local customs, cultural and religious atmosphere in most parts of the world for approval departments and investment companies. The institution can be paid to collect host countries' risk information and project information. The approving authority and investment companies purchasing or exchanging information can be a way to get the actually useful information from these institutions.

V. CONCLUSION

In short, the further development of overseas investment in hydropower and brutal international competition will promote the reform of the management system of government. Reforming requires both courage to explore and management concepts innovation. Interwoven pattern of interests requires the government to practice while theoretical innovate, then improve its function with a new focus. Discussion on in the necessity of government guidance and specific guidance mechanism of China's overseas investment in hydropower can provide a reference for the theories and methods of problems faced by overseas investment in hydropower.

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