Introduction

ON JANUARY 2, 2008, an Omaha-based commodities trader instructed a colleague in New York to bid $100 for a barrel of Oklahoma oil. “This is the big one,” he declared. It was: the transaction pushed the price of crude to the $100 mark for the first time. Prices for resources ranging from natural gas to copper to wheat, traded in London, Chicago, New York, and beyond, had already set records in the preceding months and years.

The apparent source of the surge was halfway around the world. Double-digit Chinese economic growth was driving unprecedented demand for resources. As Chinese people moved into the middle class, they consumed more, rapidly outstripping China’s own ability to produce the resources needed to fuel its economy. The trend was turbocharged in the mid-2000s as China built up cities, industry, power plants, roads, and railways, boosting demand for everything from steel to coal.

Alarm bells sounded throughout much of the world, as fears grew that Chinese demand was leading to resource scarcity and ever-higher commodity prices. With what often appeared to be the full weight of the Chinese government behind them, Chinese firms seemed to be scouring the world for resources, striking deals at terms no other competitor could equal. Resource-rich economies were the beneficiaries of China’s wide-ranging trade, aid, and investment deals, but worries about consequences for the environment and labor, and about corruption, plagued Chinese investments. Meanwhile, warnings of rising Chinese influence spread well beyond commerce: scholars, pundits, and politicians raised the prospect of resource wars, and
defense planners began to worry that China would seek to control the seas through which the resource trade flowed.

Natural resources have always been a flashpoint between emerging and established powers. Big countries can generate most of the essential elements of national power and prosperity from within their own borders. But even great powers are stuck with the natural resources they have. To be certain, for a time, they can turn to technology and exploration to boost domestic production as demand for resources outstrips their homegrown supply. Eventually, though, emerging powers inexorably turn outward in search of the natural resources they need, with widespread consequences.

This is not a new phenomenon. Ancient Athens disdained international commerce but found itself seeking timber in Macedonia and corn in Egypt. England and Spain built colonies in the New World partly to sate demand for gold, silver, wood, and furs. In the first half of the twentieth century, as European powers fought over Africa and the Middle East, they were driven in part by competition for natural resources that they lacked at home; Japan sought control over much of East Asia at the same time for similar reasons. After World War II, the United States extended its influence over distant resource-producing lands and spent large sums to protect seaborne commerce, in part to assure itself of reliable access to the resources lacking at home.  

The Last Time Around

China is thus hardly the first power whose quest for resources promised far-reaching consequences. It is not even the first emerging power to generate alarm in the last fifty years. That distinction belongs to Japan.

In the 1950s and 1960s, as Japan emerged from World War II, the country consistently posted growth rates similar to those seen more recently in China. In the 1960s, Japan also turned heavily to resource-intensive investment to drive economic growth. The consequences were most prominent for oil and iron ore. Between 1965 and 1973, Japanese oil use rose from 1.7 to 5.3 million barrels a day.
Japanese oil imports accounted for a considerably larger part of the world market than Chinese imports do today. Japan boosted its share of world steel production, the main source of demand for iron ore, from 6 percent in 1960 to 17 percent by 1973, nearly passing the United States, and spurring demand for iron ore imports that greatly exceeded U.S. demand.\textsuperscript{4}

Just as rising Chinese commodities consumption in the 2000s coincided with growing popular fears that the world was running out of natural resources, so too did growing Japanese demand collide with worries about “limits to growth” rooted in resource scarcity.\textsuperscript{5} Surging Japanese oil demand also appeared to usher in a new world of geopolitics when, in 1973, growing world oil use shifted the balance of power toward the Organization of Petroleum Exporting Countries (OPEC), which used the opportunity to hike prices and inflict economic turmoil on the West.

Rising Japanese resource demand also manifested itself in overseas Japanese investment in resource development, from Australia to Africa.\textsuperscript{6} And, as is the case today with China, there was widespread concern about the methods and goals that the Japanese pursued. Among U.S. analysts, much of it could be chalked up to how fundamentally different the Japanese approach was from that of the United States. U.S. resource producers typically operated independently of government and of each other. Americans were inclined to believe in the reliability and inevitability of markets, which they turned to in order to ensure secure supplies. Japan appeared to operate differently. Its island geography and lack of domestic resources meant the country had a longer history of import dependence. The structure of Japanese industry, its relationship with government, and the attitudes of both industry and government toward markets were also different. Industry, through powerful business organizations, worked far more closely with government than U.S. companies did. Government could also direct industry to make moves for national, rather than corporate reasons, as when it required the Japanese conglomerate Mitsui to stay in the Iranian petrochemicals market “long after the firm was eager to withdraw.”\textsuperscript{7}
Japanese firms entered competition for overseas resources with some of the same controversial trappings that Chinese companies bring today. They availed themselves of government financing at relatively low rates in order to facilitate overseas investment. Starting in 1967, the government-owned Petroleum Development Corporation subsidized overseas exploration and production by Japanese firms. Together with private efforts, this led to a tenfold rise in exploration and production expenditures between 1968 and 1973. In 1973, in the wake of the first oil crisis, corporate Japan came together to create the Japan Cooperation Center on the Middle East, which aimed to facilitate better relationships between Japanese firms and oil-rich Middle Eastern countries. This was followed the next year by a government effort to use diplomacy and government coordination to open doors for Japanese firms; the effort was also boosted by support from the country’s Export-Import Bank and Overseas Economic Cooperation Fund. In terms of sheer scale, Japan’s oil strategy was remarkably successful, and by 1980, 45 percent of Japanese imports came from resources owned or otherwise controlled (through long-term purchase contracts) by Japanese firms.8

The Metal Mining Agency of Japan, created in 1963, matched these efforts when it came to raw metallic ores. In addition to taking ownership stakes abroad, Japanese buyers entered into long-term purchase contracts that could help mine owners obtain financing for development and production. They also organized themselves into consortia in order to leverage their market power in price negotiations with potential suppliers. Japan came to be a dominant player in many critical markets; by the late 1970s, it was the main buyer of iron ore from Australia and India, the top purchaser of Australian copper ore, and a major buyer of Brazilian iron ore.9

At first, Japanese efforts were, in many ways, less oriented toward “locking up” resources than were the efforts of many Western firms; American firms “were relying heavily on vertical integration for the security of their foreign supplies of bauxite, copper ore, and iron ore.”10 Eventually, as Japanese firms built up capital, this shifted, and the companies increasingly took ownership (“equity”) stakes in overseas mines.
Yet for all the portent of change and disruption, three decades later no one would claim that Japan fundamentally altered how global oil and mineral markets function. This is not because the United States and others mobilized a forceful response to the rise of Japan. The latter’s economy never became the overwhelming force analysts had anticipated; instead, it stagnated, and as the rest of the world grew, Japan’s share declined. At the same time, as resource prices rose and geopolitical worries intensified, consumers cut back and production grew, leading to plunging prices across a range of commodities. Australia did not become a Japanese mine, and not because Canberra blocked Japanese access; instead, other parts of the Australian economy inevitably grew. Meanwhile the United States remained the dominant power in the Middle East, despite the fact that an ever-larger fraction of the region’s oil exports was destined for Asia and not for Europe and the United States.

Enter China

The rise of Japan came at a time when China was a tiny player in world markets. The Chinese economy was relatively isolated during the 1960s and 1970s. In the 1980s, as Japan first surged and then sputtered, China’s economy began to take off. But it was starting from a long way behind and was able to avoid becoming dependent on foreign natural resources for a time. Ultimately, sustained economic growth through the 1990s and 2000s, which spurred ever-higher demand for natural resources, made isolation impossible. Today Chinese demand for natural resources appears to be changing the world even more so than people once predicted for Japan.

Indeed, many observers have given credit (or assigned blame) to China’s quest for natural resources for an extraordinary host of transformations around the world. In this telling, Chinese demand for imported resources is the root of record price rises for everything from oil and ores to wheat and soy, impoverishing consumers and making small resource-endowed countries rich. Chinese investment in overseas resources is transforming the commodities world from one governed mainly by free markets to one in which China
locks up reserves and creates its own mercantilist system for trade. Western companies, previously used to competing with each other on commercial terms, now face Chinese state-owned behemoths that secure resource deals by using every lever of the Chinese government—and availing themselves of ultra-cheap loans—to beat the competition, shifting the balance of economic power from free markets to state capitalism in the process. When the Chinese companies arrive, they variously enrich despots, despoil the environment, exploit labor, and intensify corruption.

Meanwhile, China’s resource quest appears to color the country’s foreign policy too. China seemingly clashes with its coastal neighbors over the oil and gas riches of the South and East China Seas, uses its muscle to divert rivers to the detriment of other countries downstream, and strikes bargains with former Soviet republics and others to its west to secure new supplies of fuel and new routes to transport them. Chinese diplomats skew their votes in the United Nations Security Council (UNSC) on everything from the Iranian nuclear program to the Sudanese civil war, hoping to ensure reliable resource flows and harming international peace and security in the process. And, in the background, the People’s Liberation Army Navy (PLAN) steadily builds strength and scouts overseas bases, preparing for a day when it, not the United States, will police the distant lands and narrow sea lanes through which much of China’s and the world’s critical resources trade flows.

Yet for nearly every contention that China’s resource quest is transformational, there is a ready counterpoint on offer. Forces beyond China—scarce supplies, strong demand from other countries, nefarious speculators—are driving resource prices up. (And besides, the prices for many resources aren’t that high by historical standards.) Far from locking up global resources and steering the world away from free markets, China is dependent on—and being drawn ever deeper into—the market arrangements that preceded its rise. Chinese companies are no different from Japanese and U.S. companies before them in investing in overseas supplies. Their performance on environment, labor, and corruption, many claim, is entirely within the mainstream, particularly when...
it is measured against that of firms from other developing countries.\textsuperscript{21} And even though local populations often recoil at large Chinese investments, they have similarly hostile reactions to many non-Chinese incursions, including from Western multinationals, massive Middle Eastern sovereign wealth funds, and opaque global investment funds.\textsuperscript{22} Indeed, as China gains experience abroad, some contend, it is changing its own initially weak practices to meet high world standards, rather than the other way around.\textsuperscript{23}

What about international security? To many eyes, Chinese disagreements with Japan, Vietnam, and other neighbors about resources in the South and East China Seas are much ado about nothing and unlikely to provoke significant conflict.\textsuperscript{24} India and others may raise a hue and cry about Beijing’s efforts to dam international rivers, but in practice the threat posed by Chinese water diversion schemes is grossly overstated, particularly as China adjusts its plans in the face of downstream concerns.\textsuperscript{25} As for supposed Chinese intransigence at the Security Council, as China sees the downside to instability in a world where it depends on resources from around the world, some see it becoming more invested in the tools that the West has used to promote international stability.\textsuperscript{26} And despite U.S. worries, the PLAN has not built a single overseas base, and it possesses just one (secondhand) aircraft carrier.\textsuperscript{27} China appears to have accepted a world where the United States patrols the seas; if that eventually changes, perhaps the two countries will cooperatively share the burden of sea-lane security, rather than fight over control.\textsuperscript{28}

Which vision is right? Is China’s quest for energy, minerals, land, and water—pursued through a mix of trade, investment, political, and military means—fundamentally changing the world, whether for good or for ill? Or, as China seeks resources, is the quest in fact changing China, bringing it into the fold of existing international rules, practices, and institutions?

We argue in this book that the truth does not lie cleanly at either pole, or even in some neat place in between. Instead, as we will show by examining the many dimensions of China’s resource quest, it is found in a host of places that depend on the aspect of China’s
resource quest that one is looking at. Pundits, scholars, and policy makers have too often blown China’s resource quest and its consequences out of proportion with reality: their warnings of intolerable rises in commodity prices, unprecedented social and environmental damage to countries where China invests, a competitive playing field ever more tilted against Western companies, and inevitable resource-related conflict—perhaps even wars—between China and other powers are not supported by the facts on the ground. Part of this is because China’s resource quest occurs against a well-established global economic, political, and security backdrop that has considerable inertia of its own. Much of it, though, is because China is not simply pursuing its resource quest with reckless abandon; instead, it is adjusting its strategy and tactics as it learns from experience, moderating its global impact in the process.

This is not to say that China is not special, or that its quest for resources is entirely benign. Its behavior abroad is often distinctly shaped by long and dense roots at home: Chinese companies bring their domestic practices to the places where they invest, Chinese policy makers bring assumptions about markets forged through decades of domestic experience to their practice of international strategy, and Chinese security planners are spurred by nationalist pressures and domestic bureaucracies as much as by calculations of what will strengthen Chinese resource security abroad. These forces—along with China’s sheer size—can create important frictions as China ventures abroad. Moreover, some observers have been too quick to extrapolate modest impacts from past Chinese efforts to secure natural resources into the future, thus blinding themselves to possible challenges down the road. For example, China’s military could take on a far more prominent role in resource security in the coming decades than it did in the last two, as China’s capability to project force far from its shores grows. Similarly, as the scale of Chinese overseas resource investment rises, its consequences for governance could become substantially larger, too. Still, not all future trends will be more disruptive than those seen thus far: for example, rising Chinese demand for oil is unlikely to lead to anywhere close to the
same sorts of staggering price increases over the next decade as it did arguably over the last one.

Despite the fact that alarming claims are frequently unsupported by reality, then, China’s resource quest still poses important challenges. Sorting through the varied and rich territory of China’s resource quest—the task of this book—is essential to responding intelligently to these challenges, whether as an individual, business, or government. But indiscriminate hype about Chinese activities, far from sounding a useful alarm, only distracts from those problems that are genuinely important. Were all the claims about China’s resource quest true, it would be so overwhelming as to be all but impossible to formulate an effective response. And if none of it were true, no response would be necessary. Distinguishing the real consequences of Chinese behavior from the mass of imagined possibilities is thus essential if people and countries around the world are to adapt and respond effectively to China’s ever-changing—and sure to continue—quest for natural resources.
China Arrives

In May 2012, the Mongolian parliament dropped a bombshell. Mongolia’s vast territory, sandwiched between China and Russia and rich in resources, had long been wide open for foreign investment. Now a new Strategic Entities Foreign Investment Law would require government approval for foreign investments over $75 million in “strategic sectors” such as mining that would result in a 33 percent or greater foreign stake. Parliamentary approval would be required for any foreign majority stake.

The reaction from foreign investors was harsh and immediate. By the end of 2012, investment in Mongolia had dropped 17 percent from the year before. The government quickly revisited its decision and, in April 2013, clarified that the rule was targeted only at investment by state-owned enterprises. In fact, it was a thinly veiled attempt to protect Mongolia against Chinese investment. The powerhouse Chinese mining state-owned enterprise Chalco was attempting to buy a 60 percent share in South Gobi Resources Limited, a subsidiary of the British Australian mining behemoth Rio Tinto, for nearly $1 billion. The new law was designed to stop it.

China is Mongolia’s largest foreign investor; just over 50 percent of all foreign direct investment comes from Chinese companies. Moreover, approximately 90 percent of Mongolia’s exports—overwhelmingly raw materials—go to China. According to Gotov Battsengel, the chief executive officer of the Mongolian Mining Corporation, “Mongolia’s mining fever is driven by Chinese consumption… virtually, we have one customer.”
Yet such extensive trade and investment ties with China have yielded at least as much concern as enthusiasm in Mongolia, which is wary of too great a Chinese presence and influence in the country’s economy. Ganhuyag Chuluun Hutagt, former vice finance minister, has said, “We will not be another Africa…we cannot afford to have one particular nation control our business.”\(^3\) Centuries of Chinese and then Soviet rule have also made Mongolians particularly sensitive to outside influence. An April 2012 poll revealed that only 1.2 percent of Mongolians believe China is the “best partner for Mongolia.”\(^4\) Human rights activist Oyungerel Tsedevdamba cites Chinese labor exports and weak environmental standards among the reasons Mongolians prefer that their country do business with other investors.\(^5\)

As a result, Mongolia has gone to extraordinary lengths to defend itself against closer economic integration with China. It is building a railroad to bring coal from the Gobi desert to China but will use its own rail gauge rather than matching it to that of China. This means transporting coal across the border will require either changing the undercarriages of the trains or transferring the coal to trucks, adding an estimated $120 million annually to the export costs.\(^6\) Fears of Chinese workers flooding in are pervasive, and immigration from any one country is limited to ten thousand workers. In the mining sector, companies must recruit nine Mongolian workers for every foreign worker brought in, while construction companies pay a fee of 15 percent of the foreign worker’s salary to the Mongolian government. Still, according to one Chinese report, companies often prefer to pay the extra costs for their workers, viewing Mongolian workers as “lazy, alcoholic and unwilling to adhere to normal working hours.”\(^7\) Conflicts between Mongolians and Chinese are frequent.

Few countries share the history, geography, and economic complementarity of Mongolia and China. Yet the former’s experience navigating the range of opportunities and challenges posed to resource-rich countries by rapidly rising Chinese investment is far from unique. In just over a decade, this investment has helped transform many resource-rich developing countries. The immediate economic benefits are easily seen in thriving mining industries, new
highways, and active ports around the globe. The ultimate impact of this investment on the political, social, and broader economic fortunes of these same countries, however, is less clear.

Foreign direct investment can have wide-ranging and positive impacts on economic, social, and political development. Multinationals tend to provide higher wages than local businesses. They also typically offer more worker training and, as a result, do more to boost people’s skills than local enterprises. FDI also tends to improve labor practices by encouraging stronger workers’ rights and the rule of law, social services, and infrastructure necessary to support better working conditions. Moreover, multinationals can contribute to stronger environmental performance through their adherence to higher standards (often imposed by their home governments) and use of more advanced and environmentally friendly technologies than others might.

Technology transfer is another potential positive spillover from foreign investment, particularly when the technology gap between the host country and the foreign investor is small. One might hypothesize that China, which deploys a vast range of technologies at home that is often appropriate to developing economies, has the potential to be a particularly important player in raising technology levels through its investments in resource-rich developing countries.

Foreign investment in resource production also has the potential to generate significant government revenues that can then be spent so as to boost economic growth far more broadly. Here, however, much depends on whether the host government is transparent and efficient—encouraging effective use of resources and society-wide benefits—or corrupt and inefficient, which leads to narrower distribution of benefits and often produces widespread societal discontent.

Does Chinese investment in natural resources live up to the transformative potential that foreign investment in general can deliver? Or does it reflect the worst of what’s possible? There is significant disagreement on this count. Media reports tend toward extremes: the Chinese are either singlehandedly
responsible for rejuvenating the resource-rich countries of the world or plundering the world’s riches and undermining global standards in labor, environment, and governance in the process. Scholars also disagree among themselves. Economist Dambisa Moyo reflects one prominent camp when she argues that Chinese investment is a boon to Africa: “China’s rush for resources has spawned much-needed trade and investment . . . a huge benefit for a continent seeking rapid economic growth.”

Other experts share the sentiment of the well-known development economist Paul Collier, who advised in his 2007 bestseller *The Bottom Billion*, that “natural resources are not the royal road to growth unless governance is unusually good. In the bottom billion it is already unusually bad, and the Chinese are making it worse, for they are none too sensitive when it comes to matters of governance.” And a third group comes down somewhere in between: political scientist Deborah Brautigam, for example, has written (focusing on Africa) that “the deciding factor in each case is likely not to be China, but individual African countries and their governments.”

The experience of a wide range of resource-rich countries with Chinese investment suggests there is an element of truth in each of the perspectives. The positive potential social and political benefits have yet to be fully realized, while at the same time the worst fears are overblown. Determining how Chinese investment in natural resources is shaping social, environmental, and political dynamics in resource-rich countries requires looking carefully both at how China behaves at home and at how resource-rich countries govern inward investment. Understanding how China’s own political economy functions is essential to making sense of how its companies perform overseas. These firms and officials behave abroad in very much the same way they behave at home; changes at home are thus a central driver for changes abroad. The strength of the political and social institutions of the individual economies in which Chinese companies are investing is also critical in determining outcomes; the experience of one resource-rich country can differ radically from that of another.
Diplomat Deal Makers

In March 2013, Chinese President Xi Jinping traveled to Africa promising a new round of Chinese win-win investment, trade, and aid for the continent. This time Beijing pledged to deliver $20 billion in loans over the next three years and laid out a range of new projects in infrastructure and agriculture. At the time, China was already responsible for more than 15 percent of foreign direct investment in Africa. Such investment has earned accolades from many of the region’s leaders. Former Senegalese president Abdoulaye Wade wrote in the Financial Times, “China’s approach to our needs is simply better adapted than the slow and sometimes patronizing post-colonial approach of European investors, donor organizations and non-governmental organizations.”

This is Chinese business doing what it does best, with top political leaders acting as diplomat deal makers for the country’s largest banks, natural resource firms, and construction companies. As in China itself, many big deals involve the central government and include state-owned enterprises, banks, and (often) local officials. A coordinated (or at least somewhat coordinated) Chinese approach can enable Chinese leaders to put together packages that appeal to a range of decision makers in resource-rich countries in ways that other potential investors often cannot. Chinese lending terms are also attractive to many countries, where they are known for “the absence of political strings, competitive interest rates, and flexible repayment schedules.”

China’s ability to bring multiple tools to the table often leads people to conclude that it gets better deals. This isn’t necessarily true. Chinese investments abroad turn a profit less often than others do; According to McKinsey, as many as 67 percent of overseas acquisitions have gone bankrupt or have failed to make a profit, surpassing the average global rate by 17 percentage points. Chinese companies, as relative newcomers to overseas resource investments, may be prone to overbidding and other mistakes that undermine profitability. This can actually help the countries where they invest, at least in the short run, since the firms may be willing to invest in projects that others consistently find economically unattractive. However, it
is not good for anyone over the long run, since economically unsustainable projects ultimately tend to collapse. Moreover, for Beijing, investments can sometimes be influenced by factors other than the immediate corporate bottom line; beliefs in the value of acquisitions for resource security, technology acquisition, and goodwill can all influence an investment’s attractiveness.\(^{18}\)

Goodwill in particular shapes relationships between China and countries in which Chinese companies invest. Doing business with China is also often a matter more of using informal relationships and personal ties than working through formal institutions or legal practices. One consequence of this is that other authoritarian states in particular find the Chinese state-centered but personalistic approach reassuring. Ties between China and leaders such as Zimbabwe’s Robert Mugabe can date back decades, providing a long history of common understanding and shared interests. Alas, the willingness of Chinese firms to engage such regimes on their terms reduces incentives for those regimes to change.

China also works hard to make new friends. In Zambia, one observer commented that the Chinese are a full-service partner: they provide red-carpet trips for Zambian officials with limousines and five-star hotels, develop military ties through training of officers and weapons sales, support agricultural training and research centers, and build special projects such as stadiums and presidential palaces that attempt to serve as a constant reminder of Chinese friendship and largesse (though this sometimes backfires).\(^ {19}\) As a senior oil official in Mozambique noted, “The Chinese like to know that they are your friends before they invest.”\(^ {20}\)

There are, however, real risks for China inherent in such an approach. Deals that rely mostly on personal relationships and are blessed only at the highest levels may also unravel when new leaders emerge. Gabon’s President Omar Bongo, for example, strongly supported a Chinese bid to develop his country’s Belinga mine, home to large deposits of iron ore. The resulting contract became known among some in Gabon as “a contract of shame” for the expansive perks it offered the Chinese partner, such as exemption from all taxes for twenty-five years. The Gabonese
government (still led by Bongo) then renegotiated the deal in 2008, requiring that the Chinese revisit the project’s environmental and social impact assessments. In 2009, Bongo died, ushering in new Gabonese leadership. Eventually, the Chinese lost the deal to Australia’s BHP Billiton (though as of this writing BHP’s involvement is again uncertain).21

Part of China’s appeal for some resource-rich developing countries, as well, is Beijing’s willingness to set aside political considerations that other countries, multilateral institutions, and even business leaders often find unacceptable. As former ambassador to the United States and deputy foreign minister Zhou Wenzhong stated in reference to investment in the Sudan, a country largely shunned by Western companies, “Business is business. We try to separate politics from business.” He added: “I think the internal situation in the Sudan is an internal affair, and we are not in a position to impose upon them.”22

What does this mean? For one, Beijing largely rejects economic sanctions against particularly repressive states that would limit Chinese investment opportunities. Thus companies are free to invest where many others are barred or fear to tread. Chinese companies are, for example, the largest investors in Sudan, North Korea, and Iran’s energy sector. Beijing’s stated aversion to mixing business with politics also means it doesn’t pressure countries to improve their governance practices before it lends to or invests in them. (This is, of course, also true of most Western multinationals not otherwise restricted by their home governments.) And as Xi Jinping reassured African leaders, “China will continue to offer, as always, necessary assistance to Africa with no political strings attached.”23 Unlike the World Bank or other public lenders, China does not qualify its loans with requirements for budget transparency in the distribution of resource revenues. Macky Sall, president of Senegal, reflected a common view of this approach in a 2013 interview with the journal *Foreign Affairs*:

> The cooperation with China is much more direct and faster than the cooperation we have with Western countries—the United States, European countries, and other bilateral donors. There are a
lot of criteria on governance, on this and that, and a lot of procedures…. That’s one of the obstacles to effective cooperation: too many procedures. I’m not saying that what China is doing is better, but at least it’s faster. And we need speed.

This no-strings-attached approach does not win China friends everywhere, however. Some senior officials in resource-rich countries are less sanguine about the willingness to ignore conditionality. Former Zambian minister of trade, commerce, and industry Dipak Patel, for example, expressed appreciation for intervention from the outside: “The World Bank can’t outbid the Chinese. They always wanted conditionalities. I oversaw the privatization of 9 of 10 major industries. We actually like the conditionalities because it allowed us to be pressured into doing things.”

Moreover, although an integrated approach to resource investment has clear benefits to Chinese companies, it also creates challenges. The close ties between many Chinese natural resource companies and the Chinese state, for example, are occasionally a source of disquiet in resource-rich countries; officials and businesspeople express apprehension over the large number of SOEs involved in China’s overseas foreign direct investment. In some cases, there is concern that trade and investment conflict with a state-owned firm might bleed into the broader political relationship, or vice versa. For example, in 2010, a political flare-up between Japan and China disrupted rare earths trade between the two countries. (Rare earths are a class of elements critical to a host of energy, defense, and other advanced technologies; as of 2014, their production was dominated by Chinese mines.) As China seeks rare earth investments outside its borders in countries such as Australia, such concerns are magnified as countries worry about rising Chinese control over an important market.

In other cases, however, conflict over Chinese overseas resource investment stems from little more than a popular unease that Beijing is using Chinese companies—whether SOEs or private—to siphon off valuable resources. Mongolia, for example, worries that China is “stealing” its coal.
Corruption

The relationship-based, often opaque nature of Chinese resource investments also raises the specter of corruption, and with it, significantly reduced value of resource investments to broader populations in resource-rich countries. Within China itself, corruption is viewed as both an essential element of doing business and a life-threatening disease. Xi Jinping, on taking office as Communist Party general secretary in November 2012, warned that if the Party could not rid the country of endemic corruption, it would lead to the death of not only the Party but perhaps also the Chinese state. The natural resource sector in particular offers many opportunities for corruption to flourish at home. A study by Chinese University of Hong Kong professor Zhan Jing revealed that within China itself, resource abundance—including oil, natural gas, coal, and other nonfuel minerals—breeds corruption through unclear property rights and heavy state intervention, which contributes to rent seeking. Bribery, embezzlement, and tax evasion are commonplace; even obtaining a job in the natural resource sector has a price tag attached. Zhan’s findings are supported by a 2010 survey of almost 7,000 Chinese officials, in which 62 percent believed the Department of Land and Resources to be the most corruption-prone of all the government bureaucracies.

Corruption at home also appears to condition behavior abroad. According to economists Ivar Kolstad and Arne Wiig, Chinese foreign direct investment in resources has flowed primarily to two recipient types: OECD countries with large markets (which we explore in chapter 7) and non-OECD countries with a combination of large natural resources and weak institutions (which tends to go hand-in-hand with greater potential for corruption).

The ultimate upshot of Kolstad and Wiig’s analysis may be that when it comes to corruption, it takes two to tango. The 2011 investment by the state-owned China Metallurgical Group Corporation in Afghanistan’s Aynak copper mine illustrates this. Following a highly competitive bidding process (in which the MCC beat out nine other firms), accusations of corruption emerged. A U.S. official
claimed that the Afghan minister of mines and industry accepted $30 million in bribes for awarding MCC the contract, and James Yeager, a consultant to the Afghan Ministry of Mines and Industry, concluded that the Aynak deal had undergone a “murky and insufficient tender process” and that “bribes were paid to Afghan officials at clandestine meetings in Dubai in the Aynak tender process.” Yeager’s seventy-eight-page, in-depth review of the deal ultimately ended up highlighting wrongdoing not by MCC but rather by the Afghan minister of mines and industry.

Yeager criticized the Ministry on several grounds. The Aynak Tender Evaluation Committee was ill equipped to evaluate the bids: the members themselves questioned their fitness to participate since they lacked the skills necessary to understand the process or determine which aspects of a bid were most important. (Not one had ever been part of a tender process.) Moreover, despite substantial support for institutional development by the World Bank, “licensing [and] contracting” were conducted as if “going through the motions” in order to fulfill some expectation of market standards. The reality was that considerable deal making and personal relations were essential to securing the mine rights. And perhaps of greatest concern, the minister hired a mandated outside transaction adviser who did not have the requisite experience, and then the minister proceeded to lock documents in his office, not sharing them with the transaction adviser. Yeager raised the possibility that bids were tampered with.

In contrast to the Aynak mine case, opportunities for corruption are more limited in states with better transparency and stronger governance institutions. A senior oil official in Mozambique (itself hardly known for strong institutions) claimed that when the Chinese seek extralegal options they are rebuffed, and that when China occasionally presses for new rules they get the message: “Go back and refresh.” In Brazil, officials have found that despite their frequent explanations to the contrary, Chinese officials and businesspeople continue to believe that, with a sweep of the pen, Brazilian officials can overcome various restrictions and regulations on foreign investment in
agricultural land. The result is far less Chinese investment in Brazil’s natural resources than many on either side would like.34

The New Colonialist?

In 2005, the Communist Party theoretician Zheng Bijian articulated a developmental path for China that differed radically from that of earlier maturing economies. Zheng claimed China had rejected the model of industrialization that relied on “high investment, high consumption of energy, and high pollution.” Instead, its path forward would be marked by “economic efficiency, low consumption of natural resources relative to the size of its population, low environmental pollution, and the optimal allocation of human resources.”35 Unlike previous emerging powers, China also would not “plunder other countries’ resources through invasion, colonization, expansion or even large-scale wars of aggression.”36

Chinese officials and media promoted the theory heavily for a few years, but few analysts in or outside the country would describe Chinese natural resource investment as Zheng did. China has not managed to follow a resource-efficient, environmentally friendly developmental path; by most measures, it ranks as one of the most energy-inefficient and polluted countries in the world, and one in which unsafe working conditions and low wages are common. And Chinese companies, used to operating in such an environment at home, are prone to export their practices abroad. China has, of course, not invaded other countries to exploit their natural resources. Still, many have argued that the pattern of extracting resources abroad but shipping them home for processing is colonialism in another form. For example, Nigeria’s widely respected and pro-foreign investment Central Bank governor, Lamido Sanusi, writing in the Financial Times, called China’s practice of taking primary goods from Africa and selling manufactured ones “the essence of colonialism.”37

Start with corporate performance on the social and environmental fronts. (We’ll come back to the question of neocolonialism soon.) Chinese companies whose primary experience is within China tend to have limited experience operating at international
standards for social and environmental performance. To appreciate the consequences of this, it is useful to understand something about Chinese conceptions of corporate social responsibility (CSR). In the West, CSR typically focuses on voluntary social and environmental initiatives that go beyond measures directly benefiting the bottom line or required by law. In China, CSR is typically prescribed by the government, and it encompasses a much wider range of activities, everything from ensuring strong corporate governance to following national laws when operating abroad.38 (One way to think about this is that in China, the line between the legal and political realms is far more blurred than in the West, leading to a less clear distinction between social and legal responsibilities.) In the context of this broad conception, the results of China’s national 2010 CSR survey are particularly striking. Only 5 percent of Chinese company officials surveyed said they had a high level of CSR understanding, 26.7 percent claimed a reasonably good understanding, 40 percent had heard of CSR but didn’t know what it meant, and 22.9 percent said they had never heard of it. According to the survey’s authors, there are several reasons for the weakness of CSR among Chinese companies: sometimes they lack an effective CSR evaluation system, sometimes there are few government incentives to encourage companies to engage in long-term CSR programs, and a third reason—perhaps offered tongue in cheek—is that “the world is not perfect.”39

One result for Chinese companies investing abroad, as noted by Professors Chen Dun and Zhou Jialei of the Beijing Technology and Business University and China Politics and Law University, respectively, is a serious image problem: “The lack of [CSR] initiatives has tarnished the overall reputation of Chinese enterprises, brands, and the country as a whole, greatly hindering the ability for new Chinese companies to continue the going out strategy.”40 Weak Chinese practices also mean that the prospect of companies exporting social and environmental standards to the rest of the world is exceedingly small.

This is perhaps clearest when it comes to environmental performance. Extractive industries such as mining and oil and gas
production are often problem-ridden regardless of who conducts them, prone to generate environmental difficulties, labor challenges, and social discontent if handled poorly. Contrary to Zheng’s claim that China will somehow be different, Chinese multinationals engender at least as many problems in their drive for resources as firms from any other country do. Indeed, according to many observers in resource-rich countries, Chinese companies tend to come in below average in the corporate behavior ranks.

When it comes to the environment, this result is not surprising, given China’s environmental conditions and corporate practices at home. The environment has long taken a back seat to rapid economic development in China, with low investment in environmental protection, few political and economic incentives for firms to minimize pollution, and only weakly enforced regulations and laws. As a result, China endures some of the world’s worst air pollution, water pollution and scarcity, and land degradation. Pictures of Beijing’s life-threatening smog or sixteen thousand dead pigs floating down Shanghai’s Huangpu River in 2013 can be seen by anyone with an Internet connection. And what can’t be seen is equally concerning: Beijing often refuses to release the full results of pollution studies, but without public information there is no accountability mechanism for polluters.

Without effective environmental regulations, transparency, and enforcement at home, Chinese companies are unlikely to bring strong environmental practices when they invest abroad. Instead, extractive industries bring with them the business model that has succeeded at home. One element of this is a lack of tradition in environmental impact assessments (EIAs), which are evaluations of the likely and potential environmental implications of a particular development project. Although EIAs are legally required for large development projects in China, companies frequently ignore the regulation. In many instances, they have similarly failed to comply with EIA regulations abroad.

The story of the Zhonghui Mining Group, the largest privately owned Chinese company operating in sub-Saharan Africa, reveals how difficult it is for Beijing to control the actions of Chinese
companies operating abroad. In 2009, Zhonghui signed a $3.6 billion deal with the Zambian government under President Rupiah Banda to develop copper reserves in Zambia. Chinese investment in the Ichimpe copper mine, one of two projects the company planned to develop, was estimated to create three thousand jobs for Zambians.\footnote{The Banda government supported Zhonghui’s investments; President Banda himself reportedly called the Ichimpe mine investment a “positive development that demonstrates the relevance of private investment in the mining industry.”\footnote{Zhonghui, although a private company, received loans from and enjoyed a close relationship with the EXIM Bank.}}

As soon as construction began in 2011, however, Zhonghui encountered problems. It began building the mine without conducting an environmental impact assessment, violating Zambia’s 1997 EIA regulations. A change in Zambian leadership in 2011 brought increased scrutiny to a large number of previous land and mining deals. Those favorable to the new administration described the scrutiny in terms of a shift toward better government; some of those who were skeptical believed that the new administration simply wanted to nullify previous deals to reap its own payments and bribes as the various concessions were sold anew.\footnote{Which motivation prevailed in the Zhonghui case is unclear, but either way, the consequences were stark. The new minister of mines and natural resources, Wylbur Simuusa, told Zhonghui to “stop immediately” because the EIA and mine plan were not approved. The new government halted the Ichimpe project until Zhonghui could produce a valid EIA. By February 2012, Zhonghui had not done so, and the next month, the Ministry of Mines and Natural Resources issued default notices to Zhonghui, threatening to cancel their mineral processing and exploration licenses if they did not pay restitution. In May, the government charged Zhonghui, as well as Zambia’s former minister of mines and minerals, with graft in the allocation of mining rights to Ichimpe.\footnote{Whatever the ultimate reason the new Zambian government pursued Zhonghui, the company’s ability to begin building a mine without an environmental impact assessment reflects weak accountability}}
in both the Chinese and the Zambian systems. Zhonghui was able to ignore the regulations of the EXIM Bank and the warnings of the Ministry of Commerce. EXIM Bank’s environmental policy, for example, calls for corporations to undertake and enforce EIAs; if a company fails to complete an EIA, EXIM Bank funding is prohibited.\textsuperscript{45} In addition, China’s Ministry of Commerce released a set of guidelines for foreign investment immediately prior to the Zambian election and identified the environment as an area for particular attention on the part of Chinese companies operating in Zambia.\textsuperscript{46} Yet Zhonghui was able to ignore all of this.

The capacity of Zambian governance institutions was also an enabling factor. Indeed, officials and activists there remain concerned about the country’s overall capacity to protect the environment, particularly when dealing with firms that do not pay careful attention to environmental regulations. According to a Zambian copper mining expert, one EIA submitted by a Chinese firm for another mine investment was approved even though the EIA was in Chinese—a language no one in the Ministry read.\textsuperscript{47} Transparency is also a significant problem: even monies set aside for environmental protection often end up in general accounts. Environmental activists and others further observe that even if EIAs are sufficient on paper, it is a problem to ensure they are monitored for compliance. And as one activist noted, pollution in Zambia has been a long-term problem: “Penalties for pollution are far cheaper than not polluting in the first place, so companies will simply go to court.”\textsuperscript{48} Such a weak regulatory environment enables companies that are not subject to environmental rules by their home countries to pollute.

For the Chinese government, the challenge of ensuring that companies adhere to both domestic regulations and those of host countries is compounded by a second wave of investment led by small-scale enterprises. Fully two-thirds of the Chinese domestic mining industry is composed of these small firms, which operate outside the direct supervision of the central government, and whose environment, labor, and safety practices are only poorly regulated by local officials.

The reputational risk for China of these largely unregulated Chinese miners going out is significant. In March 2013, the Ghanaian
sector minister for lands and natural resources, Alhaji Inusah Fuseini, warned that small, unauthorized Chinese miners were creating a “bad public image” for China in Ghana and “could damage the growing friendship between Ghana and China.”\(^4\) The Chinese ambassador reassured the Ghanaian government that Beijing was launching a campaign to discourage Chinese miners—most of whom originated from one particular county in southern China—from coming to Ghana to mine.\(^5\) At the same time, he reflected a widely held belief within China that Ghana’s problems must be addressed by the Ghanaian government. He recommended that the government tackle the problem by prohibiting local miners and chiefs from selling their land to Chinese miners, and ensuring that the Ministry of Land and Natural Resources more carefully scrutinize the licenses they grant.\(^6\) This senior-level diplomacy notwithstanding, during the summer of 2013, the Ghanaian government, through a combined military, police, and immigration task force, led a series of often violent raids against the illegal miners, leading to the deportation of more than forty-five hundred Chinese by mid-July.\(^7\)

The environmental consequences of weak rules in resource-rich countries can be compounded when corruption is possible. In a survey of three thousand business executives conducted by Transparency International, Chinese companies placed second only to their Russian counterparts as those most likely to bribe when doing business abroad.\(^8\) In Mozambique, for example, one civil society activist has noted that bribery is rampant in the logging sector. He described the problem of illegal logging with regard to China as significant and the result of malfeasance on the part of both countries:

> When the [Mozambican civil] war was over, the United States and other countries invested a great deal of money in de-mining [i.e. removing land mines]; the United Nations and other donors footed the bill. Then the Chinese started cutting in those areas for timber. There is no capacity to deal with it. There is a small, unprepared group linked to the Agriculture Ministry, but they have little technical expertise in forestry. There is a high propensity for bribery.\(^9\)
As Chen and Zhou suggest, however, Chinese companies pay a steep reputational price when their environmental performance is poor. In 2005, the China Metallurgical Group Corporation paid $1.4 billion for the option to develop the Ramu nickel mine in Papua New Guinea (PNG). MCC held 61 percent of the project, while other Chinese investors as well as the Australia-based Highlands Pacific held the rest. The deal was agreed to at the highest levels between PNG’s Prime Minister Michael Samore and the Chinese government. In 2010, the Chinese leadership extolled the potential of the Ramu mine to improve Sino-PNG relations. Li Keqiang, who was soon to become the premier of China, referred to the mine as representing “win-win cooperation” between China and PNG. He even went so far as to say that as a result of MCC’s dedication to sustainable development and corporate social responsibility, the Ramu nickel mine was a “model for cooperation in mineral resources and other fields” between the countries.55

Yet the reality on the ground, like that of most mining projects in PNG, turned out to be different. The mine was beset by environmental and land tenure problems from the start. More than 95 percent of PNG land is privately owned, with much of it controlled by various tribes. According to China’s Ministry of Commerce, the tribal borders are ill defined, leading to constant conflict over correct ownership; indeed, land tenure issues inflamed by past Western mining investments led to a long-running civil war.56 In the MCC case, PNG landowners consistently asserted that their concerns were ignored and that they were falsely represented by “landowners associations who represent[ed] . . . only selected clans.”57 The landholders held a large demonstration in January 2012, which ended in chaos; during the mayhem, the man whom MCC recognized as representing the landholders—despite the landholders’ claims to the contrary and who had previously spent time in jail for “abusing genuine landholders”—died.58

Pollution also stoked discontent. MCC announced that it planned to dump 100 million tons of heavy metal and toxic mine waste into the Basamuk Bay near the mine over a twenty-year
period. This method of deep-water disposal has been used at a number of mining sites throughout the world, but it is highly controversial. Although the company claimed its dumping system was safe for the environment, critics immediately pointed out that 150 meters did not qualify as “deep sea” and that the EIA undertaken by MCC’s partner Highlands Pacific was “sloppy,” ignoring the identification of the types of toxins in the tailings, the consequences of depositing tailings on the seabed, and the impacts of the tailings on marine life.

The PNG government initially attempted to protect MCC, passing an amendment to the country’s environment act that prevented resource companies from being prosecuted over environmental damage. As in the case of the Ichimpe mine in Zambia, however, the advent of a new set of leaders in PNG changed the relationship between the mining company and the government. In January 2012, the newly installed government of Peter O’Neill revoked the act. The environment minister stated, “Repealing the Environment Act Amendments is a big first step for myself and the O’Neill-Namah government in restoring the proper rights of landowners to be able to protect their interests.” In April 2012, the minister of environment and conservation shut down the mine, citing concerns that a slurry pipeline had been built too close to a major highway and was not raised on steel supports as the law required. He admitted, under questioning by the Eastern Highlands governor in a parliamentary hearing, that there had already been problems when the pipeline was moved onto a major road.

The legal battles were significant. In 2011, the National Court judge David Canning acknowledged that the dumping would seriously harm the lives and future of thousands of coastal people and that the environmental consequences of the dumping would be irreversible. But as he also noted, MCC had a permit, the dumping was permitted for ten years, and an injunction might affect investor confidence. On an appeal in December 2012, the court came down with a split decision supporting MCC’s ability to dump the tailings into the sea. However, protests have continued.
Land Acquisitions

The PNG experience points to the potency of any Chinese resource acquisition efforts that encounter concerns over land ownership. This is on acute display when Chinese companies’ investment target is land itself.

As the Chinese seek secure sources of agricultural products, their efforts stir controversy. Grassroots and occasionally official protests related to China’s overseas farmland acquisition have occurred in countries as diverse as Australia, Argentina, New Zealand, Kazakhstan, and the Philippines. In the Philippines, even though the government is eager to further agricultural trade with China, people have protested the investment. Popular opposition there led to the suspension of an agreement to lease almost three million acres of land for the production of hybrid corn, rice, and sorghum to be shipped back to China. And in Kazakhstan, protests arose over an agreement to lease one million hectares of farmland to grow soy and other crops. One protestor claimed that “the Chinese have only one aim—to take our land.” At the same time she placed equal blame on the Kazakh government: “The Chinese are not to blame. It’s our corruptible officials.” Another argued, “We see the potential for a situation whereby one day, when it comes to repaying nearly $20 billion to China, we will have no money and no oil—because the oil is no longer ours. . . . We will start giving away our territory.”

In Brazil in 2010, the government announced a new interpretation of its land laws, which prohibited foreigners from purchasing land in Brazil except as minority stakeholders in joint ventures. This move was not explicitly targeted at China, but according to Brazilian agricultural officials the explosion of Chinese interest in land purchases contributed to the decision to revise the formal understanding of the law. Importantly, some Brazilian governors and business leaders in soybean-rich states concluded that most of the Chinese companies were not serious about doing business. According to a business official, “all the local governments in China have funds for foreign direct investment that they must spend, and a trip to Brazil is not a bad way to spend the money.”
Chinese agricultural firms’ efforts to purchase large tracts of land in Argentina have also raised both environmental and nationalist alarm bells. The failure of a $1.5 billion investment in the development of some 320,000 hectares of unused agricultural land in Argentina’s Río Negro Province by Heilongjiang’s Beidahuang Group reflected such concerns. The associated lease was scheduled to extend for twenty years, allowing the Chinese company to produce soy, corn, wheat, barley, and sunflowers. The deal was publicized by Río Negro Province as a “food production agreement,” while local opposition called it a “land grabber’s instruction manual.”

Challengers to the deal also raised concerns over the environment. Conservation biologist Raul Montenegro observed that Río Negro’s government officials violated a number of laws, since they “didn’t do any tests on the land to measure the possible impacts of these activities, nor did they consult anybody before signing the agreement.” He also noted that investment by China was of particular concern to many in Argentina: “China is the country most affected by the extension, intensity, and economic impact of land degradation. So it is difficult to believe that they won’t make the same mistakes with their land in Río Negro as they have in their own country.”

In December 2011, the Argentinian Congress passed legislation restricting ownership by a foreign individual or company at 1,000 hectares and placed a 15 percent cap on the amount of land available to foreign landowners, of which no single nationality can own more than 30 percent. Land that contains or borders major and permanent water bodies is further barred from foreign land ownership. As in the case of Brazil, the Argentinian decision was at least partly influenced by the rapid rise in Chinese demand.

Even some Chinese officials are uncomfortable with the country’s overseas investments in agricultural land. Xie Guoli, a senior official at the Ministry of Agriculture, commented, “It is not realistic to grow grains overseas, particularly in Africa or South America. There are so many people starving in Africa, can you ship the grains back to China?” Others fear that closer integration with the international community will breed dependency. As Minister of Agriculture Han
Changfu stated in 2012, China “will not and cannot” rely on imports to feed itself.  
However, these cautionary voices are drowned out by others. A few Chinese officials, for example, have spoken publicly of their desire to have their agricultural workers farm land abroad. In 2007, the head of EXIM Bank, Li Ruogu, suggested that Africa has plenty of land but not a correspondingly significant level of agricultural production. His answer: “There’s no harm in allowing [Chinese] farmers to leave the country to become farm owners [in Africa].” Moreover, Li promised the bank would support this effort through investment and project development, and help with the sale of products. There is a fear, not entirely unfounded (though still usually exaggerated), that China will simply export a large number of its people and, in the process, some of its problematic domestic practices. One African leader referred to an oft-cited estimate of one million Chinese farm laborers working in Africa—widely understood to be nowhere close to reality—as “catastrophic.”

**Labor Lags**

Enthusiasm for Chinese investment in resource-rich countries often centers on the potential for new jobs directly in resource production. The reality of Chinese investment as a jobs program, however, is more complicated. Chen and Zhou’s research on Chinese firms’ practices overseas lays out a number of labor-related issues. They note that these companies often take advantage of low labor costs. This means they tend to gravitate toward projects that are inherently predisposed to supporting lower wages (mines of marginal quality, for example), perhaps not an economic problem for the resource-rich countries but certainly a public relations problem for the Chinese. (Many of the higher-quality resource projects have also been taken by Western firms that invested far earlier than the Chinese, often leaving the latter with more challenging mines of marginal quality.) Moreover, some of the companies tend to hire only Chinese citizens for certain
tasks or operations, a practice that often results in “dissatisfaction and anger among local trade unions and workers.” In addition, because the enterprises don’t have experience negotiating with trade unions and are used to government support and intervention, they find themselves “largely ineffective” in managing labor disputes that arise abroad.\textsuperscript{75}

Chinese companies often pay workers considerably less than typical rates paid by multinationals and ignore workers’ rights, desires for vacation time, and need for a safe work environment. Australian scholar Graeme Smith’s study of conditions in PNG mines notes that when mineworkers with previous experience at both Chinese-run mines and non-Chinese-owned mines were asked to compare the two, all reported negatively on the living and working conditions at the former in comparison to the latter.\textsuperscript{76}

The difficulties can also be compounded by cultural factors. For example, a report prepared for the Extractive Industries Transparency Initiative (EITI) that focuses on Africa concluded that “language barriers, cultural differences and misunderstandings arising from these are impediments to communication and interaction between Chinese, African and Western stakeholders in Africa that should not be understated.”\textsuperscript{77}

The investment of China’s Shougang Group in Peru’s Marcona mine reads as a textbook example of many of these phenomena. The Marcona district in southern Peru is famous for its spectacular location on the Pacific Ocean. For Beijing’s Shougang Group—one of the oldest SOEs (the company was founded in 1919) and the country’s sixth-largest steel company—however, the lure of the remote region was not its stunning coastline but its rich deposits of iron ore.\textsuperscript{78} The Marcona mine, with reserves of almost one billion tons of iron ore (a large-sized mine, similar to the Belinga mine in Gabon), was originally discovered and developed in the 1950s by Americans before being nationalized by Peru in the 1970s. In 1992, Shougang made history by becoming the first Chinese company to invest in Latin America with its purchase of the Marcona mine. The investment was also, for a while, the biggest foreign investment in Peru.
When Shougang arrived, Peru (and Marcona in particular) was much in need of outside assistance. Lima and its surrounding countryside, including Marcona, were embroiled in conflict between the Maoist Shining Path, a Communist insurgent organization, and the Peruvian government. Given the tumultuous environment, Shougang’s decision to purchase the mine seemed particularly bold and was lauded by the domestic and international press.\textsuperscript{79} (It also fit with the Chinese pattern of investing in resource projects with low technical but high political risks.) The Chinese government provided significant support through low-interest loans and tax breaks; Shougang paid $311 million for the mine, which by one estimate was fourteen times the mine’s actual worth.\textsuperscript{80}

The Marcona mine, run by the Shougang Group’s subsidiary Shougang Hierro Peru SAA (hereafter referred to as Shougang Hierro Peru), quickly ran into trouble. As soon as the company purchased the mine, several hundred Chinese miners replaced indigenous workers who had been fired prior to Shougang assuming ownership. More importantly, the additional investment in the region’s infrastructure and housing for workers that Shougang Hierro Peru had promised dropped from a pledged $150 million to a far less substantial $38 million, plus an additional $12 million fine to the government.\textsuperscript{81} At the same time, in 1995, a combination of corruption and poor business decisions was bleeding Shougang dry back home. When workers at the Shougang Hierro Peru mine went on strike, management decided to fire the union leaders—one of whom later became minister of labor—and hired a private security force to put down the strike.\textsuperscript{82} Shougang Hierro Peru further angered workers by clustering families into single houses that had once held only one family each, while Chinese managers lived separately in the Playa Hermosa district and ate in separate cafeterias.\textsuperscript{83}

Shougang Hierro Peru’s workers also claimed to be among the lowest paid in Peru. Over the next two decades, the Marcona mine was the site of repeated labor, environmental, and safety violations. The mine’s environmental performance was not unusual, but importantly its labor record was.\textsuperscript{84} Wage disparity among workers at the mine was a constant source of contention and strikes. In April
2007, subcontracting workers implemented a five-day work stoppage, the third strike in less than twelve months, a high rate even for the strike-prone Peruvian mining sector. In 2010, sixteen hundred workers rejected a proposed bonus and went on strike; the action was the fifth within a one-year period. Workers struck again in 2011 and 2012, seeking higher pay and better working conditions.

Though Shougang Hierro Peru has amassed complaints and violations for its labor, safety, and environmental practices, few are complaining about its economic performance. In 2010, the company’s ore production rose by 16 percent, reaching six million tons. Meanwhile, profits there rose rapidly. Shougang Hierro Peru was on track to implement a long-planned $1 billion expansion in 2013, which is estimated to increase production capacity by ten million tons. Latin Trade’s 2011 survey of Latin America’s Best Companies, which analyzed revenue growth and profit growth for companies with more than $100 million in revenue, declared Shougang Hierro Peru the best company operating in all of Latin America, because its revenues grew 124 percent to $700 million while profits rose by 456 percent to $292 million. The magazine cited Shougang Hierro Peru’s ability to keep operational costs—which includes labor costs—low as a key factor in its success.

Back in Beijing, however, officials were apparently concerned with Shougang’s performance in Peru. In 2011, the Ministry of Commerce’s Department of Outward Investment and Economic Cooperation noted that Chinese companies in Peru needed to “respect Peruvian law,” “keep good relations with workers to keep disagreements from spiraling out of control,” and “employ talented locals and set up fun village activities.” Mining companies in particular were encouraged to “pay attention to village problems” and not “put the interests of the company above the village.”

How unusual is Shougang Hierro Peru’s experience? A comparative study of wages there relative to those of other large Peruvian mines confirms that the company’s base pay for low-skilled laborers is lower than others. But it also offers bonuses that can raise a worker’s salary, and scholars have speculated that these bonuses may ultimately leave higher-skilled Shougang Hierro Peru workers paid
similarly to their counterparts elsewhere. The most striking issue is the differential between old and new workers; wages for the former are $22 to $27 per day (close to the industry average of $30 per day), while the latter are paid only $15 to $17 per day (neither figure includes bonuses and benefits); this is an important source of the ongoing strikes and conflicts with the workers. A detailed review of Shougang’s performance also demonstrates a high rate of serious accidents and an above-average number of fines for labor violations, though less tendency to use low-paid contractors and a lower fatality rate than some multinationals have.

Interviews with officials, mine workers, and civil society activists in other resource-rich countries suggest that, in fact, in many cases Chinese labor practices are substandard compared to Western multinationals, or at least they are perceived to be so. One would certainly be hard-pressed to find any case where a Chinese company was lauded for raising the bar on labor practices. A Zambian activist, for example, has this to say:

The Australians set a high bar, trying to behave responsibly…. The Chinese operate differently. They have no definition of corporate social responsibility, they pay minimum wage, and get around long term plans and benefits for workers by hiring contractors and then rehiring them. There is no monitoring system in place to determine if people keep renewing their contracts over and over again.

This perspective was supported by a former nickel mine worker, who said that the Australian companies are much safer than Chinese or Indian mining companies. He noted that when a new mine is going to open, the first thing prospective Zambian mine workers ask is, “Who is the investor?” If it is an Indian or Chinese firm, “they are less excited.” According to this same miner, the Canadian and Australian mining firms are much safer. Some argue that the Chinese mines are less sophisticated and use lower-skilled workers, explaining their relatively low pay. But this in itself is not the end of the story; to the extent that Chinese mining companies are not as aggressive in investing in state-of-the-art equipment,
mining investment will tend to produce lower-wage jobs than others’ investment does.

Chinese Migration

The strong presence of growing numbers of Chinese workers abroad can affect attitudes toward resource extraction too. Estimates of the number of workers who now seek their fortunes in the world’s resource-rich countries range from the hundreds of thousands to the millions. The numbers involved in extractive industries themselves are much smaller, but the number who are active as laborers in massive construction projects can be significant. Former president of Mozambique Joaquim Chissano assessed the Chinese role in extractive industries thusly: “Everyone warns me about Chinese investment in Africa [in resource extraction]; I tell them we’re asking where? We don’t have any [Chinese workers in extractive industries].” Instead, he pointed out, Chinese laborers abound in construction.95

Large expatriate Chinese populations tend to be unpopular among the publics of countries with resource-rich economies. Requirements to use Chinese firms are often written into concessional loans; for example, one EXIM Bank loan to Angola included the requirement that 70 percent of the public tenders for construction and civil engineering contracts for Angola’s reconstruction be awarded to Chinese firms, which are prone to using Chinese labor.96 Some officials claim a motivating factor for using Chinese labor in mining and infrastructure is the fact that they will work seven days per week on longer shifts at lower pay. Spartan living conditions—temporary sheds with bunks or Chinese ships off the coast—also keep costs low. Discussions with senior Chinese foreign ministry officials yield a range of additional and illuminating justifications: “African workers have unions,” “they want to go to church,” “they refuse to work on weekends even for overtime pay,” and “they like to sing and dance.”97 This invariably rakes local populations in the countries where Chinese laborers are sent. From the perspective of many locals, projects tied to Chinese
labor remove value from the investment (though others applaud quick completion time on projects that use Chinese workers). As an expert in Mozambique noted, the Chinese practice compares unfavorably to projects funded by the World Bank or the United States Agency for International Development (USAID), which use local labor.98

Within extractive industries themselves, reliance on Chinese labor can exacerbate relationships with locals by adding clashing cultures to the mix. Take the case of the Ramu nickel mine in PNG. Ninety percent of the workers at the mine and 87 percent of the workers at the associated refinery reported themselves as either “dissatisfied” or “extremely dissatisfied” with their wages, claiming they earned less than both their Chinese colleagues and PNG workers in other mines.99 The problem was exacerbated by negative cultural perceptions: PNG workers viewed their Chinese bosses as slave drivers, while the Chinese viewed the PNG workers as lazy.

Some countries have responded to concerns about Chinese workers by adopting new labor regulations that attempt to limit the potential influx. As mentioned previously, in Mongolia, immigrants from any one country are capped at fewer than ten thousand people, and foreign workers are limited as well. In 2012, Vietnam passed a new law requiring that all foreign business give priority to Vietnamese workers; local government committees will first be allowed to solicit Vietnamese workers before any foreign labor can be imported. Conflict has arisen in particular over Chinese plans to bring two thousand workers to a Chinalco-invested bauxite mine in Vietnam.100

The Technology and Training Bar

China’s going-out strategy nominally incorporates a formal commitment to development in resource-rich countries beyond infrastructure development and resource exploitation. Chinese investment often involves putting money into manufacturing and processing industries, along with assistance in agriculture, health,
and education. In three of the most challenging countries for overseas investment—Equatorial Guinea, Nigeria, and Sudan—Chinese companies have provided millions of dollars in educational assistance through scholarships and school construction.  

Nonetheless, more often than not, China extracts resources abroad and then ships them back home for processing, removing opportunities for technology transfer. It is this phenomenon, more than any other, that leads to accusations of neocolonialism. In some cases, the trade pattern simply reflects the facts of comparative advantage: it is economically efficient for resources to be processed in China rather than abroad. In other cases, though, the pattern is a result of tariffs on processed goods from elsewhere. This tilts the playing field and directly impedes efforts to add value to resources outside of China.

Partly in response to such concerns, the Ministry of Commerce has established a broad network of special economic zones, overseas areas in which Chinese state-owned enterprises, as well as private firms, undertake significant investment projects with support from the government. The SEZs were formally announced under the auspices of the Forum on China-Africa Cooperation in 2006, but several were already under way. They embrace a range of industries, such as mineral processing, construction materials, and logistics. Zones also incorporate industries not directly related to a host country’s resources (for example, automobile manufacturing, textile processing, wood processing, and engineering). They are supported by the Chinese government through tools that include financing, as well as political guidance by senior leaders, who may recommend that certain firms undertake certain projects in certain countries.

In a detailed study of China’s SEZ policy, Brautigam and Tang lay out three reasons the Chinese government has promoted these development zones overseas: “Providing a platform to accelerate China’s own domestic restructuring by easing the outward investment of mature Chinese firms, increasing demand for Chinese-made machinery and equipment, and reducing trade frictions by relocating Chinese production to third countries.”
Some zones may be explicitly tied to host governments’ desires to ensure they capture some of the value-added processing associated with China’s resource extraction. For example, this may have been the impetus behind the Russian and Chinese governments’ decision to develop a forestry product processing industrial zone in Russia. However, these zones are not unique to resource-rich countries; nor do significant resource investments in a country go hand in hand with an SEZ.

There is debate over how well these zones are doing at reducing trade frictions and relocating Chinese manufacturing to host countries. Ana Alves, a scholar at the South African Institute of International Affairs, identifies a number of challenges to the success of these zones. In Mauritius, for example, one Chinese partner did not possess the financial capacity to implement the project, and the two subsequent firms identified by the Chinese government had no real interest in implementing the project. Even in the case of Zambia, in which seventeen companies have registered inside the Zambia-China Cooperation Zone, Alves points out that most of the companies are subsidiaries of those undertaking the onsite infrastructure development for the SEZ, rather than companies engaged in other valuable industries. Chinese developers acknowledge that they are struggling to attract investors, citing cultural and language challenges, lack of familiarity with the African business environment, and the global economic slowdown. Alves also notes there are few formal mechanisms, such as training programs, in place to actively ensure skills and technology transfer from any of the Chinese businesses to local populations.104

Chinese companies within the SEZs have thus not yet established themselves as important mechanisms for improving the state of native technological capacity in developing countries where China invests in resources. This confirms the fact that Chinese resource investment is much like that from other countries’ multinationals: it typically has limited impact on native technological capacity, particularly beyond resource extraction itself.

The biggest exception is likely in agriculture. Since the late 1950s, China has sent as many as ten thousand agricultural technicians to
Africa. It also partnered with the UK in 2011 to launch a four-year program to help transfer agricultural technology to low-income countries in Africa and Asia.\textsuperscript{105} China has established agricultural technology demonstration centers in several African countries, where Beijing provides training courses. It also furnishes, with low-cost loans, the agricultural machinery and equipment on which to train. In Ethiopia, for example, a Chinese-sponsored agricultural demonstration area is well on its way to fruition, with the goal of supporting experimental research, training, and demonstration of agricultural techniques. Chinese experts have taken up residence on site, and at the same time, Ethiopia is sending its own agricultural experts to China for training.

Another joint Ethiopian-Chinese technology project has transferred know-how for making charcoal from bamboo. The Chinese have benefited from selling processing machinery and charging Ethiopian workers for training; Ethiopians, in turn, have developed an entire new industry of growing bamboo to make charcoal.\textsuperscript{106}

\textbf{China Pivots}

Has Chinese investment in natural resources transformed the world in the bad ways its detractors warned of—or in the good ways Chinese leaders promised and development theorists have argued are often possible? The track record is more prosaic: for the most part, the country’s performance is neither special (companies do not raise the bar on environmental, labor, or financial behavior) nor disastrous (poor Chinese labor and environmental practices often simply track those of extractive industries at large).

Nonetheless, there are departures from this pattern at the margin. Chinese companies often invest in mines and projects that others won’t touch, in the process delivering new income and jobs. At the same time, at best Chinese companies, which are used to lax environmental and labor rules at home, have not brought strong new practices to the countries where they invest. Even worse, in cases where host governments’ institutions are weak, Chinese companies—not governed effectively by Beijing
either—have too often transformed important dimensions of the
countries they invest in for the worse.

Regardless of the underlying substance, though, the mixed popu-
lar review of Chinese investment in resource-rich countries—some
of it rooted in reality and some of it based in misguided perception—
is triggering a range of responses within China and in the coun-
tries where its companies invest. Although some Chinese officials
attribute the companies’ problems to a Western conspiracy, others
are convinced that the country and its multinationals need to change
their tactics, if not their broader approach. Consensus is growing
that the firms need to operate at international standards or risk los-
ing out over the long run. Seeing how this is unfolding requires
investigating how various actors within China are taking steps to
establish a new approach to investment in resource-rich developing
economies.