Development and engagement in South America’s resource sector: Is China replicating the African experience?

Working Paper

Ruben Gonzalez-Vicente
M.Phil. Student
Department of Asian and International Studies
City University of Hong Kong
gvruben@cityu.edu.hk

Abstract

China’s engagement in South America, while not yet capturing as much attention as its venture into Africa, has significantly expanded in the last five years. Abundant macroeconomic and geopolitical analyses do not help to explain the ways in which Chinese-invested extractive operations transform developmental dynamics at national and local levels. While high expectations have been created on the positive ways in which China’s growth could affect South American resource-rich economies, China’s African experience as portrayed in Western media has raised suspicions in the region. Whereas China’s non-intervention discourse is appealing to some leaders of the new Latin American left, who portray China as a non-imperialist alternative to Western powers, it has also been highly criticized as irresponsible and supportive of ruthless elites in so-called pariah regimes. How comparable are the African and the South American cases? What are the developmental outcomes that emerge from Chinese state-owned companies’ engagement in South America’s extractive sector? China’s growth and investment have strengthened the position of resource-endowed countries in the international economy, revitalizing resource industries and improving terms of trade for commodities. Divergences between the African and South American cases are best observed at the national levels, where China’s non-interventionist approach has different developmental implications depending on the ongoing internal trends of host countries. Reasons that explain the differences between South America and Africa’s assimilation of Chinese investment can be sought in i) South America’s relatively stable democratic political environment, ii) South America’s strong civil society, iii) the role of states in leading development in South America.
1. INTRODUCTION

The engagement of Chinese state-owned companies in the South American resource sector is a fresh topic that scholars are beginning to approach from multiple angles. International relations (Cheng, 2006; Ellis, 2009;) and macroeconomic perspectives (Cesarin and Moneta, 2005; Santiso, 2007a; Gallagher and Porzecanski, 2008; Jenkins et al., 2008) have integrated this new political and economic trend within rather holistic accounts of the growing role that China plays in Latin America. These approaches, nonetheless, do not confront China’s active extraction of South American resources as a single unit of analysis. They instead use the economic and political facts that derive from China’s investment in South American resources as one among other springboards for more generalist—but certainly equally important – theories. Consequently, there is a need for a theoretical approach that could contribute to a deeper understanding of the implications of China’s engagement in the region’s extractive sector.

This paper is thus concerned with elaborating a framework from which to theorize the developmental implications of Chinese state owned companies (SOEs) investment in South American mineral and energy resources as a single unit of analysis. To do so, it makes use of the two major bodies of literature concerned with the developmental impacts of resource extraction, the dependency and resource curse theories. Moreover, a comparative approach is used so as to contrast the developmental dynamics entailed by Chinese extractive activities in South America and Africa. By classifying the curses traditionally associated to extraction into external, internal and intrinsic, this paper will shed light on the existing parallelisms and divergences between the developmental impacts of China’s extractive operations in Africa and South America. On the one hand, China has had an overall positive impact in relation to the external curses of extraction in both regions. In this sense, China’s growth and investment have strengthened the position of resource-endowed countries in the international economy, revitalizing resource industries and improving terms of trade for commodities. At the same time, China’s growing investment has inevitably potentiated the intrinsic curses of extraction, aggravating environmental degradation and accelerating the exhaustion of non-renewable resources. Divergences between the African and South American cases are best observed at the national levels, where China’s non-interventionist approach has different developmental implications depending on the ongoing internal trends of host countries. In this sense, South America proves to accommodate in a more skillful manner China’s resource investment within its plans of resource-driven development. Reasons that explain the differences between South America and Africa’s assimilation of Chinese investment can be sought in i) South America’s relatively stable democratic political environment, ii) South America’s strong civil society, iii) the role of states in leading development in South America. In the South American case, good governance and state
capabilities of recipient states remain largely more determinant than particular features of investing companies.

2. CHINA AND TRANSFORMATION OF DEPENDENCY AND THE RESOURCE CURSE THEORIES, AN ANALYTICAL FRAMEWORK.

Whereas this paper basically relies on the resource curse and dependency theories for its analytical model, it is argued that China’s – and to a lesser degree India’s – growth and increasing international economic and political engagement call for a reevaluation of the curses traditionally attributed to extraction. This section looks into the ways in which China challenges both dependency and the resource curse theories, and tries to reorganize these theories in a way that allows us to address and compare the developmental dynamics entailed by China’s growing investment in the extractive industries of developing regions.

Dependency theory emerged precisely in Latin America, in an attempt to explain why the region lagged behind other regions in developmental outcomes. Emmanuel (1972) claimed that Latin America belonged to a global periphery that had been historically harmed by unequal exchange and an unfair international division of labor. Sunkel (1969, 1971) also remarked how underdevelopment in the global periphery was impelled by external factors, and Dos Santos (1970) highlighted that peripheries had become dependent of the self-sustained developmental progress of those countries in the central stage of the international economy. These theories advanced that while Western countries had focused on their comparative technological advantages, peripheral countries -or satellite countries in Frank’s (1969) terminology- were forced to organize their economies around the less profitable export of commodities. According to Frank (1978), this had been imposed in different ways through three historical periods: mercantilism (1500-1770), industrial capitalism (1770-1870), and imperialism (1870-1930). While state capitalism flourished in Latin America from 1940 to 1980, achieving some levels of industrialization, mainstream economists saw import substitution plans as a failure after the debt crisis that Latin American countries underwent in the early 1980s. Recent data proves those assessments wrong, demonstrating that both economic growth and social progress (measured by literacy and life expectancy) in Latin America improved faster during the period of state-led industrialization than in the neoliberal phase started in the 1980s (Astorga et al., 2005). Nonetheless, neoliberal approaches triumphed since then, with the implicit assumption that countries should focus on their comparative advantages (commodities in the case of South America). The failure of neoliberalism to deliver prosperity and stability in recent decades has resulted in the advent of a new wave of left-wing governments throughout the region in the last years, with subsequent increased state intervention in the economy.
When analyzing the Sino-South American and Sino-African relations from a dependency perspective, two challenges emerge. On the one hand, contrary to past experience (except for the oil sector), China’s growth has prompted a relatively sustainable increase in the prices of commodities, holding a constant growth during the last years that has been only partially lessened in the present global economic crisis. On the other hand, China’s place in the global economy cannot perfectly conform neither to the periphery category, nor to that of a dominant centre that bases its economic strength in technologically-based comparative advantages, as China’s main advantage is still labor-intensive production. While due to the shortcomings to accommodate such deviations and others, dependency theory is today viewed as “static and unhistorical” (Palma, 1978), and unable to account for the instances of “dependent development” (Cardoso, 1982), it still offers important explanations to some of the historical underdevelopment experiences in the South American and African continents.

Moreover, the concern over the difficulties that resource-endowed countries face to develop persists. The most important non-dependency literature addressing this issue is often referred to as resource curse theories. As it also occurs in the case of dependency, resource curse theories can be traced back to Singer (1950) and Prebisch’s (1950), who noted a decline in the terms of trade for resources, and explained the ways in which this enhanced a gradual loss of competiveness in the international economy. Other macroeconomic explanations to underdevelopment in resource-rich countries include the so-called Dutch Disease theory. According to this theory, commodity exports’ booms may induce deindustrialization in industrial-based export oriented sectors, for they lose competiveness as a result of real exchange-rate appreciation. A number of authors have also remarked that resource industries have lower upstream or downstream economic linkages than other industries (Hirschman, 1958), lack the incentives to develop those linkages locally (O’Higgins, 2006). Authors also highlight a certain inactivity of the governments in resource-rich countries, indicating for instance that “dependency on oil and/or mineral resources (…) correlates with comparatively low spending on education” (Pegg, 2006: 378), which subsequently reduces the human capital competiveness of a country.

From a political perspective, extraction has also been often related to poor quality governance. Shaxson (2007: 1123) maintains that resource extraction reinforces patronage politics, particularly in relatively weak and poor countries. Since in many resource-rich countries the main source of governmental revenue is the taxes paid by extractive industries, rent-seeking behaviors are potentiated, reinforcing the association between companies and government, and eroding the links between citizens and government. On this count, Karl (2007: 256) explains how petro-states are “less subject to the types of internal countervailing pressures that helped to produce (…) ultimately democratic states elsewhere precisely because they are relieved of the burden of having to tax their own subjects”. This lack of internal control and pressure also lays the foundations for an escalation of corruption. Furthermore, resource industries are the source of
many economic and political conflicts that emerge at the local places where extraction takes place. As Bebbington points out, many of the conflicts generated by extraction are “socio-environmental struggles over the control of space, the governance of territory, access to land and water, the defence of human and citizenship rights, and dissatisfaction over the distribution of mineral rents” (Bebbington, 2007, cited in Bebbington et al., 2008: 892).

For our analysis, the dependency perspective and the resource curse theories are particularly useful if we divide the “curses” into external, internal and intrinsic categories. The external curses of resource wealth, which refer to those aspects visible in the relationships between a resource-endowed country and the world, can be observed in the economic disadvantages of linkages with the global economy. These would include the declining terms of trade for resources, the Dutch Disease, commodity prices’ volatility, and periphery countries excessive dependency on core economies’ development. The internal curses include the political and economic trends that resource-based economies tend to register. In this category we find the prevalence of patronage politics in resource-rich countries, a socioeconomic structure that often prevents the development of democratic regimes, corruption, state-population confrontations over the use of natural resources at the localities where extraction takes place, the limitations of extraction to create upstream or downstream linkages with other industries, rampant economic disparity, and low governmental spending in enhancing the economic capacities of the country. Finally, intrinsic curses include those that are inevitable in resource extraction, basically referring to environmental degradation and depletion of resources.

Whereas the boundaries between these categories are not sharply defined (for instance, while environment degradation may be intrinsic to extraction, technology and adequate planning can help diminishing its impact), they are still useful for our particular object of analysis. In the following sections we will observe how China has altered –with mostly positive results – the external curses associated to energy and mineral extraction. Similarly, Chinese direct investment has also had a transformative impact on internal trends, but the new developmental dynamics depend greatly on the preceding situations and tendencies experienced in host countries, thus offering mixed developmental outcomes. Finally, while Chinese investment in extraction has not reshaped qualitatively the intrinsic curses of extraction, it has added pressure to them, sometimes pushing to new limits the capacity of nature and developing countries to deal with the expansion of extractive activities.

3. REVIEW OF CHINA’S ENGAGEMENT IN AFRICA’S RESOURCE SECTOR.

The involvement of Chinese SOEs in the resource sectors of a number of African countries has so far raised both enthusiasm and awareness. The economic opportunities brought
by China could potentially help African countries rising from the stagnant underdevelopment situations that many of them endure. Simultaneously, sustained fears over China’s relations with so-called pariah regimes arise. Overall, in spite of contributing with huge amounts of capital, Chinese engagement in the African extractive industries per se is watched with suspicion. However, it is the price that China is willing to pay to gain access to the much valued African resources (i.e. infrastructure projects, technical support, educational partnership programmes) that brings a fresh breath of air in the continent. In order to keep a critical outlook, China’s case also needs to be compared with previous experiences of international engagement in Africa. Hence, the impact of longer-established Western investment cannot be abstracted from the whole Western strategies towards the region. As Mawdsley remarks, “the West’s impact on Africa cannot be reduced to the efforts of NGOs, aid agencies or companies”, but we should instead also take into account the unfortunate impact of structural adjustment during the 1980s and 1990s, and look beyond to the “formal and informal procedures of the World Trade Organization; to the power of the agricultural lobbyists in Washington and Brussels; to the complicity between the International Financial Institutions and the demands and circuits of international capital; to climate change” (Mawdsley, 2008: 521). In this section the literature on China’s evolving engagement in Africa is reviewed, and an analysis is made of the particular challenges or opportunities faced by those African countries that host China’s direct investment in their resource industries.

First, on the positive ledger, China’s growth has been overall positive for commodity-exporting economies. According to the United States Government Energy Information Administration, China was in 2008 the world’s second oil consumer, with a consumption of 3.7 million barrels per day (EIA, 2009). China is also the world’s single biggest market for iron, coal, copper, cement, aluminum, and nickel, and a major consumer of a number of other commodities (Moody, 2007). Therefore, the amounts of commodities traded and of extractive investment have been greatly enlarged due to China’s demands. Moreover, China’s growth and direct investment have not only increased the demand for commodities, but consequently pushed their prices up as well. As Kaplinsky explains (2006), the importance of this commodity prices boom is such that Singer (1950) and Prebisch (1950) classical explanations for declining terms of trade of resources are being challenged. Even though the effects of the current global economic crisis are being also noticed in the commodities sector, prices have proved to be more stable than in previous economic downturns. This suggests that China’s demand, together with India’s, will maintain commodity prices high and relatively stable as long as Chinese infrastructures keep expanding as part of its massive processes of industrialization and urbanization.

Furthermore, China is a remarkable alternative business partner for many African resource-rich countries, and therefore traditional investors will need to compete with it. This will undoubtedly grant more negotiating leverage to resource-rich developing countries in the region.
China’s package offers to access resources have been received positively in a number of African countries, and allowed to begin or revitalize important infrastructure projects all over the continent. These deals, as opposed to purely money-based transactions, can potentially deliver results avoiding the corruption networks in which many times international investment is lost. These projects include, for example, the rehabilitation of road and railway infrastructure in Nigeria (Alden, 2007: 83), as well as of the Kaduna oil refinery in the North of the country (Alden, 2007: 69). China has also put into work health clinics, an HIV/AIDS project and other community programmes in the surroundings of China Non-Ferrous Metal Mining Group’s Chambishi copper mine in Zambia, and will also finance the launching of a new industrial zone in the country’s Copperbelt (Alden, 2007: 75, 124). China has agreed as well to finance a number of projects in Angola, including the renovation of the Benguela railway and the railway linking Namibe and Menoque, the construction of a new airport in Luanda, and a refinery project in Lobito (Alden, 2007: 44). Moreover, it has also financed refineries, roads, railways, hydroelectric dams, gold mining and telecommunications in Sudan (Alden, 2007: 61). Such package offers, that other privately-owned transnational companies cannot match, have given China an edge in gaining access to Africa’s commodities.

Nonetheless, in spite of the positive economic prospects, concerns mount over the ways in which China is engaging the continent in its search for resources. On top of these concerns are the relationships that China has established with pariah regimes across Africa. China’s international relations’ approach, based on a stance of non-intervention in internal affairs of sovereign countries, has enabled such relations. China’s friendly understanding with ruling elites of some of the region’s most ruthless regimes has brought about interesting business deals for both parties. China has been thus blamed for giving financial support to this otherwise isolated regimes, empowering them to endure internal and external pressures. Activists also point out China’s importance in the arms trade with countries such as Sudan and Zimbabwe (Amnesty International, 2006). China is therefore sometimes held responsible for the perpetuation of human rights abuses in such countries and others as Angola (Taylor, 2008: 80). Furthermore, some of the elites supported are often notable not just for their authoritarian politics, but also for delivering particularly poor developmental outcomes, as well as for being unable or unwilling to raise their populations from poverty. As Taylor notes, China’s non-interventionist approach may thus “not only trample on civil and political rights (as per Western ideas of human rights), but also subvert (…) economic and social rights (as per China’s discourse on human rights)” (Taylor, 2008:63). Of special importance are also the ways in which some African governments have channeled Chinese financial support towards projects with little developmental impact, for example, the construction of new offices for the ministry of foreign affairs in Angola (Alden, 2007: 23), or other comparable projects. Similarly, while money has been poured into infrastructure projects that facilitate the access to resources, many African governments have not
been able or willing to prevent Chinese SOEs from relying on Chinese labor force or paying significantly low salaries to local workers. Ideally, a strong state should be able to tackle such issues, for the resource sector, contrary to secondary and tertiary sectors, is tightly linked to particular physical locations, and the threat of delocalization under highly regulated working environments is not viable.

Many of the problems above mentioned are internal in nature, relating to state capacity or elite willingness to tackle problems emerging from extraction. The importance of the state in challenging the traditional curses associated to extraction and achieving feasible models of resource-driven development is often greater than in other economic sectors (and perhaps that is in essence the major curse of extraction, needing capable and devoted leadership to guarantee development). Hence, accountable governments need to envisage long term plans to move from pure extraction into more technologically upgraded operations. Chinese investment in African resources presents opportunities to both parties, but African countries must use resource-generated wealth to spawn their own technological capacities and move up the ladder from extraction to production and innovation (Maswana, 2009). According to Schuldt (2005), successful resource-rich economies (i.e. Australia, Canada, Nordic European countries) managed first to move from extraction into processing, thus diversifying their exports’ basket progressively. This was followed by generation of own technology, which further enhanced industrialization. Growing wages developed internal consumption markets and expanded the state’s tax base, which subsequently facilitated governmental social expenditure (Schuldt, 2005: 33, 34). Throughout this process, state intervention was essential to guarantee transition from one stage to the next one. Governmental planning and investment is thus first needed to protect infant processing industries, as well as to grant further technological upgrading. Investment in human capital (education) results indispensable to obtain the qualified labor that will lead these transitions. Sound fiscal policies are required to obtain the maximum benefit of the resources extracted. Consequently, national leadership within the investment recipient states should play a role in obtaining the best possible benefits of oil and mineral extraction, through sound fiscal systems, effective legislation, and reliable monitoring institutions. As Joseph Stiglitz explains, “institutions should always be strengthened (…); patience should be practiced –it is sometimes better to keep oil wealth in the ground than to sell it badly” (Stiglitz, 2007: 23). Hence, host countries need to develop strong institutions that can cope with the expansion of extractive activities, as well as direct and monitor the overall developmental agenda.

Such is the responsibility of state leadership in achieving resource-driven development that a fundamental question emerges from China’s relation with resource-endowed developing countries: what is the role of China in the internal politics of individual African countries and in the power struggles among different elites, and how does Chinese investment alter state capabilities? This model can be further extended to include civil society. The role that China
plays in the triangular relation between itself, and the states and civil societies of host countries will thus be decisive in understanding the developmental outcomes of its engagement in resource-rich countries’ extraction processes. The conclusions here are mixed, as different countries offer different experiences. For example, in Zambia, the death of forty-six Zambian workers in the Chambishi mine in 2005 raised the alarms of civil society, which pushed the Chinese mine to increase its social investment, but which also ignited a democratic debate about Zambia’s partnership with China, which opposition politicians contest. As Alden explains, “the event sparked a national debate over the conduct of the Chinese in the country and, concurrently, the failure of the Mwanawasa government to uphold either Zambian law or the interests of the people” (Alden, 2007: 74). Therefore, in the case of Zambia’s weak democracy, China is not a source of resiliency for the ruling government but, quite the opposite, a topic around which discontent and political debate is shaped. There are also cases of countries in which Chinese influence has been limited to the economy and has not had further impact in internal politics. However, more worrisome are the ways in which China’s financial and diplomatic support in exchange for resources is shaping politics in Zimbabwe, Sudan or Angola (although in the former China’s reported interest in Zimbabwe’s mining potential has not yet materialized). In these countries, China has supported elites that are often considered detrimental to development or even perpetrators of violations of human rights. In these cases, China’s impact on the internal politics of the host country can be treated as detrimental to development, as it supports elites with no clear developmental plans, but mere survival instincts that involve in many cases ruthless repression of any opposition to their power. However, if wanting to pursue a comparative approach, one should also question, for instance, why Western advocacy is so vibrant in disapproving Zimbabwe’s or Sudan’s regimes, while not focusing so much in other of the continent’s most outrageous cases of human rights violations. For instance, human rights are permanently abused in the Democratic Republic of Congo – where Western mining companies operate – without being widely reported in Western media. In some instances, while activist efforts are much-needed to raise awareness on atrocities perpetrated throughout the world, it would seem that at a diplomatic level much of the Western criticism put on certain pariah regimes fulfills also a second purpose, competing for elite favoritism to gain access to resources.

Returning to the theoretical framework elaborated in the previous section, the impacts of Chinese investment in African resources can be classified in the three basic categories above elaborated: external, internal and intrinsic. Chinese investment and China’s growth seems to help reducing the external curses of resource extraction to a great extent in the African case. Thanks to the rise of commodity prices and to an increase in the pool of investors, resource-endowed countries are no longer dependent on their relations with a reduced and homogeneous group of Western investors. The linkages that these countries hold with the global economy seem to be greatly improved in this sense. On the other hand, while Chinese investment could help marginal
resource-based economies in the African continent to regain lost ground in the global economy, some of China’s business partners in the continent are in fact opting to pull out from the global economy when choosing to rely uniquely on China. A new situation of dependence is then encouraged by the choices made by elites that seek to ultimately preserve control over their countries rather than following a developmental path. This is not the dependency traditionally described by dependency theory, but a rather voluntary elite choice so as to avoid international scrutiny. This behavior leads to place our focus on the ways in which Chinese investment transforms internal social and political realities in Africa. The impact of Chinese extraction investment in the internal politics of African countries is mixed, ranging from neutral to negative. Whereas, as seen above, China’s investment in countries such as Zambia or Algeria can provide examples of relatively neutral impacts in the typical internal curses caused by resource extraction, China’s investment in places such as Sudan or Angola has contributed in different degrees to the stabilization of pariah regimes that are detrimental to political, economic and social development. Regarding the intrinsic curses associated to extraction, it is worrisome to observe that due to China’s thrive for resources and its relationships with pariah regimes, the mineral and energy resources of some African countries are being depleted without having previously developed the appropriate institutions and capabilities that could allow them to take advantage of such economic assets. In simple words, a number of countries may be selling out their limited reserves of resources—and enduring the environmental degradation that extraction involves—without being able to enjoy the benefits those could bring. This is not uniquely an effect of Chinese investment, but of the expansion of extraction in general.

4. THE SOUTH AMERICAN CASE

While China’s investment in African commodities has been much more publicized than its resource-related deals in South America, the number and size of China’s acquisitions in the region amid the current global crisis have generated a growing interest on China’s role in South America. Nonetheless, given the relatively better position that South America occupies in the global economy, both excessive enthusiasm and exaggerated suspicions have been so far avoided. Chinese engagement in South America has progressively increased in the last four decades through three distinct periods of political and economic integration. During the 1970s and 1980s diplomatic relations between the PRC and South American countries were established. By the mid 1980s all countries in South America except Paraguay had developed diplomatic relations with China (Liu, 2003:11). A second phase in Sino-South American relations started after 1992, when Deng Xiaoping gave an outward orientation to China’s economy after three years of opening impasse following the tragic Tiananmen incidents of 1989. Trade expanded and Chinese
exports rose 5.19 times during the 1990s, while China maintained a trade deficit with resource-rich South American countries like Brazil, Argentina, Chile and Peru (Cheng, 2006: 501). It was during this time that Chinese SOEs first started to expand internationally and into the region. Shougang Corporation obtained a contract to operate the Marcona mine in Peru as early as 1992. China National Petroleum Corporation was granted a service contract in the Talara field also in Peru in 1993, the same year in which China became a net oil importer. The third period started in early 2000s with the launching of China’s “Go Out” strategy, and was reinforced in 2001 and 2004 with President Jiang Zemin and President Hu Jintao’s visits to the region. This period consolidated political and economic ties, with increasing trade and a significant number of Chinese SOEs investing in South America, particularly in the mining and oil sectors.

China’s relationship with Latin America – and particularly with South America – has been so far mainly guided by two economic vectors: trade and investment. China displaced Japan as Latin America’s largest trade partner in Asia-Pacific at the beginning of the 2000s (ECLAC, 2008: 49). Chinese products represented 6.9 percent of the imports in Andean Community countries, and 7.9 percent in MERCOSUR countries during the 2004-2006 period, amounting an average of US$13.5 billion per year in exports to these two groups of countries (ECLAC, 2008: 52). At the same time, China was the destination for 2.3 percent of Andean Community countries’ exports, and 6.2 percent of MERCOSUR countries’ exports, importing products from both regions for an average of US$12.5 billion per year during the same period. Brazil (US$6.8 billion per year average), Chile (US$4.1 billion per year average), Argentina (US$3 billion per year average) and Peru (US$1.7 billion per year average) were the main exporters to China in the region during the 2004-2006 period (ECLAC, 2008: 51). China has also signed free trade agreements with Chile and Peru, and became a member of the Inter-American Development Bank in 2008. Chinese outward FDI in South America, as opposed to trade, has not yet lived up to the most optimistic expectations. It represents only 0.76 percent of Chinese outward FDI and 0.18 percent of South America’s inward FDI according to official data (Ministry of Commerce of the PRC, 2008; UNCTAD, 2008). However, both exports from South America and investment in the region are significantly dominated by an interest in primary goods, with special emphasis on minerals, oil and agricultural products. China is thus having a significant impact in the region’s commodity sectors.

Not only is China importing and investing in primary products from South America, but its consumption patterns have also indirectly improved the terms of trade for commodities, which

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1 The Andean Community is formed by the following countries: Bolivia, Colombia, Ecuador, Peru and Venezuela.
2 MERCOSUR is composed of the following countries: Argentina, Brazil, Chile, Paraguay and Uruguay.
3 Data may be misleading, as Chinese SOEs often channel their investment through tax havens. For instance, Andes Petroleum Company Limited (which operates four oil blocks in Ecuador) is a consortium formed by Sinopec and China’s National Petroleum Corporation that was founded in the British Virgin Islands.
have consequently boosted growth in some South American resource-rich economies, particularly in the years preceding the 2008-2009 financial crisis. Santiso (2007b: 13) presents China and the Asia-Pacific region as Latin America’s third engine of growth, following United States’ traditional economic ties, and Europe’s investment boom in the 1990s. For instance, Peru – whose second export market is China – had an average yearly GDP growth of 6.48 percent in the 2003-2007 period; Argentina – whose second export market is also China – grew at a rate of 8.84 percent in the same period; and Chile – whose first export market is China – grew an average of 4.98 percent per year in the same period (United Nations Statistics Division, 2008).

Furthermore, China’s investment in the region’s resources is currently the main sign for optimism in the midst of the 2008-2009 economic crisis. China has recently provided a US$10 billion loan to Brazil’s national oil company for offshore oil exploration, while Brazil has agreed to export 100,000 barrels of oil a day to China (Romero and Barrionuevo, 16 April 2009). China has also announced that it will double a development fund in Venezuela investing an extra US$6 billion to reach US$12 billion. Furthermore, China is negotiating to lend Ecuador US$1 billion, and provide Argentina with access to more than US$10 billion in Chinese currency (ibid).

The expanding economic links between China’s industrial productive apparatus and South America’s commodities’ market is often depicted as mutually complementary (Cesarin, 2005: 47, Lall & Weiss, 2007). However, as explained above for the African case, China’s emphasis on primary products is also worrisome, since an overreliance on commodities’ exports could exacerbate South America’s incapacity to diversify its exports’ basket. As Jenkins et al. (2008: 249) note, the nature of bilateral trade between Latin America and China “reproduces the core-periphery pattern of exchange of manufactures for raw materials”. This trend could further hamper the development of technology-based economic sectors in the region, which could potentially guarantee sustainable growth in the long-term. It is often argued that within the Latin American region only Mexico is threatened by the competition of Chinese manufactures for a stake in the global market (Cornejo, 2005; Blazquez-Lidoy et al., 2007; Gallagher and Porzecanski, 2008), since other Latin American countries (including all South American countries) do not specialize in labor-intensive production. Nevertheless, as China continues to grow, it will become competitive in a wide range of sectors, hence limiting considerably the possibilities for South American countries to compete in those production niches in which China becomes particularly strong, and further restricting them to a role of commodity providers. As Santiso (2005: 101) notes, the long term challenge for the region’s countries will be to increase the added value of exports to the Chinese market. Economic integration with China – while a necessary step for South America – needs to be carefully addressed and meticulously planned in order to enhance the development of industrial and technological value-added industries in the region. In this process, states will play an essential role.
Hence, a parallelism between Africa and South America can be traced on the impact of Chinese investment on the external curses of extraction. By revaluing commodity prices and investing heavily in the extractive industries of both South America and Africa, China has improved the position that resource-endowed countries from these two continents occupy in the global economy. It has also reduced the level of historic dependency – particularly financial dependency, not so much technological – that these regions endured with respect to the Western developed world. However, it is when focusing our attention in the internal curses of extraction that we observe clear divergences between the African and South American cases. In this sense, it is important to note how the state is once more at the centre of many developmental processes in South America, after three decades of neoliberal enthusiasm. Moreover, as the US diverted its focus of interest to Middle East after the 2001 September 11 terrorist attacks in New York and Washington, and instigated by the failure of neoliberal policies to deliver growth and socioeconomic stability, South America has observed an emergence of left-wing politics in the last decade. Democracy has also been revitalized in the subcontinent, where all countries have formal systems of democracy with different levels of success. This contrasts heavily with Africa, a continent that, for instance, hosts the top five positions of Foreign Policy’s 2009 Failed State Index (Somalia, Zimbabwe, Sudan, Chad and Democratic Republic of Congo). While mostly African countries populate the high positions of this ranking, the highest listed South American country is Colombia, ranking 41st and categorized as borderline. Bolivia ranks 51st and is the only other South American country in the top 60 positions, China occupying the 57th slope (Foreign Policy, 2009). Moreover, civil societies remain a strong force in most of South American countries, and even some of the region’s current political leaders emerged from organized civil society groups instead of traditional economic elites (i.e. Lula da Silva in Brazil, Evo Morales in Bolivia). The vitality of local civil societies – which increasingly interact with international advocacy networks – and their capacity to hold a dialogue with political forces, or even to reach political power, plays also an essential role in the extraction dynamics in South America. These divergences between Africa and South America will affect the ways in which countries in both regions manage (or not) to achieve resource-driven development, thus moving up the technological ladder to become competitive in a wider range of industries. Hence, they will be also of particular importance in understanding China’s engagement in the extraction processes of these two regions.

In the South American case, China’s unconditional support of ruling elites brings about different results, since as observed above, internal situations in host countries are different from those in some of the country cases reviewed in the previous section. It is rather obvious to observe that unconditional support of a democratically elected government in a regulated environment will have more positive consequences than assistance to ruthless elites in pariah regimes. Examples of Chinese accommodative behaviors are found in Venezuela, Ecuador and
Bolivia, countries that have pursued nationalization policies which have been highly contested by international investors. In Venezuela, where *The Economist* claims that “increasingly challenging operating conditions and heavy-handed government intervention have deterred private capital investment” (The Economist, 25 March 2009), Chinese companies accepted to turn their contracts into joint ventures with state-owned PDVSA, retaining a minority stake, following a governmental mandate in 2007. Whereas other transnational companies also signed new contracts, PetroCanada, ConocoPhillips and ExxonMobil refused to sign and tried to negotiate for compensations (South China Morning Post, 29 June 2007). Another case of cooperation with a host government that intervenes strongly in economic affairs can be found in Ecuador. China’s Andes Petroleum (a consortium formed by China National Petroleum Corporation and Sinopec) was the first among the transnational companies operating in Ecuador that accepted the new contractual terms that President Correa’s government proposed in an attempt to increase the state’s stake in oil-generated profits. In Bolivia, China Minmetals had negotiated a tin importation deal with Empresa Metalurgica Vinto (EMV). However, EMV was nationalized by President Evo Morales’ government before the deal was closed. While opposition to nationalization of extraction companies was generalized among international investors, China Minmetal’s officials reportedly explained that their company understood the dynamics of the agreements forced by the Bolivian government (Moody, 2007). Whereas China’s investment in South America is still modest, some of the region’s divergent leaders have high expectations on the ways in which a non-interventionist China could gradually substitute North American and European investment. As *The Economist* explains in a rather severe tone, “Argentina, Venezuela and Ecuador have spurned the prudence of their neighbours and antagonized investors. Only the prospect of Chinese aid stands between these three countries and possible financial crisis next year” (The Economist, 20 April 2009).

Furthermore, some countries with strongly regulated extractive sectors have come up with resourceful ways of accommodating Chinese SOEs’ investment. Two common ways in which host countries have benefited from China’s investment are through the formation of joint ventures between state-owned companies and Chinese SOEs, and through service-provider contracts that guarantee host governments control over the decisions to be made on extractive activities. It should be noted that it was precisely this formula of state-owned company and foreign investor joint ventures what helped to technologically upgrade much of China’s domestic industry during the 1980s and early 1990s. Whereas in the South American case national companies benefit more from China’s financial strength than from its technological capabilities, China is certainly filling a gap in some of these countries’ economic upgrading processes. Chile’s mining state-owned company Codelco is a remarkable example of partnership. Codelco signed a cooperation agreement with China Minmetals Corporation in 2004 and formed a joint venture in 2006 –named Copper Partners Investment Co. – to develop new mining sites in Chile.
Each parent company holds a 50 percent stake in the joint venture, which was established with an initial investment of US$550 million, but is expected to reach US$2 billion. This was the first time a foreign company was allowed to invest in the Chile’s copper industry (China Daily, 1 June 2005). The joint venture guarantees China access to a stable annual supply of 55,000 tons of refined copper for over 15 years. China Minmetals also benefits from the experience of working with Codelco, the world’s largest copper mining company. Codelco, on the other hand, gains the financial support to develop new mining projects, and manages to keep control of its operations, as Minmetals is only allowed to buy a 25 to 49 percent stake in new projects approved by Codelco. As of 2008, the joint venture progressed favorably for both parties, and both companies were reportedly interested in developing together new copper mines outside Chile, which would represent Codelco’s first projects outside its country of origin (Cang, 24 September 2008). China’s SOEs have also established joint ventures with Venezuela’s state-controlled PDVSA. CNPC and Sinopec’s investment in this country did not adopt this contractual form initially, but after 2007 a governmental mandate turned all their operations into joint ventures in which they retained different stakes (Ng, 29 June 2007). Interestingly, PDVSA also signed a memorandum in 2007 to build three refineries in China with a total capacity of 800,000 barrels per day through a joint venture with CNPC (Gould, 2007: 11). Joint ventures with nationally-controlled companies are a formula that allows host countries to retain a greater control over the management of extractive operations. It also makes it possible for host countries’ national industries to remain competitive by sharing both capital and technological knowledge with transnational firms.

However, the situation in South America should not be idealized. A number of internal problems persist and Chinese investment may potentiate them in the same way it potentiates positive trends. Extractive operations are small niches of technological development. As they are mainly capital intensive activities (particularly in the case of oil extraction, and increasingly in the case of mining), their impact on the job market is very limited. Due to the natural limitations to mineral and oil exploitation, these activities are also not sustainable in the long term. A shift towards upstream operations is therefore needed to assure the expansion of the industrial base, as well as to being able to export added value products that can bring more benefits to the host countries. Inequality is also a problem often encountered in resource-endowed South American countries, particularly in those countries where national governments do not put particular effort in redistributing the benefits of extraction. In such cases, such as Peru to a certain degree, it will be difficult to curve rampant inequality, as resource wealth concentrates in the hands of foreign investors and local elites that collaborate with them. The remoteness of some resource-rich areas in South America (quite inaccessible zones such as the Andes mountain range or the Amazon rainforest contain some of South America’s most valued commodities) has provoked in many cases the economic and political marginalization of the inhabitants of those areas. With Chinese
companies negotiating directly with central elites and neglecting local authorities in many cases – such as in the cases of Shougang Corporation’s investment in Peru or Andes Petroleum’s operations in Ecuador (Gonzalez-Vicente, 2009) – this trend may be exacerbated. Populism is other of the internal political problems much extended in South America. Populism should be understood here as a core belief that the institutions of classical liberal democracy are inefficient (Seligson, 2007: 81), a demagogic strategy based on discrediting all the precedent ‘political class’ (Paramio, 2008), and an opportunist ideological stand that formulates short term targets in order to guarantee political survival. Traces of populism can be particularly observed in Venezuela, a country that under President Hugo Chavez’s leadership has reached out for Chinese investment as an alternative to US. While avoiding overreliance in the US could be seen as a positive trend, it is noticeable that Chavez’s opposition to the US is in many occasions aimed at feeding an anti-imperialist discourse that has great appeal amongst his followers, rather than at accomplishing concrete developmental targets. Furthermore, as in the African case, we should take into consideration the intrinsic curses of extraction. Expanding extraction in South America, in many cases instigated by China’s investment and consumption, has also pushed to the limits the regulating and monitoring capability of states to cope with extraction. Similarly, environmental degradation continues to be problematical from local and global perspectives.

Finally, we can accommodate this analysis to the model proposed in section 2. As in the African case, Chinese investment in South America’s extractive industries, as well as China’s growth, have been main contributors to the revaluation of commodity prices and thus to the growth rates of many of the region’s economies. Hence, this has enhanced the position of South America’s resource-endowed countries in the global economy. Furthermore, it has reduced its economic and financial dependency in traditional Western investors. It is when we look into the internal curses of resource extraction that we encounter regional divergences in the ways in which Chinese direct investment in commodities has affected the internal policies of different countries in the two regions. While individual country case studies merit more detailed attention, the general consequence of China’s engagement in South America’s resource sector has been the enhancement of democratically elected governments at the national levels. For instance, China’s diplomacy and its SOEs – opposite to major Western media outlets and diplomatic positions – have not confronted, but rather reinforced President Rafael Correa’s developmental plans in Ecuador. While remaining controversial, President Correa has achieved popular support with its policies and has recently been reelected as Ecuador’s president in 2009, a significant achievement in stabilizing the country, taking into account none of the last three elected presidents in Ecuador had been able to finish their terms. Not less importantly, the current government was able to increase public spending by 71 percent in 2008, which resulted in the construction of new schools and hospitals and the subsequent improve in education and health systems (The Economist, 25 April 2009). Different kind of joint ventures with national
companies, such as those undertook in Chile, have also helped filling the gaps in the economic development of different South American countries. Problems nonetheless persist, particularly at the local levels where extraction takes place, but also at the national levels where populist ruling elites are also empowered by Chinese support. However, taking into account the levels of democracy and civil society involvement observed in South American countries, the national paths to development are not blocked by internal curses of extraction as they once used to be (or at least not in such a serious way as in some of the African cases above explored). China’s investment in South American extractive industries is ultimately contributing to the political and developmental trends that are being followed in the region’s countries. When looking into the intrinsic curses of extraction, concern raises over the degrees in which environmental degradation is being (or not) mitigated. A number of Chinese extraction projects in the region are in this sense under scrutiny of civil society (such as Zijin Mining Group’s planned operations in Rio Blanco, Peru), but are not a priority for governments that often give preference to the rapid accumulation of investment capital, rather than to careful planning of more environmental-friendly modes of extraction.

5. CONCLUSION

Throughout this paper, the developmental implications of China’s engagement in the resource sectors of Africa and South America have been discussed. The paper has looked into dependency and resource curse theories to understand the ways in which they are transformed by China’s growth and investment in the two different settings analyzed. In order to do so, it has classified the curses associated to resource extraction into external, internal and intrinsic curses. Parallelisms between the two regions are mainly observed when studying the external and intrinsic curses of development. Regarding the former, China’s growth and investment has enhanced the position of developing resource-endowed countries in the global economy. In this sense, China’s growth and its commodity consumption patterns have eventually come to challenge the declining terms of trade for commodities proposed by Prebisch (1950) and Singer (1950). Furthermore, China represents a new kind of business partner for commodity exporting countries, one whose characteristics differ from the traditional homogeneous Western investors. The possibility of choosing among a wider pool of buyers and investors has given resource-endowed countries growing negotiating leverage, therefore reducing their financial dependency – but not yet technological dependency – on countries that occupy central positions in the international economy. Regarding the intrinsic curses, China’s contribution to the expansion of extractive operations has inevitably put more pressure on the environmental and economic sustainability setbacks of extraction. In the cases of states that lack the capability or the elite
willingness to maximize the potential economic benefits of extraction, depletion of resources and environmental degradation may hinder future possibilities of development.

Divergences between the South American and African cases are more obvious when analyzing the internal curses of extraction. Such curses refer to the prevalence of patronage politics in resource-endowed countries, a socioeconomic structure that prevents the development of democratic regimes, corruption, central state-population confrontations at the resource extraction areas, economic inequalities, and the limitations of extractive industries to develop links with other industries. The paper has emphasized the importance of civil societies and state intervention in overcoming these political and socioeconomic curses respectively. Hence, the paper’s focus has turned to the ways in which China transforms the political processes of host countries by its interaction with their political and social forces. China and its state-owned enterprises show a pattern of behavior that can be described as accommodative. In this sense, China’s non-interventionist foreign policy approach and its business methods result in friendly relations with the ruling elites of host countries. In Africa, where resource-endowed countries often present authoritarian regimes or weak democracies, China’s impact on the internal curses of extraction ranges from neutral to negative. Whereas China’s investment in countries like Zambia or Algeria has not hampered national politics, its engagement in the extractive sectors of countries such as Sudan or Angola has contributed to the resiliency of ruling elites that are detrimental to development. In South America, where democracy and civil society are relatively strong, China’s investment and diplomatic engagement has led to empower democratically elected governments in countries with different degrees of civil society involvement in politics and state leadership in the technological upgrading of national industries. Therefore, China’s impact on the internal curses of development ranges from positive to neutral in South America. Among the challenges that persist in South America special attention should be placed on rampant inequality, marginalization of populations in resource-extractive areas, and populist politics.
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