China’s rapid emergence as a major industrial power poses a complex challenge for global natural resource markets. The country’s demand for vast amounts of energy and minerals strains the international supply system tremendously, a situation that Chinese efforts to procure raw materials can exacerbate or help solve. Which outcome prevails depends upon whether those efforts solidify a concentrated global supplier system—and enhance Chinese control within that system—or expand and diversify the global supplier system, making it more competitive.

The evidence from the 16 largest Chinese natural resource procurement arrangements shows that Chinese efforts predominantly help expand and diversify the global supplier system.¹ This outcome is consistent with the Chinese government’s articulated policy strategy “to encourage the signing of long-term supply contracts with foreign companies, and promote the diversification of trading channels.”² The Chinalco–Rio Tinto case (in chapter 3) even offers direct evidence that senior officials seek to prevent consolidation of the natural resource supplier base.

In the sector most crucial for China’s procurement strategy—access to international oil—Chinese companies have not diverted oil supplies toward the Chinese domestic market but instead sold the supplies they controlled predominantly into international markets. Using customs data, industry intelligence, and news reports, Daniel H. Rosen and Trevor Houser (2007) find that, while the CNPC used the dedicated pipeline from Kazakhstan to China to import 50,000 barrels of oil in 2006 (a figure that has risen since then), none of the CNPC’s production in Azerbaijan, Canada, Syria, or Venezuela entered the Chinese market and only a small portion of production from Ecuador, Algeria, and Colombia did.³ CNPC
imports to China from Sudan even declined in 2006 as China’s national oil company sold more to Japan (though imports from Sudan rose again in 2007 and 2008). CNOOC and Sinopec did not target most of their overseas equity oil toward China but rather sold it to the highest bidder in the open market.

The effect of China’s procurement on the structures of supplier industries, however, is only one dimension of the challenge that Chinese natural resource acquisition poses. A natural resource strategist from Mars might applaud China’s vigorous support for oil production in Sudan or Iran, or oil transport, natural gas, and mineral production in Myanmar (see appendix 3A). But the United States and other allies are rightly appalled at the consequences for regional conflict, support for terrorist groups, violation of human rights, and oppression. These concerns take on additional weight as provision of equity capital and loans in return for natural resources form part of China’s larger global procurement strategy, encompassing Central Asia, the Middle East, Africa, Latin America, and the South Pacific.

In addition, the United Nations Conference on Trade and Development (UNCTAD 2007) echoes the concern of many nongovernmental organizations that non-OECD natural resource companies, including those from China, may disregard best environmental practices and, through an approach officially termed “noninterference in domestic affairs,” undermine hard-won governance standards observed under the OECD Convention on Combating Bribery. It is beyond this book’s scope to evaluate the comparative performance of Chinese and OECD-headquartered investors in the realm of environmental practices and antibribery behavior. But anecdotal evidence shows cause for concern. In Angola the struggle over who qualifies for corrupt payments has taken on what would be a comic-opera aura, were it not so serious. The disbursement of the first China Exim Bank loan of $2 billion for infrastructure projects in 2004 apparently sidelined some senior presidential advisers, leading China’s secret services to provide Angolan president José Eduardo dos Santos with a list of 20 Angolan businesses that were seeking to benefit illegally (Campos and Vines 2008, 6; Hanson 2008). Shortly thereafter, President dos Santos set up a single reconstruction office, the Gabinete de Reconstrucao Nacional (GRN), exclusively accountable to the president’s office, to manage the Chinese infrastructure loans. Given the opacity of GRN activities, it is difficult to determine whether the objective is to clean up contracting procedures or simply rationalize the payoff structure.

The evidence introduced here illuminates but does not fully answer some fundamental questions about China’s grand strategy, coordination or conflicts among Chinese government objectives and Chinese investor goals, and the actual process of Chinese policy formation and implementation. How explicit is China’s plan for securing natural resources? Do China’s resource companies follow Chinese government instructions,
or are they becoming more independent as corporate actors? An official Chinese government articulation of a grand natural resource strategy is missing, though a White Paper on Energy (China State Council Information Office 2007), as noted earlier, lays out a terse argument for signing long-term contracts and diversifying sources of supply. The investment behavior of China’s energy companies, as documented here, aligns with such a policy direction. For extractive industries where China is a large net importer—iron ore, copper, bauxite, aluminum, and nickel—the logic of self-interest likewise supports a deliberate strategy of diversification, which is backed up by the record of Chinese companies’ investments in these areas. Daniel Rosen and Trevor Houser (2007, 33), as well as Thilo Hanemann, suggest that Chinese oil companies are “prioritizing profits over political considerations,” and national champion companies tend to become more anational as they mature, adopting practices that increasingly resemble those of their international competitors and becoming less willing to follow the dictates of their home governments (Moran 2008). The cases I examine in this policy analysis, however, show Chinese natural resource companies working closely with the China Exim Bank, China Development Bank, and other ministries and agencies to craft customized packages, in which Chinese energy or mineral investments are intimately embedded. The argument that Chinese companies are becoming more independent corporate actors may be likely in other trade sectors but not in the extraction of natural resources.

How, then, are Chinese aid, infrastructure loans, debt management decisions, and investor bids coordinated? When do “principal-agent” tensions, as Bates Gill and James Reilly (2007) call them, arise between Chinese ministries or agencies and Chinese companies, and who prevails? The sole instance from the investments I have examined (chapter 3) that offers insight into the Beijing policymaking process is the Wall Street Journal’s examination of Chinalco’s decision to act as white knight in the original Rio Tinto–BHP Billiton merger proposal in 2007. As the article relates, China’s National Development and Reform Commission (NDRC) led the meetings with the express objective of “blocking the BHP bid.” Steelmaker Baosteel Group and Chinalco made “competing proposals.” Chinalco’s proposal had the support of the China Development Bank and China International Capital Corporation and had been formulated with help from Lehman Brothers. After Chinalco “pitched” its plan “in a kind of beauty pageant judged by the NDRC,” Chinalco received official approval from “government regulators” to proceed. The headline called the deal a “China Inc.” outcome. Whether such coherent policymaking typifies China natural resource investment strategy more generally would require more detailed investigations of the kind Gill and Reilly call for.

The questions raised clearly require further analysis. But the cases examined in this book are nonetheless important for those who worry about China locking up or gaining control over a fixed base of world
resources. Looking strictly at the effect of Chinese procurement efforts on the structure of the global supplier base for energy and minerals, the empirical record to date suggests a predominant thrust in the opposite direction, toward diversification of output and enhanced competition among producers.

Notes

1. In this, China’s actions are similar to an earlier 1980s Japanese strategy of natural resource procurement.


3. Data are from 2006, the latest available then.


5. Personal communication with Thilo Hanemann, World Resources Institute, June 15, 2009.

6. Erica Downs (2008) notes, however, that within the upper echelons of China’s power elite individuals whose careers have included senior oil sector positions are becoming more powerful and prominent. For case study reports that Chinese companies are becoming more independent, see Jansson, Burke, and Jiang (2009).