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China's engagement in South America and Africa's extractive sectors: new perspectives for resource curse theories

Ruben Gonzalez-Vicente

Abstract China's engagement in South America and Africa's extractive sectors has increased significantly in the last decade. How comparable are the African and South American cases from a developmental perspective? This article explores resource curse theories, arguing that the 'curses' often associated to extraction are historically produced dynamic processes that need to be reevaluated in light of China's direct and indirect impacts on resource-endowed countries. It elaborates a framework to compare the developmental dynamics entailed by China's involvement in the South American and African extractive sectors, distinguishing between external, internal and intrinsic 'curses'. The article holds that 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. Concurrently, the expansion of extractive activities has brought about increased environmental and economic sustainability challenges. 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 internal trends within investment host countries.

Keywords China; Latin America; Africa; resource curse; dependency.

China's rise and its implications for the rest of the world have generated numerous debates in the last two decades. The impact of China's growth on the development of other low-income economies was nonetheless not central to these debates until Beijing launched its 'Go Out' strategy in early

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2000s. Analyses of the multiple impacts of China's engagement in Africa have since then become common (e.g. Alden 2007; Taylor 2009). Academic research regarding China's engagement in Latin America has emphasized foreign policy (Cheng 2006) and macroeconomic perspectives (Cesarin and Moneta 2005; Jenkins *et al.* 2008; Santiso 2007), while more holistic approaches can be found in the work of Dominguez (2006), Roett and Pazz (2008) and Ellis (2009). Kaplinsky and Messner's 'Asian Drivers' model (2008) has also contributed to understand the ways in which China's growth affects the developing world. However, to my knowledge, no cross-regional studies have been produced comparing China's engagement in Africa and South America. This article elaborates a comparison of the developmental outcomes of China's engagement in both regions' extractive sectors.

To do so, it devises a framework based on resource curse theories. It is argued that China's growth and increased international engagement have reshaped the 'curses' associated to extraction, as these are not static but dynamic processes. By classifying the curses of extraction into external, internal and intrinsic, the article sheds light on the parallelisms and divergences between the developmental impacts of China's extractive operations in Africa and South America. 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 exacerbated 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 implications depending on internal trends within host countries. In this sense, South American countries often accommodate China's resource investment more effectively within their 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 democratic political environments and vibrant civil societies, and (ii) the role of states in leading development in South America.

Reevaluating resource 'curses': an analytical framework

China's growth and increasing international economic and political engagement call for a reevaluation of the 'curses' traditionally attributed to extraction. While the term 'curse' may suggest a precondition, resource curses are viewed here as historically produced dynamic processes. The 'curse' terminology is thus used to engage relevant literature that calls into question the links between extraction and development, yet the article wishes to avoid the kind of resource determinism prevalent in much of the resource curse

scholarship. This section looks into the ways in which China's growth challenges both the resource curse and dependency theories, and tries to reorganize these theories in a comprehensive framework in order to address and compare the developmental dynamics entailed by China's growing investment in resource-dependent countries.

Resource curse theories focus on the economic and governance challenges of resource wealth. Singer (1950) and Prebisch (1950) noted the decline in the terms of trade for resources, which enhanced a gradual loss of competitiveness in the international economy for resource-dependent economies. The Dutch Disease theory explains how commodity exports' booms may induce deindustrialization in industrial-based export oriented sectors, for they lose competitiveness 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), and lack the incentives to develop those linkages locally (O'Higgins 2006). Moreover, researchers 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).

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 taxes paid by extractive industries are the main source of governmental revenue, rent-seeking behaviors are deepened, reinforcing the association between companies and government, and eroding the links between citizens and government. On this count, Karl (2007: 256) argues that 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'. The lack of internal control and pressure also lays the foundations for an escalation of corruption. Furthermore, the locations where extraction takes place often experience '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 *et al.* 2008: 892).

Dependency theory identifies a historical socio-economic marginalization of developing regions. Sunkel (1969) remarked that underdevelopment in Latin America was impelled by external factors. Emmanuel (1972) claimed that the formation of global peripheries was a consequence of unequal exchange and an unfair international division of labor. These theories argued that while Western powers had concentrated on developing technological capacities, peripheries were forced to (under)develop as commodities' exporters through different historical periods (Frank 1978). While state capitalism flourished in developing regions from 1940 to 1980,

achieving different degrees of industrialization (particularly in East Asia), the debt crisis that Latin American countries experienced in the early 1980s led mainstream economists to consider import substitution plans a failure. Recent data proves those assessments wrong, demonstrating for instance 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). In Latin 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 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, which has been only partially lessened in the present global economic crisis. Even though the financial downturn has slowed foreign investment 'the underlying drivers of global demand have not changed, and copper, silver, and gold production are still growing' (Bebbington and Bury 2009: 17296). Hence, resource-rich countries have benefited from the complementary indirect impacts of China's growth (Kaplinsky and Messner 2008). On the other hand, a second challenge arises when trying to classify China in the dependency theory region-categories. China's place in the global economy cannot perfectly conform either to the periphery category, nor to that of a dominant center 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 dependency theory is today often considered constrained by its binary categorizations, and unable to account for instances of 'dependent capitalist development' (Cardoso 1982), it still offers valuable explanations to some of the historical underdevelopment experiences in South America and Africa. On this count, it is worth emphasizing an enduring economic hierarchy in Latin America, where Spanish American countries have maintained their level of development relative to one another for more than one century after independence (Mahoney 2003). Mahoney (2003: 50) argues that 'those territories that constituted the centers of the Spanish colonial empire tended to become the region's least developed countries; by contrast, those territories that were peripheral to the Spanish empire tended to become the most developed countries'. It is therefore necessary to emphasize that Africa and South America are not a vacuum upon China's arrival, but territories where post-colonial legacies (as well as neoliberal ones) determine many of the socio-economic and political dynamics originated as part of their economic engagement with China. Dependency and post-colonial critiques, in underlining the socio-economic and cultural roots of underdevelopment, provide

in this sense an important counterbalance to an often unhistorical focus on resources' governance.

For our analysis, this article proposes a framework that divides the 'curses' associated to extraction 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 rest of 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 peripheral countries excessive dependency on the development of core economies. 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, socio-economic structures that often prevent 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 economic capacities. 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 diminish 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 with energy and mineral extraction. Similarly, Chinese direct investment has also had a transformative impact on internal trends, but the resulting 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 sometimes pushed to new limits the incapacity of nature and developing countries to deal with the expansion of extractive activities.

Review of China's engagement in Africa's extractive sectors

The involvement of Chinese state-owned enterprises (SOEs) in the resource sectors of a number of African countries has had both positive and negative impacts. While China's focus on hard commodities *per se* repeats the core – periphery pattern of exchange fostered by Western powers, 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 programs) brings a fresh breath of air to the continent. China's

'non-interference' diplomatic approach is essentially different to the approaches adopted by the West. On this count, China's engagement in Africa repeats the pattern of colonial economic exchange, but not the political patterns of paternalism and encouragement of transparency and human rights or, on the other side of the coin, neoliberal ideologies of structural adjustment. Whereas Chinese firms' interests are linked to China's regional diplomacy in complex ways that seem particularly unique (see, for instance, Chen 2008), we should also not separate the dynamics of Western capital in Africa from the whole Western strategies to the region. As Mawdsley (2008: 521) remarks, 'the West's impact on Africa cannot be reduced to the efforts of NGOs [non-governmental organizations], 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'. This section reviews the literature on China's evolving engagement in Africa, and analyzes the particular challenges or opportunities faced by those African countries that host China's direct investment in their extractive industries.

Firstly, on the positive ledger, China's growth has been positive overall for commodity-exporting economies. According to the United States Government Energy Information Administration, in 2008 China was the world's second largest 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 demand. 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 (2006) explains, the importance of this commodity prices boom is such that Singer's (1950) and Prebisch's (1950) classical explanations for declining terms of trade of resources are challenged. Even though the effects of the current global economic crisis are also noticed in the commodities sector, prices have remained more stable than in previous economic downturns. This suggests that China's infrastructure development, urbanization and industrialization will maintain commodity prices high and relatively stable.

As a distinct alternative business partner, China grants more negotiating leverage to African resource-rich countries. The package offers made by China in order to access resources have been received positively in a number of African countries, for they have allowed to begin or to revitalize important infrastructure projects all over the continent. Despite acknowledging certain limitations in China's approach, Brautigam (2009) compellingly argues that, having learnt from similar deals offered by Japan and the West

decades ago to tap China's natural resources, China is effectively contributing to develop African infrastructures where Western countries have failed to do so. 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, while this is nonetheless a point on which more research is needed. It should be made clear that the emphasis here is not on corruption but on *results*, as Chinese deals' opacity has been frequently criticized.

Chinese-supported infrastructure 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 programs 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 special trade and economic zone in the country's copper-belt (Alden 2007: 75, 124; Carmody 2009: 1199). 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 Menogue, the construction of a new airport in Luanda, and a refinery project in Lobito (Alden 2007: 44). The Democratic Republic of Congo will benefit from announced loans totaling US\$13.5 billion for infrastructure and mining operations (Carmody 2009: 1198). Moreover, a Chinese company will build the Chembe bridge project between Zambia and the Democratic Republic of Congo (Carmody 2009: 1199). China has also financed refineries, roads, railways, hydroelectric dams, gold mining and telecommunications in Sudan (Alden 2007: 61). Such package offers, which no other privately-owned transnational companies can match, have given China an edge in gaining access to Africa's commodities.

Nonetheless, China's international relations' approach, based on a stance of non-intervention in internal affairs of sovereign countries, has enabled close relationships with so-called pariah regimes across Africa. China has been thus blamed for financially supporting these otherwise isolated regimes, empowering them to endure internal and external pressures. It has also been held responsible for the perpetuation of human rights abuses in the above countries. In Angola, according to McMillan (2005), international pressure had partnered with local forces after 2002, achieving some success in curbing rampant corruption. However, China's investment in Angolan oil has allowed ruling elites to ignore calls for increased transparency and governance norms (Taylor 2008: 81). Therefore, some of the elites supported by Chinese investment are not just authoritarian, but also unable or unwilling to deliver positive developmental outcomes. 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). 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. Activists also point out China's importance in the arms trade with countries such as Sudan and Zimbabwe (Amnesty International, 2006).

The particular financing methods used by Chinese extractive firms – often relying on soft loans by China's state-owned banks, have also raised questions of accountability. Haglund (2008: 567) explains that 'state-led financing of Chinese mines... combined with weak oversight by the Chinese government, affords firms significant flexibility', as compared to other transnational extractive companies that are subject to the environmental and social standards set by international financial corporations, thereby posing challenges for effective business regulation. The fact that profit-led international lenders enhance higher social and environmental standards than the diplomatic interests-driven Chinese government is *per se* contestable. However, it is plausible to argue that host governments in Africa may hold a higher responsibility in voicing population's demands in the case of Chinese investment. In this sense, Western transnational companies can to a certain extent argue that they represent (even if remotely) the will of population at the invested areas through a complicated chain of interests and pressures (i.e. local discontent leads to Western civil societies awareness, which leads to pressures to lending institutions, who impose certain standards to extractive firms). However, as Alden and Hughes (2009) argue, there is no space within China's weak and underdeveloped civil society for independent pressure groups that could engage with their African counterparts and influence China's plans for Africa.

Here it is helpful to unpack four major ways in which civil society may engage transnational investment. The first of these would be through direct pressure at the site of the investment project. This approach addresses local managers of the corporation, often through strikes or riots. The prerequisites for the success of this approach are the willingness of state forces to allow protests and the capacity of the company's local managers to bring about the demanded changes. In the case of Chinese investment, this approach has been successfully put into practice in Zambia, as further explained below. However, the political and sometimes physical remoteness of extraction sites adds difficulty to this approach in the absence of state support. A second way would involve engaging national level governments, thereby demanding these to impose a series of requisites or regulations on the transnational investor. This approach needs of a willingly government, as well as of appropriate civil society networks in order for this remote struggles to reach central authorities. This is the most promising approach regarding Chinese investment, for China's non-interference discourse tends to only legitimize political elites at the national level as its interlocutors. At this level of engagement Chinese firms that are close to Beijing can be expected to comply with China's non-interference foreign policy,

taking an obliging approach towards the host country government where other transnational companies would exercise pressure for investment-friendly regulatory frameworks.

A third way for civil society to engage transnational investment would be by tackling ownership (i.e. shareholders) at the corporation's country of origin. This has been a preferred way in which transnational advocacy networks have successfully internationalized local struggles. Connections between local civil society and transnational advocacy networks are essential to 'rescale' and empower opposition narratives (Haarstad and Floystrand 2007). However, this would be a problematic approach to engage Chinese firms as, on the one hand, China's own weak civil society renders the penetration of transnational networks in China difficult and, on the other hand, China's state-owned enterprises are much less dependent on private investment. This problem is illustrated in Africa by the failure of Western activists to influence Chinese government and corporations in the Sudan divestment campaign, which as Patey (2009) indicates also failed to engage Western governments and investors. A fourth approach would require transnational advocacy networks to engage with the government at the company's country of origin. Again, this approach collides with the Chinese government's conceptualizations of non-interference and sovereignty, according to which transnational advocacy groups would be easily dismissed as non legitimate interlocutors. Consequently, Chinese firms may be more susceptible to organized pressure from within host countries when this manages to have an impact on national governments, rather than to external pressure exercised by activists in the West. For this reason, states have the responsibility to accommodate the complaints and demands made by civil societies, as these can ultimately serve as important monitoring agents in states with weak institutions. Lack of elite willingness, weak civil societies and, in a lesser degree, fragile institutions hinder this task in a number of African countries.

Many of the problems above explored are internal in nature, relating to state institutions' weak capacity or lack of elite motivation to address problems emerging from extraction. Ideally, a strong state should be able to tackle such issues, as the resource sector, contrary to secondary and tertiary sectors, is tightly linked to particular physical locations, which reduces the threat of delocalization. Given the responsibility of state leadership in achieving resource-driven development, the role of China in shaping internal politics, elite struggles and state capabilities of individual African countries becomes of capital importance. Furthermore, the ways in which China alters civil society relationships with the state and extractive companies themselves will also carry significant weight in gauging developmental outcomes.

The conclusions here are mixed, as different countries offer different experiences. For example, in Zambia, where mineworkers' unions were of capital importance in challenging and removing the one-party state in early 1990s (Larmer 2006), the death of 46 Zambian workers in the

Chinese-operated Chambishi mine in 2005 raised the alarms of civil society. This pushed the Chinese mine to increase its social investment, but also ignited a democratic debate about Zambia's partnership with China, which opposition politicians contested. As Alden (2007: 74) 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'. Therefore, in the case of Zambia's weak democracy, China is not a source of resiliency for the ruling government but, quite the opposite, given the relevance of mineworkers as constituents of civil society, a topic around which discontent and political debate is shaped. Similarly, in Gabon, local and international NGOs partnered with the World Bank to protest over the lack of transparency of another Chinese mining project (Alden and Hughes 2009: 572). In the cases of other African countries, 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. In these countries, China's impact on the internal politics of the host country are detrimental to development, as China supports elites with no clear developmental plans, but mere survival instincts that involve in many cases ruthless repression of any opposition to their power and human rights violations. Nonetheless, in keeping a certain perspective, one should also question, for instance, why Western advocacy is so vibrant in disapproving Zimbabwe's or Sudan's regimes, while not giving equal relevance to other of the continent's most outrageous cases of human rights violations. Human rights are permanently abused in the Democratic Republic of Congo – where Western mining companies operate (Clark 2007: 31) – without being widely reported in Western media. Teodoro Obiang's authoritarian government's corruption in Equatorial Guinea has benefited from China's diplomatic support. However, 'the contribution of Chinese oil and logging companies to the perpetuation of the Obiang regime is marginal in comparison with firms from other countries, especially with American oil companies' (Esteban 2009: 669). In some instances, narrow Western criticisms of China's role in Africa seem to be particularly critical on those elites that do not favor Western countries' interests. As argued by Spiegel and Le Billon (2009), whereas China should be held accountable for its questionable alliances in Africa, double-standard criticisms of China are uninspiring and counterproductive. The ethical debate should be widened to also reflect on the role of Western powers in Africa, as 'otherwise geopolitical tension may often be locked in fruitless, myopic criticism that entrenches oppositional positions' (Spiegel and Le Billon 2009: 332).

Returning to the framework elaborated in the previous section, the impacts of Chinese investment in African resources can be classified in the three basic categories elaborated above: external, internal and intrinsic.

Chinese investment and China's growth seems to help reduce 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 are thus improved. On the other hand, while Chinese investment could help marginal resource-based economies in the African continent 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 to follow 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 forces us to 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.¹ 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 and elite behaviors that are detrimental to development. The weak role of the state in economy planning following two decades of neoliberal structural adjustments, as well as the prevalence of political environments that repress civil society organization are serious obstacles for the quest of long-term sustainable development.

Regarding intrinsic curses, concern mounts over both the inevitable and the Chinese investment-specific environmental challenges associated with increased extraction, although there is a significant lack of literature addressing China's investment environmental impacts. As the Executive Manager for WWF's Trade and Investment Programme Alistair Schorn (2009: 4) explains, 'the trend of Chinese outward investment into resource extraction activities in Africa... has also received significant attention ... due to the potential that such investment activities hold for significant environmental impacts, and the fact that in many instances the areas in which these resources are located are amongst the most ecologically sensitive on the continent'. Depletion of resources is particularly worrisome for those African states that have not yet developed appropriate institutions and capabilities, as they may be selling out their limited resources – and enduring the environmental degradation that extraction involves – without being able to enjoy the economic benefits those could bring. This is not uniquely an effect of Chinese investment, but of the expansion of extraction in general.

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 so far been avoided. China established diplomatic relations with all South American countries except Paraguay during the 1970s and 1980s. Trade expanded and Chinese exports rose 5.19 times during the 1990s (Cheng 2006: 501), when 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. CNPC was granted a service contract in the Talara field also in Peru in 1993. The launching of China's 'Go Out' strategy, and presidents Jiang Zemin and Hu Jintao's visits to the region in 2001 and 2004 respectively, helped to consolidate political and economic ties, with increasing trade and a significant number of Chinese SOEs investing in South America's mining and oil sectors.

China's relationship with South America has been mainly guided by two economic vectors: trade and investment. Ideology and political regime identity have not played an important role in Sino-South American relations after the 1970s (Dominguez 2006: 3–4). 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 per cent of the imports in Andean Community² countries, and 7.9 per cent in MERCOSUR³ countries during the 2004–6 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 per cent of Andean Community countries' exports, and 6.2 per cent 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 2004–6 (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 foreign direct investment (FDI) in South America nonetheless represents only 0.76 per cent of Chinese outward FDI and 0.18 per cent of South America's inward FDI according to official data (Ministry of Commerce of the PRC 2008; UNCTAD 2008).⁴ 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.

China's consumption patterns have also indirectly improved the terms of trade for commodities, which have consequently boosted growth in some South American resource-rich economies, particularly in the years preceding the 2008–9 financial crisis. For instance, Peru – whose second export market is China – had an average yearly gross domestic product (GDP) growth of 6.48 per cent in the 2003–7 period; Argentina – whose second export market is also China – grew at a rate of 8.84 per cent in the same period; and Chile – whose first export market is China – grew an average of 4.98 per cent per year in the same period (UNSD 2008). Furthermore, China's investment in the region's resources is currently the main sign for optimism in the midst of the 2008–9 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 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 (Romero and Barrionuevo 2009).

The expanding economic links between China's industrial productive apparatus and South America's commodities' market is often depicted as mutually complementary (Cesarin and Moneta 2005; Lall and Weiss 2007). However, China's emphasis on primary products is 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'. As China continues to industrialize, it will become competitive in a wide range of sectors, limiting the possibilities for Latin American countries to compete in those production niches in which China becomes particularly strong, and further restricting them to a role of commodity providers. The long term challenge for the region's countries will be to increase the added value of exports to the Chinese market (Santiso 2005: 101). States will play an essential role in enhancing the development of industrial and technological value-added industries in the region. Hence, a parallelism between Africa and South America can be traced on the impact of China on the external curses of extraction. By revaluating 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 technological – that these regions endured with respect to the Western developed world.

However, when focusing our attention on the internal curses of extraction we observe clear divergences between the African and South American cases. Instigated by the failure of neoliberal policies to deliver growth

and socio-economic stability, the state is once more at the centre of many developmental processes in South America. The importance of the state in challenging the traditional curses associated with extraction and achieving feasible models of resource-driven development is greater than in other economic sectors. While models cannot be perfectly mirrored in different geographies and times, experience from developed resource-rich countries should be taken into account. According to Schuldt (2005), successful resource-rich economies (i.e. Australia, Canada, Nordic European countries) managed to move from extraction into processing, and later to production of technology, through a carefully planned process in which state intervention was essential to guarantee transition from one stage to the next. Governmental planning and investment was needed to protect infant processing industries, as well as to grant further technological upgrading. National leadership within the host states should play a role in obtaining the best possible benefits from oil and mineral extraction, through sound fiscal systems, investment in developing capabilities, effective legislation, and reliable monitoring institutions.

Some South American countries with strongly regulated extractive sectors have developed resourceful ways of accommodating Chinese SOEs' investment, such as the formation of joint ventures between state-owned companies and Chinese SOEs. These joint ventures are sometimes a formality, as the Chinese company does not necessarily become involved in extraction. In these cases investment could be better understood as loans in exchange for resources. For example, Chile's mining state-owned company Codelco signed a cooperation agreement with China Minmetals Corporation in 2004 and formed a joint venture in 2006 – Copper Partners Investment Co. – to develop new mining sites in Chile. The project 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* 2005). The joint venture guarantees China access to a stable annual supply of 55,000 tons of refined copper for over 15 years. Codelco, on the other hand, gains financial support to develop new mining projects. 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 2008). However, while this is financially a rather positive deal for Chile, some authors point out that as China invests heavily in adding value to ores and the smelting process, Chile's smelting capacity falls in relative terms (Barton 2009: 15).

Examples where the Chinese company becomes involved in extraction are found in CNPC and Sinopec's joint ventures with Venezuela's PDVSA. 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 technology with transnational firms. The joint venture formula was precisely very successful in upgrading China's domestic industry during the 1980s and early 1990s. A second way in which Chinese investment is incorporated in broader development plans is through service-provider contracts that guarantee host governments control over the decisions to be made on extractive activities, a method preferred for instance in Ecuador.

Furthermore, democracy has also been revitalized in South America, where all countries have formal systems of democracy. This contrasts with Africa, a continent that hosts the top five positions of Foreign Policy's 2009 Failed State Index (Somalia, Zimbabwe, Sudan, Chad and Democratic Republic of Congo). While some African countries do relatively well, the high positions of this ranking are heavily populated by countries from this region. The highest listed South American country is Colombia, ranking forty-first and categorized as borderline. Bolivia ranks fifty-first and is the only other South American country in the top 60 positions, China itself occupying the fifty-seventh place (Foreign Policy 2009). Concurrently, civil societies remain a strong force in most South American countries, and even some of the region's current political leaders have emerged from labor unions and indigenous movements instead of traditional economic elites (i.e. Lula da Silva in Brazil, Evo Morales in Bolivia). While this does not automatically empower civil societies, and one should thus acknowledge the deeper complexities of political dynamics in South America, the tendency is towards wider participation of previously disempowered social forces. The vitality of local civil societies 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. This is particularly important if we bear in mind the four levels of civil society engagement with transnational capital unpacked in the previous section, as well as the importance of civil society – government links in order to establish efficient channels of communication and pressure with Chinese firms. It is also notable how non-qualified jobs in Chinese extractive operations in South America are occupied by local people. While Shougang attempted to hire 300 Chinese workers for its Peruvian mine in the early 1990s, the company backed up in the face of popular protest. 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 and to successfully engage China.

As South American countries generally enjoy higher levels of democracy and stronger civil societies than their African counterparts, China's unconditional support of its ruling elites will entail more positive dynamics. 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 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 (SCMP 2007). China's Andes Petroleum (a consortium formed by CNPC and Sinopec) was the first among the transnational companies operating in Ecuador that accepted the new contractual terms that President Rafael 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 extractive companies was generalized among international investors, China Minmetals' 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* (2009a) 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'.

However, the situation in South America should not be idealized. A number of internal problems persist and Chinese investment may exacerbate them in the same way it enhances positive trends. Extractive operations are small niches of technological development. 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. Economic, racial and gender inequality, due to what has been often labeled as 'internal colonialism', is another prevalent obstacle to development in the region (Hoffman and Centeno 2003). Inequality is particularly severe in resource-endowed South American countries, mostly in those where national governments do not put particular effort in redistributing the benefits of extraction. In cases such as Peru's, it will be difficult to curb rampant inequality, as resource wealth concentrates in the hands of foreign investors and local elites who collaborate with them (although in Peru the vitality of civil society can play a role in overcoming social injustice). The remoteness of some resource-rich areas in South America, such as the Andes mountain range or the Amazon rainforest, has often provoked the economic and political marginalization of the inhabitants of those areas. With Chinese companies negotiating directly with central elites and in many occasions neglecting local authorities – 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, further weakening subnational level institutions that may be essential to regulate extraction.

Populism is the other internal political problem common 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 the United States. While avoiding overreliance in the United States could be seen as a positive trend, Chavez's opposition to the United States feeds an 'anti-imperialist' discourse that has great appeal amongst his followers, rather than accomplishes 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 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 article's analytical framework. 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. This has enhanced the position of South America's resource-endowed countries in the global economy. Furthermore, it has reduced 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. 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. This approach differs from the more ideological engagement of Western powers, who for the last decades have tried to discourage state intervention in the economies of Latin America. For instance, China's diplomacy and its SOEs – opposite to major Western media outlets and diplomacy – have not confronted, but rather reinforced President Correa's developmental plans in Ecuador. While remaining controversial, President Correa has achieved popular support with his 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. No less importantly, the current government increased public spending by 71 per cent in 2008, constructing

new schools and hospitals, improving in education and health systems (*The Economist* 2009b). Different kinds of joint ventures with national companies, such as those undertaken in Chile and Venezuela, have also filled 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 empowered by Chinese support. Whereas China does not aim at enhancing either democracy or populism, its foreign policy and investment dynamics may indirectly do one thing or the other depending on the characteristics of host governments. While under China's investment internal politics are less subject to the high degrees of external intervention typical of resource-rich states noted by Karl (2007), China's approach reinforces the agenda of ruling elites, for better or worse. However, taking into account the levels of democracy, state intervention in resource sectors, and the vitality of civil societies in South American countries, the national paths to development are not blocked by internal curses of extraction as they once were (or at least not in such a serious way as in some of the African cases above explored). When looking into the intrinsic curses of extraction, concern raises over environmental degradation. A number of Chinese extraction projects in the region are under the scrutiny of civil society (such as private firm Zijin Mining Group's planned operations in Rio Blanco, Shougang's mine in Marcona, and Chinalco's Toromocho project, all three of them in 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.

Conclusion

This article has discussed the developmental implications of China's engagement in the extractive sectors of Africa and South America. While acknowledging dependency and post-colonial critiques that emphasize the historically-rooted socio-economic and cultural factors that produce underdevelopment, the article has drawn from research that emphasizes state-supported industrialization in resource-based economies as a necessary step to achieve long-term development. Concurrently, it has highlighted the importance of civil society organization and interaction with firms and government. This last point is essential in order to devise a human-based version of development (i.e. human development), rather than a purely industrial-based modernization view of development.

The article has first explained how dependency and resource curse theories are transformed by China's growth and increasing international engagement. A framework was elaborated to explain the ways in which Chinese investment in extraction shapes developmental outcomes in Africa and South America. The framework classifies the curses associated to resource extraction into external, internal and intrinsic categories. Parallels between the

two regions are mainly observed when studying the external and intrinsic curses of extraction. Regarding the former, China's growth and investment have enhanced the position of developing resource-endowed countries in the global economy, challenging the assumption of declining terms of trade for commodities. 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 necessarily technological dependency – on countries that occupy central positions in the international economy. Regarding intrinsic curses, China's contribution to the expansion of extractive operations has aggravated the environmental problems and economic sustainability limitations that are inherent to 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, socio-economic structures that prevent 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. Hence, the article's focus has turned to the ways in which China reshapes 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 Zimbabwe, Sudan or Angola has contributed to the resiliency of ruling elites that are detrimental to development. In South America, where democracy and civil societies are relatively strong, China's investment and diplomatic engagement have empowered democratically elected governments in countries with different degrees of civil society development and state intervention in the extractive sector. 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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Notes

- 1 As noted by an anonymous reviewer, the case of a middle income, democratic and highly regulated country as South Africa could broaden the range of experiences of Chinese resource investment in Africa. However, Chinese firms have not managed to penetrate this country's rich resource sector (except for minerals traders), and Chinese companies' presence in South Africa remains in general limited (CFA 2008).
- 2 Bolivia, Colombia, Ecuador, Peru and Venezuela.
- 3 Argentina, Brazil, Chile, Paraguay and Uruguay.
- 4 Data may be misleading, as Chinese SOEs often channel their investment through tax havens.

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