China to the Rescue? The Implications of China’s Engagement with Resource-Rich Countries

Sean Rice

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University of Puget Sound

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Abstract:

China’s interest in developing countries has exploded in the past decade as it continues to search for resources to fuel high growth rates. This paper examines China’s activity in various resource-rich countries through the lens of the resource curse. What are the implications of China’s involvement in developing countries in terms of the resource curse, and what factors or circumstances determine whether a country will benefit from these strategic relations with China? By viewing the resource curse in terms of specific challenges associated with resource wealth rather than an overarching curse, I analyze how China’s involvement has altered the severity of certain challenges in African and South American countries. While China has provided economic booms and an alternative to western financial institutions, it has accentuated the internal aspects of the resource curse. In the end, relative success of resource-rich countries depends upon initial conditions, type of resource, country size and its ability to effectively negotiate beneficial terms, investment in productive activity, and responsible fiscal management including the use of stabilization funds.
**Introduction**

China’s interest in the developing world has increased drastically as it looks to secure strategic natural resources necessary to sustain the unprecedented growth levels that it has experienced over the last 30 years. Natural resources lie at the heart of China’s ‘going out’ mindset which began in the 1990s. Not surprisingly, the developing countries most affected by China over the last decade are those rich in natural resources. Many of these same countries, such as Angola, Venezuela, Zimbabwe, and Zambia, have been countless cited as countries who have suffered from the resource curse. Surprisingly there has been relatively little research on how China’s activity may change the ‘cursed’ nature of many resource rich countries.

The guiding question for this paper is the following: what are the implications of China’s involvement in developing countries in terms of the resource curse, and what factors or circumstances determine whether a country will benefit from these strategic relations with China? Considering the fact that many resource rich countries have been able to escape the forces associated with the resource curse, it should clearly not be viewed as an intrinsic curse. A more realistic approach to the resource curse is to view it as a set of developmental challenges created by resource wealth. I break these challenges down into three categories: intrinsic, internal, and external. Some authors have argued that external relationships have played a larger role in the resource curse than often realized and therefore it is especially important that we work to understand the effects of China’s growing activity in developing countries.

In this paper, I argue that China represents an external force in the resource curse. Its complex engagement in developing countries, driven primarily by its growing demand for natural resources, provides important economic opportunities for resource exporters in Africa and South America, but reinforces many of the internal challenges associated with the resource
curse. Relative success of resource-rich countries depends upon initial conditions, type of resource, country size and its ability to effectively negotiate beneficial terms, investment in productive activity, and responsible fiscal management including the use of stabilization funds.

**Reconsidering the Resource Curse**

The term ‘resource curse’ has been used to describe the paradoxical phenomenon of how resource-rich developing countries tend to perform worse than those with fewer natural resources. Strangely, resource wealth seems to inhibit economic development rather than fuel it. Sachs and Warner show that countries in which resource exports make up a large part of GDP have experienced slower economic growth than their resource-poor counterparts. From this observation, many authors have continued to investigate the problems and opportunities associated with resource wealth.

![Correlation between GDP growth and resource abundance](http://www.nber.org/papers/w5398.pdf)

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2 Ibid.
Main reasons for the resource curse

Many different political, social, and economic factors have been cited as reasons for why resource wealth can have unintended consequences. For the purpose of this paper, I will use Gonzalez-Vicente’s broad classifications of intrinsic, internal, and external aspects of the curse, but change the details within each classification.\(^3\)

**Intrinsic aspects of the curse:**

The intrinsic aspects of the curse consist of those that are inherent with resource extraction. Humphreys, Sachs, and Stiglitz show that resource wealth is intrinsically different from other sources of wealth for a number of reasons. Wealth from natural resources is extracted rather than produced, meaning it is capital rather than labor intensive and wealth tends to accrue to a relatively small minority. This naturally presents a problem in terms of wealth distribution. Also being non-renewable in nature, resource extraction is essentially consumption of capital rather than income.\(^4\) However, countries are often eager to extract in order to increase revenues and do not view it as a consumption of capital. Following this logic there is a fundamental flaw in natural resource accounting.

Although not completely inevitable, the incentive for rent-seeking greatly increases with resource wealth. Rent is defined as the difference in the value of the resource and the cost of extraction.\(^5\) This difference creates incentive for private and public stakeholders to act in any means possible to capture the rent. By manipulating the political and social environments, these actors derive rent rather than adding value to resources. Essentially, rent seeking distorts political

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and social incentives, and can have significant consequences in terms of corruption and conflict which will be discussed in the following section.6

The last intrinsic aspects of the resource curse are environmental degradation and resource depletion which, at some level, are nearly inevitable when countries depend heavily on resource extraction.7

**Internal aspects of the curse:**

The internal aspects of the resource curse are composed of a variety of developmental challenges often faced within resource-rich countries. First, rent seeking, discussed above, can increase corruption and decrease political transparency, because as more resources are directed to capturing profit, the incentive for opaque, corrupt behavior increases.8 The IMF estimates that $1-5 billion in oil revenues goes missing every year in Angola, one of Africa’s most prominent oil producers.9 Corruption is not inevitable, but when the stakes are raised, the incentive for corruption rises. Shaxon argues that countries dependent on oil wealth become divided and increasingly vertical due to the great incentive for corruption.10

Second, theoretically, as a government becomes increasingly dependent on rent as a source of revenue, its need for tax collection decreases, as well as its accountability to its citizens.11 By decreasing the incentive for accountability, politicians have less of a need to represent its citizens in a democratic style. Oil-exporting states, specifically, are less likely to

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6 Wick, K. “Contesting resources - rent seeking, conflict and the natural resource curse.” *Public Choice* 128, no. 3-4 (September 1, 2006): 457-476.
7 Gonzalez-Vicente, R. (2011).
10 Shaxon, N. “Oil, corruption and the resource curse.” *International Affairs* 83, no. 6 (November 1, 2007): 1123-1140.
become democratic than their non-oil exporting counterparts. Although Sachs dismisses the claim that a link exists between resource abundance and authoritarian governments, there is nevertheless an issue of institutional and political rigidity. Resource wealth enables governments and institutions to stay in power even if it is not in the best interest of the citizens. Overall, there tends to be a lack of institutional change in oil rich countries.

Third, a link exits between resource abundance and conflict; oil-dependent countries are more prone to corruption and conflict than others. There also tends to be higher rates of civil war in resource dependent countries. Wick argues that the discovery of concentrated resources can lead to a ‘conflict trap,’ which will make the entire country economy worse off. Most importantly, as with rent-seeking, resource abundance can increase the incentive and opportunity for conflict.

Fourth, a heavy reliance on resource exports has significant effects on the national economy. The Dutch Disease will be discussed in the following section, but in general, there tends to be a ‘crowding out’ of productive, labor intensive industries. Sachs uses this crowding out logic to describe how manufacturing and value-added industries are hurt in an economy dominated by resource exports. Also, Humphreys discusses the trend of insufficient investment in education and other forms of human capital because unlike manufacturing economies, there are lower returns on this type of investment when a country’s principle industries are capital intensive.

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12 Humphreys (2007), 12
14 Shaxon (2007), 1128
17 Humphreys (2007), 9
Fifth, resource-rich countries tend to be highly unequal. This income inequality can stem from a variety of sources. The capital intensive nature of resource extraction, especially non-agricultural commodities, tends to concentrate wealth in the hands of a few. Also, the crowding out of labor intensive industries, discussed above, naturally creates a system of unequal income distribution.\footnote{Humphreys (2007)}

External aspects of the resource curse:

The external aspects of the resource curse are those that are visible within the relationship between resource exporting countries and the rest of the world. Dutch Disease is commonly cited as one of these challenges. As the value of natural resource exports increases and revenues flow into a country, there tends to be an appreciation of a country’s real exchange rate. In turn, other goods and industries become more expensive to export. Also, important capital and labor are often drawn away from manufacturing. A decline in the terms of trade has significant implications for manufacturing and agriculture.\footnote{Ross, M. “The political economy of the resource curse.” World Politics 51, no. 2 (January 1, 1999): 297-322.; Shaxon (2007)} Ross notes that, “Almost no resource-exporting country has been able to prevent a rising exchange rate from undermining the international competitiveness of its other sectors.”\footnote{Naim (2009), 160.}

Due to the volatile nature of commodity prices, countries that are sufficiently dependent on natural resource exports can be subject to crises when world prices plummet. This makes long-term planning very difficult and has caused serious problems for countries that borrow against the promise of future revenues.

Long term dependency remains a worry for many resource-exporting countries, and should be considered within the external challenges of the resource curse. If resource-rich
developing countries (in the periphery) rely on large resource exports to developed countries (core), where these resources are used to produce more value-added goods, then the periphery may be stuck in a systematic trap, making it very difficult to move up the value chain. Shubert warns that an over dependence on oil exports is the main cause of the resource curse when it comes to oil.  

This will be an important point when looking at the long run implications of China’s involvement in developing countries.

Besides these external factors, increasing attention has been given to how external events and relationships shape the way in which resource-rich countries develop. Just one example is Venezuela whose developmental woes since the 1970’s are not necessarily a product of its oil production, but its tumultuous political and economic relationship with the United States. While these are the main challenges of the resource curse, to truly understand this phenomenon we must look at why some countries have avoided these problems.

**Why have some escaped the resource curse?**

Rather than answering the question of why resource-rich countries have performed poorly, perhaps the more important question is why have some been able to escape the curse? Why have Norway, Botswana, Indonesia, and others performed so well while many other resource exporters have struggled so badly to develop?

A number of authors argue that initial conditions upon resource exploration determine the development performance of resource exporting countries. Choge argues that Indonesia was surprisingly successful between the 50’s and 90’s, compared to countries like Nigeria, because of initial political and social conditions. Indonesia had been subject to fluctuations in food prices and therefore was already promoting its agricultural sector. Also, from the beginning.

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21 Schubert (1999)
22 Rajan, S. “Poor little rich countries: another look at the ‘resource curse’.” *Environmental Politics* 20, no. 5 (September 1, 2011): 617-632.
Indonesia’s government was focused on poverty alleviation which helped limit inequality growth. Lastly, the fact that the commercial elites in Indonesia were primarily Chinese made the government naturally cautious about its commercial interactions. This helped to avoid corrupt business-government relationships.  

Similarly, Hamond argues that Venezuela’s political conditions at the time of oil discovery have helped it effectively avoid some of the main aspects of the resource curse. Torvik notices that presidential governments tend to be more susceptible to special interests, while parliamentary governments tend to be better suited for avoiding special interests.

Institutional quality, a tough measure to quantify, is an important aspect of the ‘initial conditions’ argument. Torvik discusses the importance of strong institutions and the protection of property rights. He adds to this by showing that countries which have already industrialized tend to have better institutions and can better manage resource wealth. Larsen points out that Norway has been relatively successful due to its strong judicial system, developed political and economic institutions, and lack of corruption. Most importantly, the resource curse is not inevitable and initial conditions have been a major determinant of developmental success for resource-rich countries.

The use of resource revenues tends to be an important factor in escaping the resource curse. How is the money invested, spent, or saved? Some argue for the need to use resource

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26 Idib. 248
revenues for public investment in infrastructure and education.\textsuperscript{28} Norway’s investment in education and R&D has been crucial in escaping the negative effects of the resource curse. Through heavy investment in offshore drilling technology, Norway has used its oil wealth to become a leader in this high-tech industry.\textsuperscript{29} Dietz uses a measurement for sustainable development called ‘genuine savings,’ to show that the countries who have fallen trap to the resource curse have invested relatively little in productive capital while not saving enough revenue. The countries who are most actively investing in productive capital will be those that will receive the greatest benefit from China’s involvement.

Since resource-rich countries often suffer from high inequality some argue that redistributive policies, like those being used in Venezuela, are necessary to ensure that the population is able to benefit from wealth that accrues to a small sector.\textsuperscript{30} Others however, remain skeptical of redistributive policies, arguing that such policies foster dependence, corruption, and the Dutch disease.\textsuperscript{31} Although Venezuela’s Chavez has embraced redistributive policies, considering the country’s condition, there is question whether the country has actually escaped the resource curse.

Within the topic of revenue use, stabilization funds have become widely accepted as a sound management tool. Stabilization funds allow countries to save when commodity prices are high and spend when things get tough. Protection from price volatility has been crucial in the success of Norway and Chile.\textsuperscript{32} Although there appears to be controversy about how revenues should be redistributed or used for development projects, there seems to be a consensus that

\textsuperscript{28} Collier, P. “Resource Rents, Governance, and Conflict.” \textit{Journal of Conflict Resolution} 49, no. 4 (2005): 625-630
\textsuperscript{31} Shaxon (2007)
sound macro-economic policy, consisting of stabilization funds and investment in productive capital, is critical in escaping the resource curse.

Other explanations for the variation in economic performance cite the type of resource and external forces as being an important determinant. To add to the paradoxical nature of the resource curse, oil and valuable metals appear to have a larger effect upon growth than less valuable commodities. Wick supplements this observation by looking at the ‘pointiness’ of a resource. When resources are geographically concentrated in a country (especially ‘pointy’), as oil is, the financial benefits accrue to a relatively small population and thus national inequality increases. Wick argues that if a resource is sufficiently ‘pointy’ it can make the whole economy worse off.

Increasingly, literature is beginning to offer alternative explanations for the resource curse. Mexico, Venezuela, and Angola all export natural resources and have experienced large economic crises at some point in the last 40 years. However, these crises can be largely explained by external forces and shocks that each experienced.

Initial conditions and external forces may be a larger part of the resource curse than often realized. Many authors are quick to point out the apparent factors of the resource curse, such as rent-seeking and corruption, but fail to recognize how political and economic conditions are the main determinant of a country’s ability to manage the negative forces of the resource curse. Torvik calls for more research on the effect of external relationships within the resource curse. This is why it is critical that we understand China’s increased activity the developing world.

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33 Torvik (2009), 249
35 Rajan, S. “Poor little rich countries: another look at the ‘resource curse’.” Environmental Politics 20, no. 5 (September 1, 2011): 617-632.
Most importantly, given the fact that many countries have escaped the resource curse, it should not be viewed as an intrinsic disease associated with resource abundance.

**Resource Curse: Criticisms and Conclusions**

The resource curse continues to be a hotly debated topic as scholars fight over how natural resources actually effect economic development. On the extreme side, Alexeev challenges the very existence of the curse as many have described it, and argues that resource wealth helps rather than impedes long term growth. Nevertheless, he asserts that mineral wealth may still have negative consequences.\(^3^6\)

There have also been criticisms of the resource curse discourse. While there are a variety of challenges associated with resource abundance, it is certainly not an intrinsic rule that resource exporters are destined to suffer from slow economic growth, corruption, and an undiversified economy. Naim is correct in arguing that the topic is too often talked about as an all or nothing curse with only one solution.\(^3^7\) There will never be one, unique solution to this phenomenon because the curse is made up of a multitude of political, economic, and social factors which are different in nearly every country. The numerous examples of countries that have escaped the resource curse show that poor development is surely not inevitable.\(^3^8\)

Overall the resource curse has been generalized to include every possible negative trend observed within resource-rich countries. In reality, the resource curse is nothing more than a human created phenomenon. It is a complex set of developmental challenges that have been grouped together under one stylized name.

**China: Changing the Game**

\(^3^8\) Hammond (2011)
For the purpose of this paper, I am interested in China’s activity in developing countries, and how China alters the principle challenges of the resource curse. Viewing China’s activity through the lens of the resource curse is especially effective considering the fact that much of its foreign activity is driven by its growing demand for natural resources. There is no question that China’s global interest has grown significantly over the last few decades through aid programs, foreign investment, and trade. However, there seems to be a lack of understanding about exactly what China is doing as it expands globally. In order to understand China’s foreign activity, it is necessary to understand the goals and incentives driving its ‘going out’ mindset.

There seems to be five central goals driving much of China’s geo-economic strategy. First, China’s unprecedented growth has led to high demand for natural resources, and in order to maintain current growth rates, the country is trying to ensure access to critical natural resources. Nineteen ninety three marked a landmark change, as China went from being a net exporter of oil to a net importer. Since then, the gap between supply and demand has only widened, as oil consumption doubled between 1995 and 2005. Many authors have cited the need for raw materials to maintain current growth and support a rising middle class as the main driver of Chinese trade and investment. Undoubtedly, China’s resource and energy insecurity is an important motive in its foreign activity, and this raises questions about the implications for countries at risk of suffering from the resource curse.

Second, China is trying to recycle massive foreign exchange reserves into strategically profitable investments. Third, China’s growth has led to expansion into new markets across the globe; Africa and Latin America have become important markets for Chinese products. Fourth, China is trying to facilitate the development of globally competitive multinational corporations

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40 Ferchen, M. “China-Latin America relations: Long-term boon or short-term boom?” *Chinese Journal of International Politics* 4, no. 1 (2011): 55-55-86; Iturre; Klare; Li; Carmody; among others.
as the likes of China’s National Petroleum Corporation (CNPC), China’s National Offshore Oil Corporation (CNOOC), Sinopec, and others have dramatically increased their global presence. Chen argues that the promotion of these oil corporations has been a critical component of China’s ‘oil diplomacy.’\(^\text{41}\) 

Fifth, there has been a push to secure and develop agricultural land in other countries in order to supply Chinese industry and consumers. China’s interest in African cotton and South American soy has dramatically increased as it struggles to feed its growing demand.\(^\text{42}\) Although these five goals are economic in nature, I do not mean to say there are no other motives involved. For example, China has strived to raise its profile in the international community and has aided some countries, such as Costa Rica, in order to gain diplomatic recognition over Taiwan. China’s political motives should not be overlooked, but the five economic goals outlined above are the main drivers of China’s interest in resource exporting countries.\(^\text{43}\)

While China began to open up in the late 1970s, China’s reforms in the 1990s and early 2000s laid the path for the new wave of foreign activity that we see today. These reforms tied together aid, investment, and trade activity while promoting competition and efficiency through the use of government funds. In 1994, the China Development Bank and China Export Import Bank were created as tools for the government to distribute targeted finance. Brautigam emphasizes the fact that China is essentially an East Asian ‘developmental state’ in that it accelerates development through the deliberate use of state policy. This has been critical to China’s development. Also, some of the large companies owned by China’s ministries began to

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\(^\text{43}\) Dehart, M. “The China Model: A View From the Bleachers.” (Oct 5, 2011). Presentation; Brautigam
separate in the 1990s and become increasingly independent. These newly independent firms began to look outward as they could no longer rely on state funding. Along with policy banks and independent companies, there was clear initiative in the mid 1990s by Chinese leaders to support programs which combined economic cooperation with aid.  

China’s business model, which is often backed by government funding, allows companies to pursue long term investments that many western companies, buoyed by the desires of shareholders, are unwilling to consider. These strategic investments in energy resources and infrastructure in developing countries, may have a period of extended losses, but will help secure valuable resources in the coming decades. 

China’s strategic linkage of trade, investment, and aid has made it somewhat difficult to decipher which is which. Many authors have pointed out the difficulty in quantifying China’s foreign aid due to the fact that the People’s Republic of China does not release these numbers. Estimates really depend on the definition of aid because if concessional loans, and state sponsored foreign investment is included, the PRC is a very significant global provider of aid. 

By focusing on specific activity in African and Latin American countries, we can better understand the potential implications of China’s actions.

**China’s Involvement in Africa**

The importance of China’s involvement in Africa cannot be underestimated; as one author argues, “China’s impact on Africa – and the rest of the world – is the biggest geopolitical shift of the early twenty first century.” China has been present in Africa throughout history, but

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46 Lum, T. “China’s Foreign Aid Activities in Africa, Latin America, and Southeast Asia.” *CRS report for congress*. (Feb 25, 2009) 7-570.
47 Dowden (2010), 485
its activity in the continent has dramatically increased in recent decades as growing industry has demanded more natural resources. Africa-China trade has increased from $5.6 billion in 1996 to over $100 billion in 2010, which demonstrates the growing importance of China in Africa.\textsuperscript{48} Considering Africa’s historical experiences with imperialism, China’s heavy involvement fueled by its desire to secure resources makes many worry that China may represent a reworking of past imperialist relationships.

\textbf{China’s Involvement in Latin America}

Over the last decade, trade between China and Latin America has grown faster than trade between any two regions, and the region is quickly becoming one of China’s main suppliers of raw materials. Excluding oil and natural gas, Latin America is already China’s largest commodities supplier. The region supplies more than half of China’s imported soybeans, copper, fish, meat, and sugar while also providing a significant portion of many other materials including: iron ore, lead, zinc, and leather.\textsuperscript{49} While much of the literature about China in Latin America focuses on the whole of Latin America, Gallagher asserts that in reality the vast majority of Chinese-Latin America economic activity is concentrated in 6 countries and 10 industries. These industries are all raw materials.

\textsuperscript{48} Dowden (2010), 468
\textsuperscript{49} “Latin America: Partner or Provider?” \textit{China Economic Quarterly}. Vol. 15, 3 (September 2011).
Gallagher argues that China plays an important role in global resource consumption, but surprisingly only accounts for only 3.8% of Latin American Countries’ exports. While this seems to undermine the importance of China in the region, it is important to note that China accounts for a significant amount Latin America’s recent export growth. Also, its influence has been concentrated in a handful of countries. The last decade of growth for Latin America can largely be tied to Chinese demand and high commodity prices, for commodities account for 70% of export growth in the region. China’s investment in Latin America’s natural resources generates important questions about de-industrialization and long term dependency. Latin

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51 Idib.

American countries face many of the same challenges and opportunities as their African counterparts when it comes to Chinese involvement, but there are also some important disparities.

Rather than presenting an overview all of China’s significant aid, investment, and trade in Africa and Latin America, I will focus on a few case studies in each continent which illustrate the critical implications of Chinese involvement. These examples are strategically placed to understand how China is changing the forces of the resource curse and to explain which countries are best placed to benefit from China’s involvement.

**How China Changes the Resource Curse**

In a similar paper, which views China’s engagement through the perspective of the resource curse, Gonzalez-Vicente compares China’s impact on the intrinsic, internal, and external curses in Latin America to its impact on those curses in Africa. He concludes that besides environmental degradation and new economic opportunities, China’s effect on African countries is quite different from its effect on South American countries.\(^{53}\) The fundamental difference between this paper and his is the definition of the resource curse and the intrinsic, internal, and external categories. In the end it is too broad to starkly differentiate between the implications in Africa and Latin America. The section on which countries benefit from China’s engagement could help explain any broad differences between the two continents.

**Changing the Intrinsic Aspects**

The intrinsic aspects of the resource curse remain relatively unchanged through China’s engagement in resource-rich countries. This is because China does not change the fundamentals of resource extraction. On a broad scale one could argue that China’s massive demand

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accelerates inevitable resource depletion and environmental degradation. Also, China’s model of infrastructure investment in return for access to resources could be seen as a new form of rent seeking with its own consequences. However, China’s biggest effects come in the internal and external aspects of the resource curse.

**Changing the Internal Aspects**

China intensifies a number of internal challenges associated with the resource curse. First, its willingness to engage with any type of government through its non-interference policy allows and ensures corruption in countries without the necessary means to fight it. Second, Chinese investment may worsen the problem of accountability that is seen in many resource-rich countries. Third, many argue that China’s investment model brings few benefits to the host country’s economy. Fourth, China is crowding out labor intensive industries such as manufacturing that are often critical to development. Fifth, China’s massive demand helps to prop up corrupt leaders and creates a system of institutional rigidity in which there is no incentive for institutional development. The following case studies help illustrate the intensification of these internal challenges.

**Angola-model**

Kaplinsky uses the term ‘Angola-Model’ to generalize about the actions of Chinese SOE’s in Sub-Saharan Africa. At a basic level, the model involves first, providing attractive lines of credit for infrastructure and resource extraction projects. Then, Chinese firms pursue these projects while relying primarily upon Chinese inputs and Chinese labor. In the end, a large amount of the funding never actually leaves China, but is just transferred to large Chinese firms. An example of this is the refurbishment of Angolan railways which mainly has provided an expedited connection between resource extraction sites (specifically copper and natural gas) and

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54 Gonzale-Vicente (2011)
Angolan ports. Beyond the addition of lacking infrastructure, serious questions are being asked about how Angola can benefit when China’s involvement is focused largely on resource extraction and engages little of the Angolan economy. The use of Chinese inputs and labor in construction projects in Africa essentially means that the majority of the money is simply recirculated through Chinese businesses.

Also, China has done nothing to change political incentives for corrupt behavior in Angola. In a paper unrelated to China’s impact, Hammond argues that Angola has fallen victim to the resource curse because pre-existing political conditions led to problematic resource allocation and misguided economic decisions. Although these conditions are beginning to improve since end of the civil war in 2002, China’s non-interference stance has done nothing to change the incentives for corrupt political behavior. The IMF estimates than $1-5 billion in oil revenues goes missing every year in Angola, and although transparency has begun to improve in the last decade, China has had little to do with this. As Angola becomes more dependent on China there is no reason to believe that corruption, little transparency, or inequality will come to an end. The short discussion above illustrates that China reinforces existing institutions and helps to create a system of institutional rigidity. In Angola, a country still rife with corruption and inequality, there continues to be little incentive to change these conditions.

China’s non-interference policy has serious internal implications depending on the conditions within a country. In fact, due to its willingness to do business with practically any country, China may be able to benefit most in countries with corrupt leaders; “It is no surprise that the African governments that have received most from China are those that are oil rich but

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56 Hammond (2007)

the least open and the worst in terms of corruption, war and human rights abuses: Sudan, Angola, and Congo." This non-interference policy has grave consequences in terms of institutional rigidity and incentive for corrupt behavior.

The 88 Queensway Group

The story of the 88 Queensway Group (Queensway Syndicate), illustrates how China is accentuating many concerns about transparency, corruption, and accountability in some resource-rich countries. This group is made up of a number of subsidiary companies all based out of the same Beijing address. What is known is that the group has been active in countries around the world, but has concentrated on Africa where it has signed billions of dollars of contracts for oil, minerals, and diamonds. Recently it purchased valuable Manhattan real estate worth billions of dollars, including the JP Morgan Chase Building in downtown Manhattan. The group remains shrouded in secrecy as little is known about the leadership structure and the financial assets of the group. It is impossible to know who is really benefiting. There is little evidence suggesting the company is an arm of the state, but many suspect that some of the group’s personnel have connections to Ministries within government.

A report by the U.S.-China Economic and Security Review Commission attempts to understand the role of this group within China’s going out strategy, and shows that China’s engagement in some developing countries is more complex than many recognize. In 2004, the Chinese businessman suspected to be in charge, persuaded elites to create a joint venture in Angola, China Sonangol, which would channel oil through China. The details of the agreement have never been released, and key statistics are missing on this massive business venture. When

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58 Dowden (2010), 504
the contract was signed oil traded at $55/barrel, and now the Brent Crude is trading above $100/barrel; however there seems to be no change in the original contract. This leads us to believe that the company is making incredible profit while Angola receives a fraction of what its resources are worth. As China Sonangol operates in an extremely opaque manner with its president being the son of Angola’s president, it seems as though cozy political relationships and corruption lie at the heart of business.

While Angola seems to be most pursued company by the 88 Queensway Group, there have been important connections to Guinea and Zimbabwe. For example, in Guinea the African Development Corporation won the rights to mineral concessions in return for investment up to $7 billion in infrastructure. The promise of infrastructure investments tends to be a large part of the group’s investment strategy. However often these promises are left unfulfilled. Zimbabwe and Guinea continue to wait for much of the infrastructure they were initially promised.

While there are still a number of questions waiting to be answered about this group of firms, there is no doubt that it holds considerable financial power and maintains a complicated spot within China’s going out strategy. The lack of transparency poses significant challenges to countries such as Angola where resources have been historically mismanaged. Also, as authoritarian leaders continue to receive funding in places like Zimbabwe, the institutional rigidity, discussed with the resource curse, is most likely to continue. Overall, the 88 Queensway Group illustrates that Chinese engagements in Africa are far more complex and possibly unknown than often realized. Clearly the actions of a firm such as this have considerable implications on the internal challenges of the resource curse.

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Venezuela: Chavez, Oil, and China

Although there is controversy over whether Venezuela has escaped the main challenges of the resource curse, due to its large endowments of oil, Venezuela’s history is often cited within literature on the resource curse.\(^1\) As the region’s second largest oil producer, China’s interest in Venezuela stems mainly from its desire to secure strategic energy resources. In 2008 Hugo Chavez signed an agreement to triple its oil exports to China to 1 million barrels/day by 2012, and has since expressed his desire to reach that target sooner.

While the reason for China’s interest may be obvious, Hugo Chavez looks to decrease dependence on Western markets by shifting exports to China. China’s high demand for oil and willingness to pursue business partnerships with Venezuelan companies greatly enables what Chavez is doing. There are a number of issues involved in Venezuela’s experience, but in regards to the internal aspects of the resource curse, China essentially helps prop up Chavez’s legitimacy. Within this lies the trend of political and institutional rigidity, for China ensures the continuation of Chavez’s political regime. In a country already rampant with corruption, China’s non-interference policy will do nothing but further the corrupt behavior.

Nevertheless, China’s internal impacts are not only negative. For example, in 2001, PDVSA (Venezuela’s state owned oil company) and China National Petroleum Corporation (CNPC) established a joint venture company which has since split into different mixed-ownership companies aimed at specific oil extraction projects. These projects have even begun to expand outside the realms of either country, showing that business lies at the heart of this relationship. Along with joint oil ventures, the two countries created a fund to invest in non-oil related plans in Venezuela, which doubled in 2009, to over $12 billion.\(^2\)

\(^1\) Hammond (2007)  
\(^2\) Iturre (2010)
provided technological opportunities outside of oil. Recently China helped build and launch
Venezuela’s first satellite which could potentially bridge the gap between urban and rural
Venezuela by providing rural populations access to educational and medical information.63

In regards to the internal challenges of the resource curse, China presents some economic
opportunities in Venezuela while intensifying many of the traditional internal worries associated
with resource wealth.

China in Brazil

As a fellow BRIC country and rapidly emerging economy, Brazil faces different
implications from China’s recent involvement than almost any other country. As with
Venezuela’s Chavez, Brazil’s former president Lula looked to build a strategic relationship with
Beijing, and in 2009 China replaced the US as Brazil’s number one trading partner.64 Last year
China provided more than 1/3 of Brazil’s total FDI, and 85% of that went towards natural
resources.65 Clearly, China’s importance in the country cannot be underestimated. Along with
the other countries discussed in this paper, China’s interest in Brazil stems mainly from its
demand for raw materials. Brazil has become an important provider of oil, soybeans, iron, meat
and paper for China’s expanding economy.

63 “Venezuela’s first satellite launched from China.” CNN (Oct 30, 2008)
64 Itture (2010), 140
65 China Economic Quarterly (2011), 29
Skepticism seems to be growing within Brazil concerning China’s involvement and much of this emanates from a flood of Chinese goods into the economy. Brazil has filed anti-dumping lawsuits, as many argue that China has gained a market share in high tech and labor intensive industries by dumping their goods into the Brazilian economy at artificially low prices. While China may be represent an important export market for Brazil’s resources, there are worries that imports from China are leading to a ‘deindustrialization’ of the economy.67

China’s threat to manufacturing may be Brazil’s biggest concern when it comes to resource curse challenges. A booming demand for soybeans pushed Brazil’s real exchange rate up 12% since 2003, and as discussed earlier, inflation can put a burden on non-commodity exporters. During a period which saw a doubling of commodity exports, Brazil’s manufacturing has decreased from 58% of exports to only 38% in the last decade. Coupled with a new wave of

66 Li (2007), 845

67 China Economic Quarterly (2011), 28
Chinese competition at home and abroad, China seems to be impeding Brazil’s ability to effectively diversify and add value to its exports. While China and many East Asian countries have experienced rapid development using export oriented policies, the author of one study argues that this model is impossible for many countries like Brazil because of China’s overwhelming competitiveness. China has stifled potential development of labor intensive industries in Brazil, and has created concerns about Brazil’s long-term competitiveness in many of these industries. Sachs argues that resource wealth essentially crowds out productive activity such as labor intensive industries, education, and innovation. China’s growing demand and its search for markets in which to sell its goods, has strengthened this crowding out effect. In Brazil and many other Latin American countries, labor intensive industries have struggled and there seems to be stagnation in terms of value added exports.

The stories of Angola, the 88 Queensway Group, Venezuela, and Brazil show the ways in which China intensifies the internal challenges associated with the resource curse. In some cases, such as Venezuela, China helps to create business opportunities that would otherwise not be realized. Nonetheless, China appears to increase many of the internal challenges outlined in the initial part of this paper.

**Changing the External Aspects**

China represents an external force for many resource exporting countries. When considering the external challenges of the resource curse, such as dependency, Dutch Disease, and price volatility, the benefits created from China’s engagement seem to outweigh the costs. First, China’s growing demand has pushed up commodity prices and helped to create important economic opportunities for many resource-rich countries. Extra revenue collected in the last ten

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68 Ibid.
69 Gallagher (2011)
years has been pivotal in alleviating the pressure of external debt for some countries. Second, China represents an alternative to Western demands, and in some cases has replaced the IMF as an international lender. Third, although there are no immediate concerns over dependence due to China’s growing economy, these countries will face problems of dependency in the coming decades.

**China in Zambia**

Chinese investment in Zambia is in no sense a recent phenomenon and was made famous by the Tanzam Railway in the 1970s. However, with China’s renewed interest in Africa, Zambia has become the most heavily affected country, creating both opportunity and controversy.70

| Table 1: Investment flows to Zambia, 1997–2007 (USD mn) |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 125             | 164             | 200             | 126             | ND              | ND              | 172             | 239             | 257             | 695             | 150             |


Growth in Chinese investment in Zambia71

China has helped revive Zambian copper mining through massive state-led investments. There is no doubt that China’s hunger for resources, and specifically copper, has driven the recent resurgence of Chinese investment in Zambia. Zambia’s Chabishi copper mine was closed for more than 10 years when China Non-Ferrous metals Corporation bought the mine and invested over $130 million to restore it. Employing over 1000 Zambians, the project appeared as a success until safety concerns began to surface. An explosion in 2005 killed 51 employees at the mine, fueling a negative reaction. However, some authors have noted that the Chinese mine has been safer on average than the Mopani copper mines, a Swiss-Canadian-Zambian joint venture. While criticism has focused on China’s lax safety standards and poor job creation for Zambians,

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70 Dowden (2010)
China has been instrumental in reviving a key part of Zambia’s economy. In an analysis of Chinese investment in Zambian mining and construction industries, Kragelund concludes that Chinese investment is not very different from that of other countries, but has triggered local reactions due to the sheer size and growth of its investments. This could be the case for many other countries, where the surge of Chinese involvement is producing reactions of all sorts.

China has also helped to create the Zambia – China special economic zone, which has produced thousands of jobs and helped the competitiveness of Zambia’s manufacturing sector. Allowing manufacturers to import and export goods without duty, helps to diversify an economy in danger of falling trap to the resource curse. While an over dependence on resource exports can make it difficult for labor intensive industries to succeed, China has been instrumental in helping Zambia begin to escape this trap. Though there are certainly concerns over China’s involvement in Zambia, these examples demonstrate some of the economic opportunities China is able to provide.

**China: an alternative to the IMF**

Angola is consistently cited within the resource curse literature as an example of a country rife with natural resources, corruption, conflict, and inequality. A civil war beginning in the 1960s lasted until 2002 and was largely a fight for control over diamonds and energy resources. The Angolan President, Jose Eduardo dos Santos financed the war through oil backed loans and with funds linked directly to resource revenues. As the war came to an end, the country was heavily indebted and global financial institutions such as the IMF began to lend with strict reform requirements. After repeatedly failing to meet many IMF demands for reforms such as

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72 Brautigam (2010)
74 Dowden (2010)
75 Hammonds (2007)
trade liberalization, higher income taxes, and increased transparency, China entered the picture as donor.

China entered a war-torn, corruption filled Angola and imposed no demands for political reform. Naturally the critics have argued that China not only allows, but ensures, the continuation Angola’s problems.

While many have focused on this negative perspective on China’s engagement, Brautigam notes that this is too simple of an analysis. In fact it was Western banks that enabled Angola to receive oil backed loans throughout the years of civil war, and there seemed to be no sign of improvements in governance as the IMF tried to impose strict demands for reform. In 2004, China’s Exim Bank began offering oil backed loans almost identical to those being offered by Western donors; however there was one important difference. The Chinese loans were offered at a lower interest rate, involved longer repayment schedules, and offered more generous grace periods. The often criticized Structural Adjustment Programs (SAPs) of the IMF have in some ways hand cuffed developing countries as they attempt to pay of their debt, but China has begun to offer similar loans without the strict demand for reform. In this way China is drastically changing the global financial community.

Venezuela is another example of a country that has gained independence from Western demands through China’s involvement. While China’s interest lies in securing oil, Hugo Chavez looks to decrease dependence on Western markets by shifting exports to China. Considering Venezuela’s historically tumultuous relationship with the United States, China embodies a political and economic alternative to Western demands. As Li point out, China represents a

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76 Brautigam (2009), 274
special opportunity for Venezuela, for China could have a large effect on the economic success of Venezuela and thus the continuation of anti-American policy in Venezuela.\textsuperscript{77}

In Angola and Venezuela, China’s attractive loans and investments offer a substitute to the neoliberal reforms so often pushed by the Bretton Woods financial institutions.\textsuperscript{78} Also, China represents a business partner which is genuinely interested in creating profitable ventures with various resource exporting countries, rather than the United States where these countries often receive little attention.

\textbf{Brazil’s Iron}

Half of the world’s iron ore goes to China, and Brazil provides more than half of that.\textsuperscript{79} While many commodity prices have surged in the last decade, a surge would be an understatement for iron ore. The price of iron ore has increased from $13/ton in 2001 to $178/ton (nearly a 14 fold increase), and China is to thank for much of this.\textsuperscript{80} Brazil’s iron producers have flourished due to this price hike, but dependency has become a concern. A recent study that measures resource dependency by resource and by country, determined that Brazil’s iron ore dependence on Chinese markets doubled between 2002 and 2009. This commodity dependence is the second highest on the index for all of Latin America, behind only Argentina’s soy exports.\textsuperscript{81} Considering dependency is a key factor within the external aspects of the resource curse, this is could potentially be dangerous for the long term development goals of Brazil. As Brazil works to diversify its economy and switch to more value added exports, this may pose a challenge, especially if the price surge for iron is only temporary. Paus and others argue that

\begin{itemize}
\item \textsuperscript{77} Li (2007)
\item \textsuperscript{79} Gallagher, K. (2009) “The Dragon In the Room” 19
\item \textsuperscript{81} China Economic Quarterly (2011), 35
\end{itemize}
there is little evidence pointing to an increase in value added exports from many Latin American countries.\textsuperscript{82} The future implications of this dependency depend largely on China’s development path, which will be briefly discussed later in the paper.

Overall, China seems to be doing more benefit than harm when considering the external challenges of the resource curse. China has brought about unmatched economic opportunities and its trade, investment, and aid represent an alternative to Western demands which have bogged down many developing countries. There are some external concerns regarding China’s involvement, such as dependency and Dutch Disease, but the benefits seem to outweigh these at the moment.

**A Beijing Consensus?**

While China may represent a new trading partner, the idea that China is spreading a new model for development, is simply misguided.\textsuperscript{83} The ‘Beijing Consensus’ is an idea created by western scholars which argues that China has its own version of the Washington Consensus. But this has not been seen in practice. First of all, due to China’s size and evolving development experience, it provides no model that other countries can effectively follow. Second, the Beijing consensus as often described does not accurately reflect China’s experience, for Kennedy argues that China’s policies actually closely followed 8 of the 10 central elements of the original Washington Consensus.\textsuperscript{84} Rather than spreading a new developmental model through its foreign interactions, Bautigam notes that China’s foreign aid and investments are identical to those of

\begin{itemize}
\item \textsuperscript{83} Li (2007)
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Japan’s in China in the 1980s.\textsuperscript{85} Although I noted that China has created an alternative to Western demands, I am in no way claiming that China is spreading a new model of development. Unlike the Washington Consensus in which the US imposes its desire for democracy and free market on developing countries, China is non-interventionist by nature. There is no such thing as the Beijing Consensus, but China may be slightly changing how the world views development due to the fact that it has experienced decades of high growth rates through the use of state intervention in the economy.

**Which Countries benefit from China’s Engagement?**

The countries that are able to receive the most benefit from China’s involvement are those who are best positioned to take advantage of the economic opportunities that China presents while mitigating many of the intensified internal challenges associated with the resource curse. Many of the factors which determine which countries have escaped the resource curse, discussed in the beginning of the paper, apply to who benefit from China’s engagement. These factors include: initial conditions, institutional quality, type of resource, level of investment in productive activity, and responsible fiscal management through the use of stabilization funds.

First, the level of corruption, conflict, and inequality currently present in a country before China’s involvement will have a significant impact on the future development of the country. For example, when comparing countries like Chile and Angola, Chile is superior in all of the above categories, and therefore will have an easier time mitigating some of the internal challenges that can be intensified through China’s intervention.

Second, as mentioned earlier in this paper, an especially pointy resource creates more challenges than those which are more evenly distributed across the country. For example, China’s high demand for Brazilian soy creates greater benefit for Brazil as a whole compared to

\textsuperscript{85} Bautigam (2007)
China’s demand for Angolan oil which tends to be concentrated and controlled by a small sector of society.

Third, in order to combat long term dependency, there must be a concerted focus on diversification in order avoid any sort of de-industrialization that could occur. Along with diversification, reinvestment of revenues into productive capital such as education and research and development has helped Norway and others escape the resource curse. One option is to invest in adding value to resources before they are exported. Investment in refining oil and iron in Brazil would add value to both types of resources while developing more high-tech industries. Those countries that are able to use the economic opportunities presented to China to invest in productive activity elsewhere in the economy will be those that will be able to experience sustainable long-term development.

Fourth, perhaps the most important determinant of development success depends on a countries responsible economic management. Overborrowing and unsustainable spending have plagued many resource-rich countries through out the past. There are many aspects within responsible economic management, but I will focus on the use of stabilization funds.

**Chile’s Copper Stabilization Fund**

Chile may be well positioned to benefit from China’s involvement while effectively mitigating the related challenges of the Dutch Disease, volatility, and poor fiscal management. Copper has driven Chile’s trade with China, and Chile has been exemplary for other resource exporters through its creation of a Copper Stabilization Fund. The structural surplus rule built into the stabilization fund has focused fiscal policy on long term sustainability by limiting public expenditure to be consistent with long term income levels and copper prices. The fund has

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87 Larsen (2006)
proved effective in creating stability by saving during a booms and spending during downturns. The structure of the fund, reduces interest rate volatility, improves confidence in sovereign debt, and reduces exchange rate volatility.\textsuperscript{88}

While many stabilization funds exist in resource exporting countries, the structural surplus rule created by Chile has been especially effective in controlling the negative inflation and volatility effects of resource exports. Chile’s model applies to the good times and the bad with an emphasis on long run stability. These policies enable Chile to benefit from China’s involvement and should be taken as a model for other resource-rich countries.

The last factor that will determine relative development success is slightly different than the others. The size of a country, and its ability to effectively negotiate beneficial terms with China has a significant impact. For example, the size of a country like Brazil enables it to take a firmer stance in negotiations with China and thus receive greater benefit. In 2010 when China tried to buy hundreds of thousands of acres of land in Brazil for soy production, an outrage in Brazil led to an agreement promising continued supply but no land.\textsuperscript{89} Monica Dehart noted that Brazil’s size, bargaining position, democratic institutions, and relatively diversified economy enables the country to benefit from China’s engagement while mitigating the challenges associated with the resource curse.\textsuperscript{90} Also Brazil’s low export/GDP ratio (2%) means that the country will be less affected by China compared to many other countries where exports make up a larger portion of GDP.\textsuperscript{91}

\textbf{Theoretical perceptions of China’s involvement}

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\textsuperscript{88} China Economic Quarterly (2011)  \\
\textsuperscript{89} “Latin America: Partner or Provider” (2011)  \\
\textsuperscript{90} Dehart, M. Interview. (Oct 7, 2011) Tacoma, Wa.  \\
\textsuperscript{91} China Economic Quarterly (2011), 36
\end{flushright}
This paper examines the implications of China’s development for resource-rich countries, but the perception of these implications could differ depending on one’s theoretical perspective. Liberalism, realism, and structuralism all take differing views on this issue. First, from a liberal perspective, China’s resource demand helps to boost the position of developing countries in the global economy, and does so best in a free market economy. For authors that take this perspective, the internal challenges often associated with the resource curse are of little importance compared to the economic opportunity created by Chinese demand.\textsuperscript{92} Also, under the liberal perspective, any sort of government intervention in the economy tends to be frowned upon, therefore redistributive policies and targeted finance is viewed as an inefficient use of resource revenues. Although this appears to be a harsh stance, some authors that heavily focus on the economic benefits created by China, while ignoring the internal challenges, could be seen as taking a more liberal stance on the topic.

Second, a realist approach tends to focus on protection of state interests, and is wary of China’s potential impact on domestic industry. Such an approach would argue that China poses a significant threat to domestic industry, and specifically manufacturing. Authors that take this view do not oppose free economic trade, but believe protection of infant industries should be an important goal of developing countries.\textsuperscript{93} In this case the realist perspective promotes government intervention to help diversify ones economy and aid industries that could potentially be harmed by China’s involvement.

Third, the structuralist perspective is especially concerned about the problem of long term dependency on China. As resource-rich developing countries continue to send more resources to China, they are essentially entering into a structural trap that is tough to be broken. Exploitation is
a central concern within this perspective. Many of the countries discussed in this paper could be considered within the periphery while China is a core country that is sucking up the resources of the periphery in order to produce more valuable goods. Authors that take this approach tend to be wary of long term dependence, for it may become increasingly difficult to produce value-added goods if these developing countries become over dependent on exporting resources. It should be noted that the implications of China’s involvement can be viewed very differently depending on one’s theoretical approach.

**Long term prospects**

Economic booms experienced in resource exporting countries over the last 10 years have fueled optimism regarding the role of China. However, high demand and record-level prices have also led to greater dependence on resource exports. Ferchen analyzes the complementarity and dependency between Latin American resource exporters and China arguing that the relationship is complementary only in the short run.\(^4\) Will China’s growth slow as it begins to move away from labor-intensive industries towards capital intensive industries? Some argue that there are still plenty of areas in which China can achieve growth and they hold confidence that China will continue with its near 10% growth for at least another ten years.\(^5\) However, recent evidence points to a slowing due largely to the global financial crisis which hampers demand for Chinese products.\(^6\) Whether its 5, 10, or 30 years down the line, China’s demand is sure to slow at some point.

Carmody argues that as China moves away from its intense focus on manufacturing, some of this may shift to Africa, enabling African nations to adopt more of an export-oriented

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\(^4\) Ferchen (2011)
\(^5\) Gallagher, K. “China and the Latin American Commodities Boom”; “Latin America: Partner or Provider”
model for development similar to that of many East Asian countries. Others are less optimistic for many developing nations. A recent study argues that Latin American countries will never be able to specialize in export-oriented manufacturing due to China’s overwhelming competitiveness and its advantages in labor, low wages, and a large educated population. We can only speculate about future implications, but it’s safe to say that the countries which have begun to diversify and invest in other productive forms of capital will be well positioned if Chinese demand begins to slow.

Conclusions

Considering China’s going out strategy has largely been fueled by its demand for natural resources to keep up with record growth levels, it is valuable to examine the implications of China through the resource curse framework. This paper attempts to answer the following question: What are the implications of China’s involvement in developing countries in terms of the resource curse, and what factors or circumstances determine whether a country will benefit from these strategic relations with China? The conclusions of this paper are based on the observation that China’s activity in developing countries involves a complex hybrid of trade, investment, and aid which is still not entirely understood in some countries. I argue that China reinforces many of the internal challenges of the resource curse such as corruption, inequality and institutional rigidity. However in terms of the external challenges, China provides important economic opportunites to resource-rich countries and represents an alternative to Western financial institutions such as the IMF. Relative success of resource-rich countries depends upon initial conditions, type of resource, country size and its ability to effectively negotiate beneficial terms, investment in productive activity, and responsible fiscal management including the use of stabilization funds.

97 Carmody (2007)
This topic will be of increasing importance as China continues to grow and become involved in other countries. Not only does China pose significant opportunities and challenges to developing countries, but it is also changing the global economic community as it begins to take over roles that have been traditionally dominated by the US and Western institutions. China will continue to play a larger role in developing countries. Future research should focus on the sustainability of China’s strategic relations and the ways in which countries can most effectively use revenues to ensure future prosperity while minimizing the risks associated with the resource curse.
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