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The Chinese Model: Analysis of the Investment of Chinese Mining Enterprises in Latin America

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Abstract: Recent years have witnessed China's increasing presence in Latin American countries, specifically focusing on FDI in the natural resource sector. However, researchers have found that Chinese enterprises invested overseas will likely be involved in conflicts with local stakeholders and have difficulty seeking a social license to operate (SLO). Therefore, it is worth exploring the mechanism of Chinese investments in the Latin American market and the management of corporate social responsibility (CSR) of Chinese enterprises in foreign investment. The main research objectives of the thesis are summarised below. (1) Exploring the mechanism of Chinese enterprises entering Latin America, especially the relationship between Chinese state-owned enterprises (SOEs) and the state government. (2) Analyzing the interactions between Chinese mining SOEs and non-governmental stakeholders in Latin America and the causes of mining conflicts. (3) Describing Chinese enterprises' management of CSR overseas, especially in seeking the social license to operate (SLO).

Keywords: Chinese investment; Latin America; Mining; Government; Stakeholders; Corporate Social Responsibility (CSR); Social License to Operate (SLO)

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1. Introduction

1.1. Introduction: Chinese presence in Latin America

Latin America is a vast region consisting of 33 countries from the southernmost portion of North America, to Central America, the Caribbean, and the continent of South America. The region is famous for its abundant natural resource reserves and has attracted the attention of foreign capital since the colonial age. At present, Latin America still plays an indispensable role in the global mining market. Since the 1990s, with the increase in global demand for mineral products, international capital has continuously flowed to the Latin American mining industry and investment in mining exploration has been increasing annually.

Chinese enterprises began to invest in Latin America in the early 1990s. After China joined the WTO in 2001, the overseas activities of Chinese enterprises significantly increased, and "Going Out" became a national strategy.

This period is characterized by China's strengthened political and economic relations with many Latin American countries. In 2014, the bilateral trade volume between China and Latin America increased 20 times compared with 2000. Over the same period, the proportion of China's imports from Latin America increased from 2% to 16%, and the proportion of Latin America in China's total exports increased from 1% to 10% (**Figure 1**) [1]. The major driving forces behind the rapid development of China-Latin America relations are twofold: on the one hand, Latin America has become an emerging market for China's industrial manufacturing products, and on the other hand, its abundant natural resources meet China's growing demand for primary commodities. Therefore, Latin America has gradually become a typical destination for Chinese enterprises' overseas investment in the natural resource sector.

Top LAC Exports to China		**Top Chinese Exports to LAC**	
Item	**Share of total**	**Item**	**Share of total**
1. Iron ore and concentrates	20%	1. Telecom equipment, parts	10%
2. Soybeans and other oilseeds	18%	2. Data processing equipment	4%
3. Copper	14%	3. Ships, boats, floating structures	4%
4. Copper ores, concentrates	10%	4. Optical instruments	3%
5. Crude petroleum	9%	5. Refined petroleum products	3%
Total of top 5	**69%**	**Total of top 5**	**23%**

Figure 1. Top 5 Exports between China and Latin America from 2009 to 2013 [56]

However, the investments and operations of Chinese enterprises in Latin America are not always smooth. In the natural resources sector, the core issue often lies in the compatibility between the profit-seeking of transnational capital and the social responsibility requirements in the host country [2]. In recent years, Latin American countries such as Ecuador and Peru have similarly seen negative reactions to the activities of foreign corporations in the extractive sector, including some Chinese companies [3]. It is reported that among the civil society in Latin America, Chinese investors have a reputation for upholding low labor and environmental standards, which has led to protests in some instances [4].

1.2. Research objectives

This thesis aims to study the investment of Chinese resource-seeking enterprises in Latin American countries under the context of the "Going Out" strategy, where Chinese enterprises have significantly increased their investment in Latin America in recent years.

Nowadays, corporate social responsibility (CSR) has become a topic of interest for many Chinese major overseas investors. According to CSR, multinational enterprises operating overseas should not only comply with local laws and regulations but should also pay attention to their relationships with local stakeholders, such as trade unions, indigenous groups, and other social actors. Progress on CSR is crucial given the relative social and environmental impact of Chinese investment, which remains highly concentrated in extractive industries and infrastructure development [5].

Social and environmental conflicts associated with large-scale mining activities have become a core issue in Latin America [6]. In Latin America, where most Chinese investments are in extractive industries, the reactions from governments and civil society have focused on the performances of Chinese mining companies [7]. Many researchers have found that Chinese mining enterprises operating in Latin America will likely be involved in conflicts with local stakeholders and have difficulty obtaining the social license to operate (SLO) [8–10].

In previous studies, the cases of Chinese enterprises are normally taken as negative examples in the case studies. Scholars have conducted numerous studies on the investment of Chinese enterprises in Latin America, but there is still a lack of narration from the perspective of China in the existing English literature, especially the social responsibility of Chinese enterprises. Therefore, it is worth exploring the Chinese mining enterprises' investment in Latin American countries comprehensively from both macro and micro levels. The main research objectives of the thesis can be summarized below.

1) Exploring the mechanism of Chinese enterprises entering Latin America, especially the relationship between Chinese state-owned enterprises (SOEs) and the state government.
2) Analyzing the interaction between Chinese mining SOEs and non-governmental stakeholders in Latin America, and the causes of mining conflict.
3) Describing Chinese enterprises' management of CSR overseas, especially in seeking the social license to operate (SLO).

1.3. Description of the thesis

The thesis is divided into five chapters. The first part will introduce the history and the economic and social background of China and Latin America, with a focus on China's growing presence in Latin America. The second chapter will provide the empirical setting of the thesis, which includes the data and methods, and will state the research questions based on the framework of Chinese state-led investment proposed by previous studies. The third chapter will focus on the interactions between Chinese multinational enterprises and the state government by exploring the role of the Chinese state government in facilitating international investments and how Chinese enterprises have benefited from such processes. The fourth section will investigate the situation of Chinese mining SOEs in Latin America by presenting two cases of Chinese state-owned mining enterprises in two Latin American countries, Peru and Ecuador, respectively. This part aims to examine the situation of Chinese enterprises complying with local labor and environmental standards and their interactions with multiple non-governmental stakeholders to obtain the social license to operate (SLO). The summary of case studies will further explore the causes of mining conflicts between Chinese enterprises and local stakeholders and examine the development of CSR standards in Chinese enterprises. Finally, the conclusion attempts to provide a comprehensive insight into the main findings of the thesis.

2. Empirical setting and literature review

2.1. Research backgrounds

This thesis aims to investigate China's mining investment in two Latin American countries, Ecuador and Peru. Peru and Ecuador, as neighboring countries, are both located on the west coast of South America, covering parts of the Andes and Amazon rainforest. The two countries also share a similar history, tradition, and culture. Both countries are famous for their rich mineral resources, such as iron ore and copper, and the mining industries which have become important pillars of the respective national economies.

In the research, two large-scale mining projects, which were invested in by Chinese mining SOEs in Peru and Ecuador, are selected to gain a more comprehensive understanding of the performances and the CSR of Chinese enterprises in Latin America. The first is the Marcona iron ore mine in Peru, which was invested in by a Chinese-owned complex, Shougang Hierro Peru. The other is the Mirador copper mining project in Ecuador, which was invested in by a Chinese joint venture between China Railway Construction Cooperation and Tongling Nonferrous Metals Group (**Figure 2**).

Figure 2. Allocation of main Chinese mining projects in Ecuador and Peru, including Shougang and ECSA (Tongling and CRCC) [10]

Shougang Hierro Peru (Shougang in **Table 1**) is a subsidiary of the Shougang Group which manages the mining complex in Marcona, Peru. Founded in 1919, Shougang Group is currently China's second-largest steel company and has been ranked among the top 500 enterprises in the world since 2011. Ecuacorriente (ECSA in **Table 1**) is a joint venture that manages the Mirador copper mine in southern Ecuador. It consists of two Chinese SOEs: Tongling Nonferrous Metals Group (TNMG) and China Railway Construction Corporation (CRCC). Founded in December 1949, the company has become a large-scale state-owned complex that mainly engages in geological exploration, mining, and mineral processing of nonferrous metals. Through this work, the company has established economic, technical, and trade cooperation relationships with more than 30 countries around the world. CRCC is a mega-sized construction enterprise under the auspices of the Administration Commission of the State Council of China, which is one of the largest and most powerful general construction groups in the world.

Table 1. The main characteristics of the two Chinese mining enterprises, Shougang Hierro Peru and Ecuacorriente, and their managed mining projects compared

Company name	Shougang Hierro Peru	Ecuacorriente (ECSA)
Parent company	Shougang Group	Tongling Nonferrous Metals Group and China Railway Construction Corporation
Project location	Marcona, Ica Province, Peru	Zamora Chinchipe Province, Ecuador
Year of starting investment	1992	2012
Acquisition price (USD)	118 Million	652 Million
Mineral products	Iron Ore	Copper

Note: Source: Based on information from Shougang and Tongling Nonferrous' official websites

2.2. Literature review

2.2.1. Corporate social responsibility (CSR) and stakeholders

The current concept of corporate social responsibility (CSR) usually means that enterprises voluntarily integrate social and environmental issues into their operations. It is often related to complex issues such as labor rights, environmental protection, and natural resource management. Nowadays, it has gradually become a consensus that enterprises should undertake social responsibility in their economic activities. However, a company's activities may face disapproval from different social actors, and in some cases, such disapproval might result in resistance that could harm their business interests [11]. Therefore, companies are not only responsible for the profits of their shareholders but also need to meet the expectations of different kinds of interest groups or stakeholders.

The term "stakeholder" refers to any groups or individuals that influence or are affected by the achievement of organizational goals [12]. Stakeholders constitute an important conceptual background of CSR and play a determinant role in the strategic development of CSR policies and activities [13]. According to the interest group theory, the responsibility of investors is not only to maximize the value of shareholders but also to consider the well-being of all the actors affected by the business decisions [14].

Stakeholders are often divided into two kinds. Direct stakeholders are the groups that are directly related to the company's activities, including its shareholders, customers, employees, suppliers, distributors, and the local communities. Indirect stakeholders are those not directly linked with the operation of the company but indirectly influence the local operation of the company by exerting influence in the civil society sphere. Civil society here is defined as "the space of uncoerced human association and also the set of relational networks" and generally refers to social entities that operate outside the fields of the market and the state [15–16]. These groups usually include social media, academics, NGOs, and so on.

2.2.2. Social license to operate (SLO)

While the governing power is gradually transferring towards non-state actors, there is now a widespread recognition that companies need to obtain a social license to operate (SLO) from stakeholder groups to avoid potential conflicts and exposure to social risks [16]. SLO is defined as the acceptance or approval by the local communities and stakeholders of a business enterprise's operations or projects in a certain area [11]. An SLO can be considered to exist when the project or company receives continuous approval or wide social legitimacy within the local community and other interest groups [17]. Normally, a political or legal license to operate requires the firm to conform to the laws and regulatory frameworks of the government. However, SLO is different from the legal license authorized by state institutions, which indicates that obtaining legal permission from governmental authorities does not guarantee that the investors are free from social risks.

Legitimacy here acts as a core concept in SLO. Legitimacy is essentially a matter of social acceptance [11]. The process of seeking the SLO is to gain social acceptance and build trust in civil society through communication with stakeholder groups. Communication is understood as a dimension that is embedded in the relationships and interactions among stakeholders [18]. As information imperfections are a source of major issues when firms venture into various destinations, the objective of communication is to improve information transparency among stakeholders [19]. Transparency plays a key role in increasing stakeholder trust, which generates greater cooperative behavior and enhances the business's reputation [11].

2.2.3. Applying CSR in the extractive sector

With the deepening of globalization, multinational companies have benefited from the trend towards the liberalization of the global economy [19]. Multinational mining enterprises are those enterprises that go out of their home country and enter the host country to engage in the exploration and extraction of mineral resources and other operational activities [20].

The mining industry has positive impacts on government revenues, employment, local community incomes, and infrastructure improvements such as roads, education, and health care. However, mining investment is usually characterized by its high risks and negative impacts on local communities and the environment. Additionally, environmental pollution occurs at almost every stage of mineral processing. Therefore, mining is generally perceived as a polluting activity by the civil society, especially the affected local communities [18]. In the mining sector, questions have been raised concerning the social and environmental performances of multinational companies in emerging economies, especially in developing nations where the consequences of environmental damage often are greater for the sustainability of local communities [21].

Researchers have shown that multinational mining enterprises have made efforts to collaborate with local stakeholders around their mining sites in developing countries to develop local legitimacy [11, 21]. However, multinational mining enterprises often face very complex stakeholder composition. In particular, local communities have emerged as particularly important governance actors because of their proximity to projects, sensitivity to the effects of mining, and their ability to affect project outcomes [16]. While these actors might sometimes align with each other, they have different interests and concerns. Therefore, responding to the interests and concerns of different stakeholders, and understanding the social dynamics among all participants is crucial for mining companies to formulate appropriate CSR policies.

3. Chinese investment in Latin America: Conditions and mechanisms

3.1. Chinese loans to Latin America: Government, policy banks and SOEs

China's aid and assistance to Latin America dates back to the Cold War period. At that time, China's foreign aid had a strong ideological theme and the main targets of assistance were socialist countries such as Cuba. The main ways of assistance include providing preferential trade, interest-free loans, and free material assistance [22].

Chinese state-supported loans are mainly provided by two state-owned policy banks, China Development Bank (CDB) and China Export-Import Bank (China Ex-Im Bank). Established in 1994, CDB and China Ex-Im Bank act as national financial institutions to support the government's policy objectives. Despite China being a newcomer compared to developed economies in terms of investment and trade in Latin America, by 2010 the two Chinese policy banks had already loaned more than the World Bank, IDB, and the US Ex-Im Bank combined [24].

China Development Bank (CDB) mainly serves the major medium and long-term development strategies of the national economy by carrying out medium and long-term credit, investment, and other financial business (CDB). In foreign investment, CDB supports the construction of key projects of host countries by providing financing business services including working capital loans and short-term foreign exchange loans. Loans issued by CDB are typically large amounts at commercial-based interest rates [23]. As for the China Export-Import Bank, their objectives include providing export or import credits, loans to construction contracts or investment projects overseas, and Chinese government concessional loans. Different from the CDB, China Ex-Im Bank normally subsidizes its smaller loans because they constitute development aid for low-income countries [24]. From 2005 to 2018, China Ex-Im Bank provided loans to 14 Latin American countries, of which Ecuador and Venezuela received about 14 billion USD, accounting for 54% of the total loans provided by China Ex-Im Bank in Latin America [25].

Chinese investments in the natural resources sector are usually based on state-supported loans from Chinese state-owned policy banks to host countries and are towards energy, mining, and infrastructural projects that are undertaken by Chinese enterprises [2, 8, 26]. Loans issued by the two Chinese policy banks to Latin America went primarily towards certain strategic sectors such as energy, mining, and infrastructure projects. 57.2% of the total value of Chinese loans went to energy and mining and 33.4% went to infrastructure [27]. According to data from the China-Latin America Finance Database, since 2005, China Development Bank and China Export-Import Bank have provided Latin American and Caribbean countries with a total loan commitment of more than 137 billion USD, of which Venezuela, Brazil, and Ecuador are ranked as the top three recipients of Chinese loans (**Table 2**).

Table 2. Loans from China's national policy banks to Ecuador and Peru for large-scale energy and infrastructure projects (2009–2018)

Date	Country	Types	Purpose	Lender	Amount (Estimated)
June 2010	Ecuador	Energy	CocaCodo-Sinclair Hydroelectric Dam	China Ex-Im Bank	$1.7B
July 2010	Ecuador	Energy	80% discretionary, 20% oil	CDB	$1.0B
December 2010	Ecuador	Energy	Sopladora Hydroelectric Dam	China Ex-Im Bank	$571M
July 2011	Ecuador	Energy	Renewable Energy Development	CDB	$2.0B
February 2013	Ecuador	Infrastructure	Road to Quito Airport	China Ex-Im Bank	$80M
April 2013	Ecuador	Energy	Minas-San Francisco Hydroelectric Dam	China Ex-Im Bank	$312M
October 2014	Ecuador	Energy	CocaCodo Dam Transmission System	China Ex-Im Bank	$509M
December 2018	Ecuador	Infrastructure	Reconstruction Projects	China Ex-Im Bank	$69M
April 2009	Peru	Infrastructure	Transportation, Infrastructure, Environment, Energy	CDB	$50M

Note: Source: China-Latin America Finance Databases. https://www.thedialogue.org/map_list/

China's national policy banks provide loans to Latin American countries through the negotiation process between the Chinese state government and the recipient governments. Loans provided to Latin American governments often come with specific conditions, for example, Chinese industrial products must be purchased by Latin American countries, or projects are contracted by Chinese enterprises, as the repayment of loans [28]. This often helps Chinese mining SOEs in Latin America to secure natural resource deals. Moreover, based on such loans, the recipient country would be able to plan and build their construction projects in collaboration with Chinese SOEs and deepen their economic ties with China by opening up new investment opportunities.

Currently, more than 60% of the Chinese outward stock belongs to SOEs, with most of the large enterprises still state-owned, especially in strategic sectors, such as extractive industries [29]. Compared with enterprises from other countries in the same sector, Chinese mining SOEs usually benefit from easier access to credits from state-owned policy banks, thereby reducing the financial restrictions encountered when operating overseas [10]. This not only helps Chinese SOEs avoid economic risks, such as the fluctuations of market price and exchange rates but also allows them to engage in some projects that may only generate economic profits in the long run.

An important feature of Chinese enterprises' investment in Latin America is their focus on infrastructure.

Chinese SOEs usually provide a package of multi-purpose projects in various sectors, especially the infrastructure accompanying mining projects [29]. Some Chinese scholars have pointed out that this is an area ignored by Western investors [30]. In normal circumstances, the long construction periods, large capital investments, and high sunk costs usually make it difficult to issue long-term loans for infrastructure construction. Consequently, there is often a lack of motivation for investment. However, due to the relatively low amount of investment in infrastructure by public and private sectors in Latin America, infrastructure investment is an area in which Latin America has huge demand and China has the capacity and advantages to carry out large-scale projects [30–31].

In recent years, Chinese enterprises have built large-scale infrastructure projects in the region, usually involving loans from China's national policy banks, based on the condition that the projects are undertaken by Chinese enterprises [7]. One typical example is the hydroelectric dam project by Cocacodo-Sinclair, which is expected to meet the electricity needs of one-third of Ecuador's population. The project was financed by the Export-Import Bank of China with a total amount of 1.7 billion USD and was undertaken by China Hydropower Group, a subsidiary of China Power Construction Group [30].

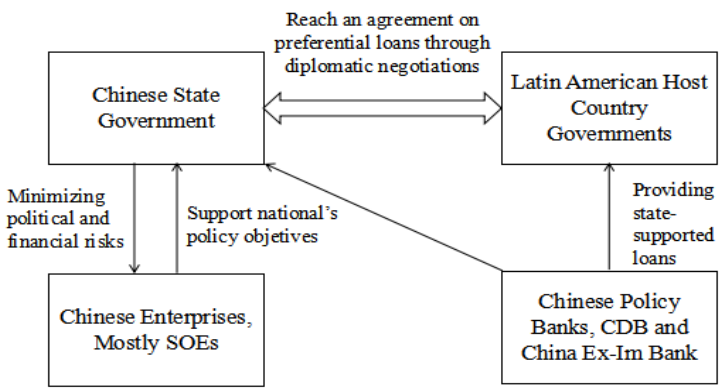

Figure 3. The Chinese model of overseas investment in Latin America

In summary, the Chinese state government acts as a top designer in coordinating Chinese national policy banks and enterprises in the overseas investment of Chinese enterprises. Policy formulation also has a macro impact on the choice of sectors and destination countries for Chinese SOEs investing abroad. On the other hand, it represents the collective interests of Chinese SOEs and acts as the communication channel between Chinese SOEs and host country governments by negotiating directly with the host country government in Latin America. The Chinese national policy banks, China Development Bank (CDB) and China Export-Import Bank act as the financing providers that support the state government's policy objectives by providing loans to Latin American governments.

Chinese multinational enterprises, especially SOEs, are the constructors of energy, mining, and infrastructure projects. These enterprises have benefited from the national "going out" policy which supports overseas investment through national economic and diplomatic means. In exchange, they have fulfilled the commitment of the Chinese state government by securing access to natural resources and promoting its influence and competitiveness in the region. From the perspective of enterprises themselves, in Latin America, they have sought investment opportunities and gained access to local markets, to reduce their dependence on the domestic market and to integrate into the global economy. As Gonzalez-Vicente summarized, while the central government still plays an indispensable role by facilitating the investment processes by providing loans and smoothing diplomatic relations with host countries, firm profitability lies at the core of investment strategy [10].

3.2. "A natural alliance"? Exploring the conditions in Ecuador and Peru

After President Rafael Correa took office in 2006, Ecuador has distanced itself from neoliberal policies and has carried out the national plan of "Buen Vivir" (Good Living). The Correa government has consolidated its economic and diplomatic relations with rising developing economies under the framework of South-South cooperation. In this context, China is considered its most important trade and investment partner. China has emerged as the primary source of financing for Ecuador. Between 2009 and 2015, Ecuador acquired 11 new international loans through CDB and China Ex-Im Bank, mostly in the energy and infrastructure industries [32].

Chinese enterprises have also become major investors in resource extraction and infrastructural development projects in Ecuador. For example, El Mirador, the largest open-pit copper mining project in Ecuador, was purchased by a joint venture between China Railway Construction and Tongling Nonferrous Metals Groups in 2010. The project has served as an exemplary case to promote the government's view on mining-development relations [33]. By introducing Chinese enterprises, the Correa government attempted to eradicate poverty, especially in the region where the mining project is located. At the opening ceremony of the Mirador copper mine in 2018, President Correa said "I don't like mining, but I don't like poverty more. Our people need work, health care, and education. Therefore, we should manage our natural resources responsibly" [34].

In the 1990s, the Peruvian government carried out neoliberal reforms under an "extractivist" or "resource-based" development model which aims to open the domestic market and attract international investment through the privatization of strategic sectors [35]. From 1992 to 2000, more than 200 Peruvian mining companies were transferred into private foreign hands, predominantly to US, Canadian, and Chinese capital. Indeed, Peru's mining sector has principally become a foreign business and the country's main mining sites are in the hands of only a few multi-national companies [36]. Chinese investment in Peru needs to be considered within the wider trends of privatization and transnationalization of the country's mining industry since the early 1990s [10]. In 1992, the Shougang Corporation became the first Chinese enterprise to undertake a large-scale mining project in Latin America when it acquired the Marcona iron ore mine.

For the Peruvian government, extractive industries are of crucial importance to finance its social and infrastructural projects [36]. Moreover, due to the huge demand for mineral resources, China has become a key ally in Peru's mining development. After the Peruvian government signed the Free Trade Agreement (FTA) with China in 2009, trade between Peru and China quadrupled from 4 billion USD in 2010 to 15.9 billion USD in 2014, and the relative share of mineral and petroleum products has increased to 87% of total exports to China in 2013 (**Table 3**) [37].

The Peruvian government has adopted measures to raise standards in the extractive industries and has established relevant departments to promote environmental regulation. For example, the Ministry of Energy and Mines (MINEM) was established in 2008, aiming to regulate the environmental impacts of extractive industries [37]. However, in Peru, where national revenues are heavily dependent on primary commodity exports, the importance of the mining sector to the national economy poses great difficulties for governments wishing to limit transnational mining capital [36]. The social and environmental regulation has been hampered by conflicts of interest, institutional weaknesses, and resistance from investors [37].

Table 3. Top Chinese mining projects in Peru and Ecuador by acquisition price and estimated investment

Company	Project	Mineral	Country	Acquisition price (million USD)	Estimated investment (million USD)
Nanjinzhao Group	Pampa de Pongo	Iron ore	Peru	200	3,280
China Minmetals	Galeno, Hilorico & Pashpap	Copper, gold	Peru	436	2,500
Chinalco	Toromocho Deposit	Copper	Peru	762	2,150
Zijin Mining Group	Rio Blanco Deposit	Copper	Peru	182	1,440
Tongling Nonferrous Metals Group	Panantza Deposit	Copper	Ecuador	652	1,300
Shougang Corporation	Marcona Mine	Iron ore	Peru	118	1,000
Tongling Nonferrous Metals Group	Mirador Mine	Copper, gold	Ecuador	652	418

Note: Source: Gonzalez-Vicente R [9]

In summary, despite the policy variations from country to country, both Ecuador and Peru have created favorable conditions for access to Chinese investments. For Latin American countries rich in natural resources, such as Peru and Ecuador, the development of extractive industries has been a key to economic growth. These two countries identify China as a major trade and investment partner and the need to diversify their markets and sustain their economic growth has led to a significant rise in exports from the region to China [38].

Therefore, in Ecuador and Peru, incentives to stimulate economic growth through increased exploitation of natural resources have been given priority. Although the negative impacts of extractive activities are recognized by Latin American governments, these activities are often rationalized by different government discourses, usually as a necessity to boost economic growth and fight against poverty in the region. In China-Latin America relations, “a natural alliance” has emerged between China, which emphasizes overseas investment in strategic sectors such as energy, mining, and infrastructure, and Latin American countries which aim to boost the country’s economy through the introduction of Chinese multinational enterprises.

4. Chinese mining enterprises in Latin America: Case studies

4.1. Shougang Hierro Peru in Marcona Iron Mine Complex, Peru

Marcona is located in Ica province in southern Peru. As a typical mining town, the mining industry has been the main source of financial revenue for decades. Many of the 18,000 residents in the town are employees of Shougang [39]. The iron ore mine in Marcona dates back to 1952 when the Peruvian government signed a contract with the US joint venture Marcona Mining Company to produce steel. The company was nationalized and renamed Hierro Peru in 1975 after the leftist government took power. However, the SOE was caught in a financial crisis in the 1980s, causing serious economic losses.

In 1992, the Chinese SOE Shougang signed a contract with the Peruvian government after acquiring Hierro Peru, as an important part of Peru’s privatization process and promised to invest 150 million USD in total. Shougang officials admitted that the amount was too high to be realized since the company did not conduct an appropriate risk assessment due to a lack of overseas experience [39]. As a result, Shougang invested only 38 million

USD, as it encountered a severe financial crisis in 1995, due to the decreasing international market for steel [40–41]. Instead, they chose to pay a 12 million USD fine to the Peruvian government. The problematic contract caused controversy in both countries due to the excessive purchase price and under-investment and has become the origin of tensions between Shougang and trade unions for decades.

Although creating nearly 5 million tons of annual iron ore and more than 20 million USD of net profit per year, Shougang suffered for a long time from a poor public reputation among the Peruvian society. At first, Shougang was not able to fulfill the original investment commitments, such as promoting working conditions for workers, including introducing safety equipment and replacing the old mining facilities. The broken promises led to mistrust between Shougang and the trade unions. Insufficient investment also exacerbated accident rates, which became the primary cause of labor disputes [39]. At that time, since the priority was to increase iron ore production and create net profit, Shougang failed to explain its financial issues to the trade unions, local government officials, and the media and even tried to hide its problems [42].

Shougang's tough attitude towards negotiations with the trade unions further aggravated the existing problems. Since Shougang signed the collective agreement with the trade unions in 1993, the company has almost fully accepted the demands of the trade unions for increasing wages and welfare for consecutive years [43]. However, after Shougang finally rejected the union's request, the negotiation reached a deadlock [39]. Hereafter, the trade unions started to organize workers to hold strikes regularly. As a response, Shougang fired four trade union leaders and even hired private police officers to terminate the strike [42]. Tensions between Shougang and the trade unions have intensified and strikes have become an annual problem for Shougang. The relationship between Shougang and the trade unions has gradually slipped into the track of an "institutionalized" struggle [43].

Since 1996, Shougang has attempted to improve its relationships with the trade unions but little progress was made initially. Shougang seemed to understand the necessity to communicate with the trade unions but could not make any compromises to the conditions that they had put forward. Shougang's officials gradually became devastated by the fruitless negotiations as their frequent concessions to the trade unions had not achieved positive results. "It's not that we don't want to talk to trade unions, but the premise of negotiation is the rationality of conditions", said Kong, the Shougang's Chief Executive [41]. From the viewpoint of Shougang, the trade unions were never satisfied with their treatment and repeatedly required a re-negotiation after an agreement had been made. In addition, the trade union leaders used strikes and protests to benefit their personal political careers, at the cost of the interests of both workers and the company.

Shougang has been widely criticized in terms of its labor standards, especially among Western media and scholars. For example, according to Kotschwar et al., Shougang has the lowest basic wages among mining companies in Peru and has also been accused of cutting the number of Peruvian workers and bringing in Chinese workers instead [40]. However, the accusations against Shougang are not all accurate. For example, the increasing number of Chinese workers only happened during the construction period and Shougang soon made adjustments and recalled most of its personnel, while retaining only a management team [43].

Since most of the mines in Peru are controlled by multinational enterprises, the local Peruvian miners have launched a large number of strikes for labor rights and Shougang is just one of those enterprises facing labor problems. More studies have shown that Shougang did not have particularly negative performances on many quantitative indicators. According to Irwin and Gallagher, Shougang did not stand out for violations of labor standards compared to various other companies regarding the number of fines for labor violations or the rates of fatalities and serious accidents [42]. The report from Sanborn and Chonn Ching provided a similar view: Chinese enterprises including Shougang have complied with environmental regulations in Peru overall and have fewer sanctions than firms from other countries [37]. In all, there is a lack of evidence that Shougang has performed significantly worse than its counterparts in the same sector.

However, Shougang has indeed seen the most prominent labor conflicts in the country, which is reflected in the particularly frequent strikes. Shougang's workers went on strikes more, though the company did not violate more labor or environmental standards than other companies, which is a fact that needs to be understood in this case.

In general, the causes of mining conflicts are multifaceted. There were two obvious mistakes in Shougang's interactions with the trade unions. Firstly, Shougang failed to fulfill the original investment commitments stipulated in the contract signed with the Peruvian government, which is mainly attributed to the financial crisis and the excessive purchase price. While Shougang did not stand out from fatalities or accident rates among all foreign mining companies in Peru, its failure to invest in modern machinery and equipment puts its workers in danger. Secondly, Shougang's local labor relations have deteriorated, which is the consequence of the company's failure to communicate with the trade unions. Shougang and the trade unions were unable to reach a consensus on many aspects after repeated negotiations, which exacerbated the mistrust between the enterprise and its workers and caused frequent strikes.

One important difficulty faced by Shougang in the negotiations is insufficient information transparency. Compared with other multinational enterprises, Shougang still lacks certain transparency management, such as Shougang's official website contains little information [40, 43]. This is also reflected in its lack of understanding of the demands and behaviors of the trade unions. In addition, Shougang's difficulties are related to its financial problems. These defects all limited Shougang's flexibility in handling labor relations.

In negotiations, the transparent full exchange of information is often the premise of a win-win situation. The distrust between Shougang and the trade unions has hindered the information exchange between the two sides. Under such circumstances, both Shougang and the trade unions found that their space to compromise was insufficient. Given this situation, Shougang chose a simplified handling principle and resolutely confronted the trade unions, which is — as shown — absolutely not the best choice.

Finally, this case happened in the 1990s when Chinese enterprises were still at an early stage of internationalization and had little experience of overseas investment. From today's point of view, Shougang lacked the necessary flexibility when dealing with the trade unions. However, the premise of flexibility is to have a good understanding of the behaviors of various stakeholders and have the professional ability of multinational operations. Shougang's actions show that they did not meet these conditions. As the first Chinese-owned mining enterprise investing in Latin America, Shougang was not familiar with Peruvian law at the beginning of its investment and had little experience communicating with local trade unions. Nowadays, although strikes are still the norm, the handling process has become smoother and the intensity of confrontation has also shown a downward trend.

4.2. Ecuacorriente (ECSA) in Mirador Copper Mine, Ecuador

Located in the province of Zamora Chinchipe, south of the Ecuadorian Amazon, El Mirador is at present the largest open-pit copper mine in Ecuador. The copper mine was acquired by two Chinese SOEs: Tongling Nonferrous Metals Group (TNMG) and China Railway Construction Corporation (CRCC) in 2010, from the formerly Canadian-owned mining company EcuaCorriente. The Chinese joint venture established the consortium

Ecuacorriente S.A. (ECSA), which is currently the largest Chinese-owned mining enterprise in Ecuador and operates the Mirador copper mine directly (**Figure 4**).

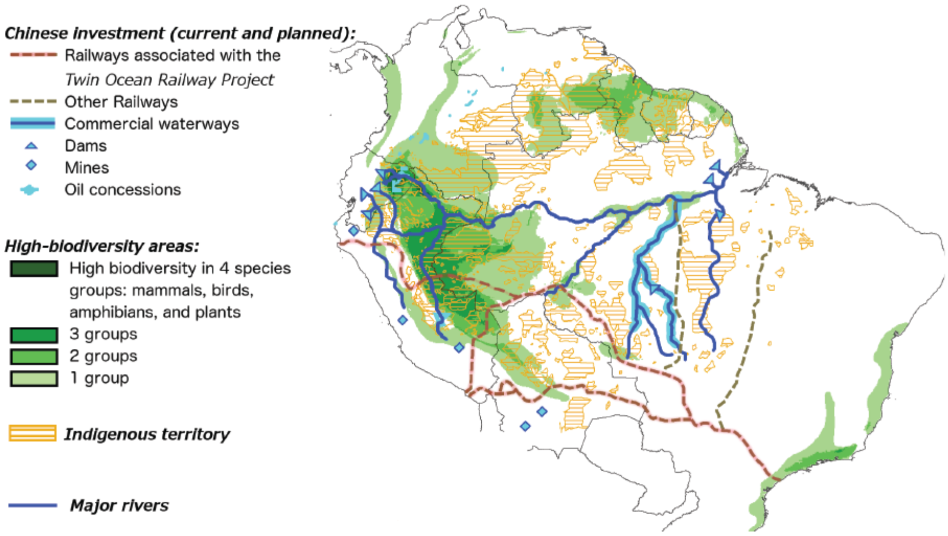

Figure 4. Chinese Investment, high-biodiversity areas, and Indigenous territory in the broader [6]

The Mirador copper mine is located at a site of high biological diversity and extreme environmental fragility in the Andean region [44]. Moreover, the land is the ancestral home to the Shuar indigenous people, whose traditional habitat includes the sphere of influence of the Mirador project. The Shuar people traditionally inhabited the upper Amazon region of eastern Ecuador, which is the reason for them to be considered the legitimate "owners" of the land [6]. The complex situation of local indigenous groups around the Mirador project has become a source of conflict.

In March 2012 the Ecuadorian government signed the contract with the Chinese joint venture to the country's largest open-pit copper mine, El Mirador. The Mirador project has been involved in social and environmental conflicts associated with extractive activities since the contract was signed. Since then, the Mirador project has become the target of protests by local communities and indigenous organizations. According to Ecuadorian law, a mining company must provide an environmental impact assessment (EIA) before an environmental permit can be issued. However, the Mirador project had not obtained the permit by the time the deal was signed, with many concerns about the environmental impact assessment remaining unresolved [45].

In addition, the Mirador project represents a typical case of deforestation. In total, 12 mining concessions, corresponding to an area of 14,668 ha, were given by the Ecuadorian government to the development of the Mirador Project [46]. According to The Rights of Nature, the project cleared almost all vegetation and topsoil in the mining area and the total deforested area exceeded 1,300 hectares [47]. In addition, the company was accused of evicting some of the indigenous people to build the facilities of the mining project. In 2015, due to the construction works of mining sites, more than 30 indigenous households were evicted by security personnel [48].

Thus, the Mirador project caused serious disputes over land and natural resources between the company and local indigenous groups. The opposition includes indigenous organizations, such as CONAIE (The Confederation of Indigenous Nationalities of Ecuador), which has historically resisted the expansion of the extractive industry, together with anti-mining environmental NGOs [49]. The CONAIE and Shuar communities showed their distrust of the promises of ECSA to the local development; from their perspective, mining is perceived as a major threat to the environment, their livelihoods, and territories [33]. For indigenous communities, land means more than a way to make a living, as their relation to the territory they belong to is also cultural and spiritual. After the mining contract between ECSA and the Ecuadorian government was signed, the CONAIE led a series of campaigns to defend their rights, from protests to legal action in the courts. In March 2012, the CONAIE led a two-week non-violent march across the country, from the town of Pangui to the capital, Quito, in rejection of the extractivist policy of the Correa Government [44]. The indigenous organizations later changed their tactics and took ECSA and the Ecuadorian government to court. Since 2013, the Shuar communities and four environmental NGOs claimed that their environmental rights had been violated, and also accused the state of violating their right to decent housing by sanctioning evictions [48]. However, the judge in Quito finally sided with the government and dismissed the case.

Since the Chinese joint venture entered the Ecuadorian mining sector, it has inevitably confronted the dynamics of local political landscapes. In Ecuador, there are a wide range of stakeholders in the public sector and the civil society sphere, from the government, indigenous organizations, and environmental NGOs, which hold very distinct positions and attitudes regarding the project and the mining policies (**Table 4**). For example, while the indigenous organizations and communities are resisting the extractive activities around the area, the Correa government holds pro-mining attitudes overall and regards Mirador as a successful example of the link between mining and Buen Vivir. For the Correa government, a contradiction also exists in the tension between ambitious social projects for indigenous livelihoods on the one hand and the aim to promote extractive activities on the other [50].

Table 4. An overview of the main actors and their positions and attitudes to the Mirador Project

Actors	Positions and attitudes
The Chinese joint venture, ECSA	Pro-mining; Develop the Mirador mine project and safeguard its investment
The Ecuadorian State Government	Pro-mining; Secure the permit of the project; Regard the project as a success case between the link of mining and Buen Vivir (Well Living)
Indigenous Organizations, such as the CONAIE	Anti-mining; Defend Indigenous rights; Against the mining policies of the Ecuadorian government
Other Environmental NGOs	Anti-mining; Protect the local ecosystems; Against the deforestation of mining activities

Note: Source: Teijlingen KV and Avci D [33, 49]

The ECSA has taken adaptive measures to establish communication channels with local communities. "Improving community relations is as important as mine production", said one representative of the company [34]. The ECSA invests more than 2 million USD each year to improve local education, healthcare, and infrastructure. More than 15 million dollars were invested to construct the 14-kilometer road connecting the outside town, with five bridges built along the way [34]. In addition, the company has set up a community department to provide support for local residents in the affected areas of the mining project. In all, the ECSA did not pay enough attention to the rights of indigenous communities, especially in the licensing process of the project. The contract signed between the company and the Ecuadorian government was obviously at the expense of the rights of public participation of local communities and organizations [51]. The company has since contributed much to local development and has made efforts to mitigate the impacts of mining activities on the local environment, however, these efforts have not negated their poor public reputation.

4.3. A summary of the case studies: Mining conflicts and corporate social responsibility (CSR)

4.3.1. CSR standards for Chinese enterprises abroad

In recent years, with the increase in overseas investment experiences, Chinese enterprises are making notable progress toward defining and applying corporate social responsibility [5]. However, the time it has taken for Chinese enterprises to develop corporate social responsibility (CSR) is much longer than that of their counterparts in the Western developed economies. It was not until 2006 that China's new company law was promulgated, stating for the first time in legal form that enterprises should undertake social responsibility [52]. "There was a lack of awareness in the early stage of going abroad, but now there's more know-how", said one of the researchers for the Global Environmental Institute in Beijing [53].

Chinese enterprises are gradually accepting the international standards and frameworks for CSR. One significant change is the growing interest in achieving certain internationally recognized environmental, social, and governance (ESG) standards among Chinese enterprises [5]. The ESG standards consist of three value pillars: environmental, social responsibility, and governance responsibility. Among these, social responsibility means that enterprises should uphold higher business ethics, social ethics, and legal standards in their business activities, which is not only reflected in economic indicators such as contributing taxes or creating employment opportunities but also in reducing the potential risks of production activities to the local community and environment [52].

On the other hand, at the national level, the Chinese state government has also formulated relevant standards for Chinese enterprises investing overseas to undertake social responsibility. The Ministry of Commerce of China published the Environmental Protection Guide for Foreign Investment in 2013, which mainly applies to Chinese state-owned banks and contractor businesses. This requires Chinese enterprises operating overseas to respect the traditions and religious beliefs of the host country, to safeguard the interests and legitimate rights of workers, and to fulfill the responsibility of environmental protection actively [54–55].

In foreign investments, the pressure from local stakeholders acts as the external driving force to promote Chinese mining enterprises to undertake social responsibility [52]. For Chinese enterprises in Latin America, given that China and Latin America have very different natural and geographical conditions, as well as cultural and social backgrounds, they have entered a system with a set of established rules. Therefore, Chinese mining enterprises operating in Latin America need to explore how to conduct business in an environment completely different from that in China. For example, as the Mirador case shows, land in many mining areas in Latin America belongs to the local indigenous communities, whose livelihoods are highly dependent on land and natural resources.

In addition, Chinese mining companies in Latin America often face obstructions from environmental NGOs, indigenous groups, and other groups whose interests might be undermined by the extractive activities. These factors all constitute the complicated situation that Chinese investors in Latin America have to deal with. Therefore, to invest successfully in Latin America, Chinese investors have the responsibility to contribute to local development and minimize the negative impacts of mining activities on the local environment and affected groups. The investors have to formulate appropriate policies to undertake social responsibilities, which not only require them to be familiar with the local history, tradition, and culture but also force them to establish communication channels and develop negotiation strategies with various actors outside the state institutions in the host country.

Due to a lack of experience in transnational investment and operation, Chinese enterprises' investment in Latin America once had a difficult time. Shougang's predicament in Peru is the epitome of Chinese enterprises' overseas investment in its formative years. In the host country, their limited exposure to diverse institutional environments usually constrains their capability to deal with the demands of multiple stakeholders [8]. Currently, with the deepening of economic and trade cooperation between China and Latin America, more and more Chinese enterprises are investing in Latin American countries, with different investment scales, ownership, and overseas experience. They appear to be making efforts to avoid the mistakes made by their colleagues in previous years. For example, in Chinalco, another Chinese-owned mining complex in Peru, the enterprise has regularly conducted public hearings with the local community and has offered housing and a compensation sum that has been accepted by the majority of the local population [40].

4.3.2. Origins of mining conflicts in two cases

Internal and external factors exist that influence the activities and performances of corporate social responsibility of Chinese mining enterprises investing in Latin America. The external factors comprise the economic, political, and social background of the host country, and the influence of stakeholders and social media, while the internal factors include the capability of enterprises and overseas investment experiences.

In both cases, prominent conflicts exist between Chinese enterprises and certain local actors. In the Marcona case in Peru, Shougang was unable to fulfill its investment commitments and failed to reach a consensus on conditions such as workers' treatment, which has caused continuous friction with the local trade unions. In the Mirador case in Ecuador, the primary conflict is the dispute over land and natural resources with local indigenous communities and organizations.

For the Chinese enterprises in the above two cases, one thing in common is the information asymmetry between Chinese enterprises and local stakeholders. This kind of asymmetry is twofold: Chinese enterprises were not familiar with local history, culture, and tradition, and their motivations or strategies were also not fully understood by the local civil society. The consequence of information asymmetry is the lack of sufficient communication channels between the enterprises and local actors, which is more obvious in the earlier case of Shougang and is also reflected in the case of ECSA in the licensing process. In both cases, the local actors have encountered difficulties accessing enough information about the enterprises, such as the influence of extractive activities on the local communities and environment. Not being aware of the demands of stakeholders has made both enterprises less flexible in their communication and negotiation processes.

Furthermore, in the above two cases, one core reason for the mining conflicts is the institutional dissimilarities between China and Latin America, which is reflected in the political and social landscapes in Latin American countries. Non-governmental stakeholders in Latin America, including environmental organizations, indigenous communities, and trade unions, usually play a more active role in civil society and have a long history of engaging in the agenda-setting of the public domain. This is also reflected in their relations with multinational enterprises. Normally, trade unions, local communities, and non-governmental organizations are the main forces to urge enterprises to fulfill their social responsibilities in Latin America [52]. Chinese mining enterprises are usually confronted with complicated public circumstances, which increases the uncertainty of the business environment in the host country.

However, when non-governmental forces move forward, the government power retreats. In many Latin American countries, what is common is that the domestic political landscapes have limited the government's role in handling labor or environmental disputes [43]. This is attributed to the low administrative power of the state government to enforce laws and regulations at the local level and an attempt to fight against corruption, which is a common problem in Latin America [18, 52]. Government corruption causes the misuse of mining incomes, which makes the local population blind to the beneficial impacts of mining activities on the local development and this has led to a high degree of social dissatisfaction [1].

The weak presence of state governments in Latin America has eventually transferred this contradiction to the relationship between multinational corporations and local stakeholders. Transnational companies are often expected to carry out multiple projects to contribute to local development, which might be normally considered government duties in China and other countries. In such cases, local communities often have disproportionate expectations regarding mining investments by multinational companies [18]. However, the capabilities of mining enterprises to contribute to local development are often limited. When their expectations of the mining enterprises are unfulfilled, the local communities are not only dissatisfied with the government but also with transnational companies.

5. Conclusion

First of all, this paper has expounded on the mechanism of Chinese multinational enterprises to enter the Latin American market. The thesis comes to similar conclusions with Li et al. and Shapiro et al., that the Chinese government plays a dominant role in facilitating the investment of Chinese extractive enterprises in Latin American countries [8, 55]. The Chinese government supports investment in Latin America mainly through state-supported loans, which are provided by China's national policy banks. Chinese multinational enterprises investing in Latin America benefit from the creation of investment opportunities and the reduction of political and financial risks through the Chinese government. On the other side, despite policy variations between countries, both Peru and Ecuador have created favorable conditions for the access of Chinese multinational enterprises. With China's growing influence in Latin America, both countries have recognized China as a major political and economic partner. Due to deep dependence on the exploitation of natural resources, both countries have given priority to the introduction of foreign transnational capital to stimulate their national economies.

Case studies have shown that Chinese enterprises in Latin American countries are indeed more likely to be involved in conflicts with local stakeholder groups, such as local communities and trade unions. However, the reasons for these conflicts are not the result of lower labor or environmental standards than their counterparts. In both cases, the failure to communicate with stakeholders has become the cause of mining conflicts, which was mostly due to the lack of experience in overseas investment, especially in the first few years of Chinese foreign investment. This eventually led to the situation where Chinese enterprises lack the capability of negotiating with various kinds of non-governmental stakeholder groups in the host country and face difficulties in balancing their interests flexibly.

Further reasons for mining conflicts point to the institutional dissimilarities between China and host countries, reflected in social arrangements such as history, culture, and tradition. In the area of international investment, Chinese enterprises are new entrants to a system with a set of established rules. These rules not only include the culture, laws, and regulations of the host country but also the international standards of CSR formulated mainly by developed economies. Therefore, although Chinese enterprises have made efforts to seek SLO in the host countries, they are usually not guaranteed to avoid the social risks from the civil society sphere.

Finally, there are considerable limitations to the conclusions. For example, the case studies are merely based on two Chinese mining SOEs investing in two Latin American countries. As large-scale SOEs in China, their internal motivations are often more complicated than outsiders think. Moreover, nowadays Chinese companies investing in Latin America are not restricted to SOEs, and private companies and public-private joint ventures are gradually playing an important role in China's overseas investment. Therefore, further research is needed to explore the operation modes of different types of Chinese enterprises in Latin America.

Disclosure statement

The author declares no conflict of interest.

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