

Social risks management of Chinese mining investors in Latin America: a Peruvian case study

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1. Introduction

With entry into WTO in 2001 and the accelerating pace of its ‘Going Out’ strategy, China has had a remarkable period of strong growth. As a result, there has been a surge in Chinese demand for raw materials in general and metals in particular in order to sustain the high rate of economic expansion. Driven by domestic demand and other considerations, Chinese overseas mining investment has increased dramatically over the past decade, with Latin America being a major recipient region. Focusing on Latin American countries, China’s appetite for minerals, along with the sharply risen commodity prices (in the 2000s till 2014), has boosted local economic growth and China has become a major player in the region in less than two decades. Chinese mining enterprises have acquired increasing projects in Peru, Brazil, Ecuador and Chile, among others. Yet Chinese mining investments in these countries vary in sizes. Peru is the largest recipient and has absorbed more than half of the total investments. Peru’s liberal policies, as well as its long history of mining and Chinese immigration, are particularly attractive to Chinese firms. According to the *Financial*

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Times, Chinese investment accounted for one-third of all new inflows into Peru's mining sector (Jamasmie, 2014).

Nevertheless, while these Latin American governments seem to receive Chinese capital with open arms, the residents living around locations where mining operations are taking place often adopt a different attitude. For example, in Peru, the presence of Shougang, the first Chinese company in the country's mining sector, inaugurated a tense relationship with the labour force in 1992. Regarding the most recent investment at Las Bambas, the Chinese firm MMG encountered strong resistance from local communities. These conflicts have led to both tangible and intangible costs for Chinese investors. Since Chinese companies have a relatively short modern history of overseas investment, they are rather unsophisticated at coping with social issues in new cultures and contexts involving communities.

This study focuses on how Chinese companies manage social risks when investing and operating in mining activity in Latin America through a Peruvian case study. Peru is abundant in mineral resources, as well as in long-standing population of mining areas; it also has the largest Chinese presence in the mining sector – thus providing a good opportunity to study social risks management of Chinese investment in the region. Broadly the object is to see if Chinese companies perceive 'Corporate social responsibility' (CSR) from a classical or a stakeholder

point of view, or whether there is any change in their perception of CSR as time goes by. Additionally, the study explores whether Chinese mining companies have achieved a Social Licence to Operate (SLO) before and during operations as well as the reasons behind it. The article first analyses a little on social issues, CSR and SLO related to mining, then moves to the case study part, examining two mining projects operated by Chinese companies in Peru. In conclusion an assessment of policy implications is presented.

2. Mining, CSR and SLO

Mining is an important but also controversial engine of national economic growth. Investments in mining can be a positive catalyst for increasing government revenues and foreign exchange access, motivating infrastructure initiatives, creating jobs, and improving livelihoods. However, the industry has also often been associated with so-called ‘Dutch disease’ difficulties in economic growth and destructive environmental impacts, social disruption, and hence public opposition (Miller & Sinclair, 2012; Prno & Scott Slocombe, 2012). At the micro-local level the environmental, economic and social changes that mining brings to local communities involve risks, which can materialise as public conflicts such as road blockades, vandalism, strikes, and other acts of protest (García Westphalen, 2012). These

conflicts can be expensive, as they may lead to delays in mining projects and even the revocation of concessions (Humphreys, 2000), and, in anticipation of such, to reluctance to engage in any initial investments at all.

Some authors have acknowledged that mining companies, in order to thrive in the new global social context, must recognise the challenges the industry poses to communities, employees, and civil society, among others, and, are under pressure to make efforts to handle them (Jenkins & Yakovleva, 2006). Such analysis falls into the conceptual framework of ‘Corporate social responsibility’ (CSR) from a stakeholder point of view. CSR is a term used to describe the contribution that business activity might make to society and environment (ibid). Two different angles on the role of business in society lead to two different viewpoints on CSR: the classical and the stakeholder (Branco & Rodrigues, 2007). From the classical point of view, claiming justification in neoclassical economic theory, the sole objective of business is to increase the wealth of shareholders and the engagement in social responsibility activities could (but need not always) be unfavourable to such an objective (Friedman, 1998). In contrast, from the stakeholder point of view, business should be accountable not only to shareholders but also all parties affected by its activities, who are stakeholders (Freeman, 1998). At least for international mining companies, it is increasingly the case that viewing CSR from a stakeholder perspective helps their mining

operations as sustainable development. That is to say, international mining investors increasingly take into account the diverse demands of stakeholders who claim to be affected by the industry (Viveros, 2014).

Based on the stakeholder-sensitive concept of CSR, the device of the Social Licence to Operate (SLO) emerges as an important element in discussions about the handling and reduction of social risks related to the mining industry in particular. According to Boutilier and Thomson (2011), SLO refers to the level of acceptance or approval granted on an on-going basis by the local community and other stakeholders to a company's operations. Often intangible and informal, SLO is different from the legal permissions required by a local or national government. In the mining sector, mere possession of a legal licence does not normally guarantee that investors will be free of social risks; an SLO has also to be sought and maintained in order to avoid expensive social risks (Portales & Romero, 2016).

3. Case studies

In this short section I consider two cases of mining operations in which Chinese primary-producing investor companies have played a prominent recent role and in which arrangements to deal with social risks have been conspicuous. In one case these arrangements appear, at

least so far (2016), to have mitigated social risks successfully; in the other the opposite appears to be the case, again at least so far. The analysis is narrative and relies on secondary materials. Both operations are in Peru, which removes the influence of national policy differences from the comparison.

These two mining operations have other points in common as well as striking differences, so that the issue arises whether their very different trajectories in terms of handling social risks and costs derive from those innate striking differences, or instead from differences in the way in which essentially similar operations have handled specific costs and risks. The points in common pertain to the mining itself: in each case the operation is open-cast ore-extraction with primary processing (separation of what is commercially viable from the ore filings through crushing or milling); the site is likewise in each case one of international importance in terms of size and concentration of deposit; and the operation has in one form or another been long-established, in each case well before the Chinese investor interest appeared on the scene. The striking differences pertain, not so much to the product (iron ore versus copper and associated derivatives) as to the location, its labour-market features, and the vintage of the Chinese investment. In one case the location is near-coastal, the relevant labour market is unionised and overlaps a labour market in commercial agriculture, and the Chinese investment is of an early 1990s vintage; in the other case

the location is at high-altitude, the labour market is one of community arrangements rather than of unionised labour, and the more recent Chinese investment has had the benefit of more than a decade of local experience before taking the operations on. In the first case we observe continuing acrimony between investor and local stakeholders in what is unchanging setting pre- and post-investment; in the second case we observe relative success despite what amounts to a major social upheaval from pre- to post-investment. The following table summarises the main features of the two operations which, to repeat, are each very big mining-camp operations by international standards.

Table 4: Main features of the two operations

	Marcona	Toromocho
Altitude	300 – 370 m.	4,700 – 4,900 m.
Site surface impact area	150 sq. km	91 sq. km
Ores	Iron	Copper, molybdenum, silver
Estimated reserves	1,400 million tonnes	1,525 million tonnes
Quality of concentration	> 0.50% fe	> 0.48% cu

Annual production (2014-5)	20 million tonnes	184,000 tonnes (copper)
Projected useful mine life	50 years	35 years
Projected affected population	> 15,000	> 10,000
Electricity requirement	32 MW	165 MW
Current capital expenditure	US\$1.2 bn	US\$3.5 bn
Year of original mine creation	1953	1966-76
Year of initial China investment	1992	2007
Chinese operator	Shougang Hierro	Chinalco

Sources: this summary has been assembled from mining industry and Peru MEM sources. Author's elaboration.

3.1. Shougang's mining in Marcona, Peru

Notable academic literature on Shougang's operations in Peru includes González-Vicente (2013), Guo (2015), Irwin & Gallagher (2012, 2013), Pinto Herrera (2011) and Sanborn & Chonn (2015).

Social risks and conflicts of Shougang's activities are historically largely related to labour issues, giving the site a negative reputation throughout Peru. Nonetheless, Irwin and Gallagher (2013) suggest that despite Shougang's notorious reputation of violating labour rights, the company's performance is average or better on some quantitative environmental or social indicators, compared to others operating in Peru. Pinto Herrera (2011) also claims that Shougang has one of the highest shares of employment expenses in relation to sales revenue among mining companies in the Andean country. Why then has the labour force denied Shougang the requisite SLO and why are there consecutive annual strikes?

3.1.1. A history of Shougang Hierro Peru: beginning with a problematic contract

As noted, Marcona dates back to the 1950s. In 1975, Peru's military government nationalised the U.S.-based company and renamed it as *Empresa Minera de Hierro del Peru* (Hierro Peru)². After the expropriation the public management failed, however, due to low efficiency and high bureaucracy (Guo, 2015: 57). At privatisation by the Fujimori government in 1992, state-owned Hierro Peru was loss-

² Peruvian Iron Mining Company

making, had heavy debt, low productivity, an aging workforce and a politicised union (Sanborn & Chonn, 2015: 35). Shougang nevertheless purchased the mine at a price of \$120 million – more than five times the listed price of \$22 million (Guo et al., 2012: 139). Moreover it committed to invest another \$150 million over the following three years, much higher than the asking investment amount of \$60 million. The deal stirred controversy in both countries because of the inappropriately high purchasing price. Several years later, Shougang managers admitted that the bid was indeed too high and the company failed to carry out an adequate risk assessment due to the lack of overseas experience and earlier impulsiveness in the decision-making process (Guo, 2015: 55).

One feature stands out in the controversial deal: Shougang was desperate to secure the mine. At that time the company was one of the best-run SOEs in China, in part owing to the close ties of its chairman with the highest officers of power (Sanborn & Chonn, 2015: 35). To turn itself into China's leading steel producer, Shougang planned to build a new steel plant in Shandong Province, which required a high quantity of iron ore (Guo, 2015: 54). Thus the company signed the problematic contract to complete purchase of the mine. But its commitment was too demanding. Even worse, in 1995 Shougang was forced to complete its expansion and was in danger of collapse when its chairman became implicated in his son's economic crimes (ibid: 63).

The company was compelled to shut down several investment projects, including the steel plant mentioned above (Steinfeld, 1998: 219). Further, the parent company could not provide a letter of credit for the subsidiary to borrow from Peruvian banks (Guo, 2015: 54). Shougang had thus no funds to fulfil its commitment, investing only \$38 million instead of \$150 million in the first three years. The government set a new investment target for 1999, but again Shougang did not complete it, investing \$137 million over seven years and paying a \$12 million fine (ibid: 64).

The underinvestment accentuated inefficiency and accident rates as Shougang failed to renovate decade-old mining facilities, entailing a principle cause of labour conflict (Guo et al., 2012: 140). In addition, broken promises bred mistrust among the workforce and other residents of Marcona. This is largely attributed to the poor communication: Shougang did not explain its financial crisis to the union, the government or the media, and even tried to conceal problems from them (Irwin & Gallagher, 2012: 22). The public view became that Shougang was a company with no credibility, choosing to pay a fine rather than fulfil investment commitments, which resulted in Shougang's persistent failure to achieve an SLO. Although the mine became quite profitable with the surge in iron ore prices in 2005-2014, and Shougang did enlarge its investment, the company has failed to win local hearts and minds.

3.1.2. Labour tensions: not from the start

Shougang's persistent labour tensions have resulted in a dismal reputation in an region with an active competing (agricultural) labour market. While the majority of families in Marcona depend on income from Shougang employment (Sanborn & Chonn, 2015: 23), labour issues remain a heated local debate. The company's labour problems have been so severe that ECLAC experts deem them more intense than anywhere else in Peruvian mining (ECLAC, 2010). Indeed Marcona employees have frequently been on strike annually, each involving daily costs of up to \$1 – 2 million for Shougang (21st Century, 2010). Each settlement has disappointed both sides and inhibited modernising investment, so that rancorous relations continue in cumulative fashion.

Nevertheless, there was once a 'honey moon' period in Shougang's labour relations. In the first three years after acquisition of the mine, Shougang granted whatever the labourers required (Guo, 2015: 62); though at the very beginning it erred by taking Chinese workers to Peru and evicting the previously dismissed Peruvian workers from company housing in order to accommodate the Chinese newcomers (Irwin & Gallagher, 2012: 20). Having realised that such action had angered Peruvian workers, Shougang sent back the Chinese workers and invited union leaders to China to visit its parent company, aiming to build a good relationship with the local workers (International

Herald Leader, 2004). But the leaders responded “ungratefully” by demanding increased benefits to the same standard as they had seen in China (ibid). Shougang, unfamiliar with Peruvian law and without experience in dealing with labour unions, agreed all the requests. As a result, employee welfare was so generous that apart from the high wages, workers’ families enjoyed free housing and health service, and the company was responsible for the cost of their children’s education (Wang, 1997). To this day, union officials praise Shougang for having significantly improved workers’ daily wages and benefits over 1993 – 1995 (Irwin & Gallagher, 2012: 20).

3.1.3. Reasons behind the growing labour conflicts

What then triggered the change in the situation and aggravated labour relations to today’s low level? Two main factors contributed to all of this: the company’s financial crisis in 1995 and lack of openness in communication and negotiation.

First, Shougang’s severe financial problems in 1995 led to a change of attitude toward the union. In 1996, after trying to compromise and satisfy the union’s demands for three successive years, Shougang realised that it would be problematic and not affordable to “endlessly concede”. With the unreasonable financial burden and limited cash back

home, the company thus suddenly rejected everything (Guo, 2015: 62). Under the circumstances, in August 1996, Shougang's workers went on strike for 42 days (Acta de Sesión, 2000). Having little experience dealing with unions, the firm adopted a hard-line strategy toward the strike. Thereafter labour tensions became increasingly severe, and strikes became a yearly problem to Shougang. In addition, the financial crisis in 1995 also resulted in underinvestment. As Shougang broke the commitment to investment, it betrayed the entire purpose of privatisation. The union had long insisted on renovation of machines and buildings to ensure a safer working environment and increased productivity. Workers went on strike repeatedly already in the 1980s demanding newer and bigger facilities (Irwin & Gallagher, 2012: 21). Although Shougang did not stand out among foreign mining companies in Peru for deaths or serious accidents, its lack of investment in the modernisation of machinery and equipment both endangered and angered the union (ibid: 13).

Second, the company's hard-line approach to union negotiations has generated mistrust and aggravated existing contradictions, leading to frequent protests that attracted media attention. When company and union stood in opposition to each other in 1996, the union leaders publicly attacked the firm by slandering its managers in the newspaper (Wang, 1997). Furious at such action, Shougang precipitately fired four head union officials to "suppress their arrogance" (ibid). However, what

happened next was the exact opposite of Shougang's goals. It further angered the union and one of the fired leaders later joined the Peruvian Congress becoming Minister of Labor (Economy & Levi, 2014: 90). The company also hired a private police force to put down the strike (ibid). Such an extreme way of dealing with strikes was neither understandable nor acceptable in Peru, as going on strike was part of constitutionally protected labour rights in the country. In contrast with this, the Chinese party viewed strikes as making trouble out of nothing and saw their own way of doing things as appropriate disciplinary measures. Shougang chose to stonewall union negotiations and even went so far as to illegally break strikes.

Nevertheless, after Shougang changed its attitude toward the union in 1996, the company tried to communicate with the labour force. According to Aimin Kong, a manager of Shougang Hierro Peru, the union was never satisfied and asked to renegotiate many times after the company and the union had reached a deal through tough communications (Huang, 2013). In Chinese managers' eyes, such actions were irritating and showed a lack of credibility. Moreover, the Chinese side believes that union leaders used strikes and protests to benefit personal political careers; leaders thus never seek real communication or reasonable agreement (ibid). Given this frame of mind, Chinese managers adopt a hard-line approach to the union, and are only willing to negotiate basic wage increases. They refuse to

communicate on demands such as cancellation of wage differentials among young and old workers or on the daily cup of milk per employee, arguing basic wage increases can be translated into such benefits (ibid). But Peruvian employees see such benefits as different from basic salary. They feel ignored by the company and accuse it of resisting all benefits. Without understanding and trust between the parties to the employment relationship, the union refuses to grant an SLO to the company and keeps fighting for its rights.

Moreover the management also lacks openness in dealings with the public or the media. One Shougang employee claimed in an interview that the company had spent a large amount of money on newspaper advertising but had received very poor results (Huang, 2014). What the company needs, however, is not advertisement but communication. And Shougang, like other Chinese companies, tends to consider the foreign media as hostile. For example, after the New York Times did not report what the company had said in an interview, Shougang decided not to do interviews with the media any more (ibid). The company is conservative even with the Chinese media. When *China Enterprise News* tried to contact Shougang in order to know more about the strikes of 2013, the interviewed employee maintained that he knew nothing about the protests (Chen, 2013). Keeping silent to the media may prevent the company from “saying the wrong words”, but it can also give the union the opportunity to take advantage of the

media. Lack of transparency to the media and the public makes the company suffer more from inharmonious labour relations and damages its reputation.

3.2. Chinalco's mining in Morococha, Peru

Aware of the social conflicts caused by Shougang and other, Western-owned, mining firms and their reputation in Peru, Chinese companies stepping into the country over the past decade appear to try to learn lessons from the mistakes of their predecessors and making efforts to be socially and environmentally responsible. The leading example in Peru is Chinalco. In contrast with the case of Shougang, Chinalco acquired the Toromocho mine at a time when the PRC had already been established as an increasingly important investor in Latin America, as in other parts of the world such as Africa. The stereotype in the west that Chinese investors are irresponsible and unruly has put greater pressure on the company. Therefore, in order to mark the distance and become a truly global firm, Chinalco has invested considerable time and resources in its new operation, carrying out carefully the relocation of Morococha (an old contaminated mining town in Junín, Peru) and building facilities of higher quality than the other companies in the area (Gestión, 2014). The Toromocho mine is also one of the largest copper mines in the world. Because of its size and the bold action of relocation, the Toromocho copper project has

gained attention worldwide. And thanks to its cautious attitude toward community communications and environmental protection, Chinalco has garnered a relatively positive reputation in Peru. When Chinese president Xi Jinping travelled to Latin America in July of 2014, the Peruvian ambassador to China praised Chinalco as a good example for overseas investment, citing the company's high environmental standards and sense of responsibility (Liu, 2014).

However, it is not easy to develop the project, which involves substantial challenges: located 4,500 meters or more above sea level, the mine demands a high quality of technical machinery and equipment to deal with harsh natural conditions. Moreover, the project comprises the highly controversial resettlement and the building of an entire new town of more than 5,000 inhabitants, which is the first of its kind in Peru. Given the influence of various complex factors, it is surprising that the project has gone relatively smoothly in general. This case study intends to explore how Chinalco has handled the social risks and gained an SLO from the majority of the community to make the project less contentious and more reliable.

3.2.1. Background for the complex process of relocation

The Aluminium Corp. of China, or Chinalco, is one of the largest aluminium producers in the world. In 2007, the company obtained the Toromocho project by purchasing the junior Canadian firm, Peru Copper Inc. One year later, the company acquired a 36-year concession to exploit the copper mine and agreed to build a new town to accommodate the 5,000 residents of Morococha, a mining town nearby established more than a century ago (Johnson, 2015). Chinalco had little choice but to undertake the relocation. This is because the copper project is an open-pit mine and as it expands, mining operations will destroy the Toromocho mountainsides and eventually undermine the town. Although after the start of operations, the mine would take seven years to reach the areas of the town, Chinalco decided to begin the building of the new town at the same time as it began the construction of the mining site (People's Daily, 2013). That is to say, instead of following the traditional route, the enterprise chose to invest heavily to fulfil the social responsibility before making any profit.³ This is a strong start to win the social licence to operate from the community.

The resettlement is indeed beneficial for the residents of old Morococha, as the town has been seriously polluted by previous long-term mining activities and has virtually no public services. Affected by tailings and acid mine drainage, the original Morococha has been

³ Chinalco covers the total cost of relocation, which is estimated to be as high as \$150-200 million (Economy & Levi, 2014: 111).

contaminated so heavily that clothes hanging to dry will be permeated with pollution from the mine as if “they have been sprayed with starch” (Carrete Sanchez et al., 2014: 70). Moreover, access to water, even polluted, is difficult: there is no potable water in the town and people have to walk into the hills to get it (Johnson, 2015). Such environmental degradation has harmed local residents’ health, especially the children’s, who are more vulnerable to pollution: 45 percent of local children suffer from chronic malnutrition (Salazar, 2009). Apart from the contamination, living facilities are in bad conditions, as miners and their families often have to live in crowded, unsanitary shanties (ibid). In contrast with the old town, the New Morococha, completely constructed at the end of 2012 by Chinalco, is equipped with modern facilities including running water, drainage system, electricity, and public lighting (Vargas, 2015). Public services also exist in the new town such as religious, educational and health institutions (ibid). Additionally, people can enjoy public areas like parks and a stadium in the town (ibid). Given the improvement of living conditions in New Morococha, if the relocation is properly undertaken, it can be a win-win situation for both the affected people and the mining company.

3.2.2. Community engagement: the key strategy to tackle resistance

Nevertheless, although resettlement signifies a chance for better living standards, it is difficult for the company and local residents to reach an agreement on how the process should be carried out. Chinalco initially faced a formidable resistance, led by the town's mayor Marcial Salomé and an association of property owners. While the residents without their own homes wanted to move away from the old town as soon as possible⁴, an influential group of property owners, who felt that they had a greater claim to their land, were reluctant to accept the prices proposed by the company and intended to gain more compensation (Salazar, 2009). For example, according to an article of *The Guardian*, the mayor Salomé asked Chinalco to pay \$300 million for the "loss of identity, culture and tradition from the move", and he was seeking stable jobs for his town's residents in the new mine (Collins, 2012). Moreover, there were some protests opposing Chinalco's relocation plan in order to push the company to offer more (Economy & Levi, 2014: 111). Such conflict is not specific for Chinese-run projects, but endemic to the mining industry. To deal with it, the crucial strategy is to engage affected residents in the decision-making process and make their voices heard, which is what Chinalco has done so far.

⁴ The relocation is a project that had already begun to be negotiated with communities in the old town before the purchase by Chinalco. By 2006, 92% of the population have signed resettlement agreements (Behre Dolbear, 2012: IV-24).

The key to Chinalco's relative success lies in the establishment and maintenance of an open, transparent and horizontal communication with the stakeholders. Chinalco hired the Social Capital Group (SCG), a Peruvian consultancy previously contracted by the former Canadian mine owner, to play an important role during the relocation process. SCG has developed a careful approach to public consultation and participation, which is actively supported by the managers of Chinalco. Through participative workshops, the company continuously consulted affected populations about various aspects of the relocation plan, such as the location and design of the new town (Chinalco, 2013: 164). In addition, aiming to manage emerging issues and respond to the communities' grievances efficiently, daily management meetings are held on site. This offers chances for local residents to communicate with community-relations staff (Behre Dolbear, 2012: IV-22). Moreover, facing strong opposition from the mayor of Morococha against the resettlement process, the company negotiated in an on-going way with the mayor and his supporters through informal communication and round table dialogue (ibid: IV-23). Such a mechanism involved regional and local government, a broad range of community organisations, and Chinalco (Carrete Sanchez et al., 2014: 72). Finally, the mayor joined the majority supporting the relocation (ibid: 73). By 31 December 2015, 94.7% of the households who were scheduled to be moved to the new town had relocated, and the whole resettlement is expected to be

completed by the end of 2016 (Chinalco, 2016: 14). Overall, Chinalco has developed a responsive community relations system, leading to high levels of social acceptance.

3.2.3. Other corporate social responsibility fulfilment

Apart from a robust communication system and the construction of a new town with infrastructure and public facilities for resettlement purpose, Chinalco has also shown environmental and social responsibility through other practices. Aiming to promote a healthy coexistence with communities, Chinalco has spent heavily on environmental impact assessment, with the highest standards among Peruvian mining firms (Liu, 2014). The company has also invested \$50 million to build an advanced water treatment plant, which resolves the decade-long polluted water issue caused by other mining companies. This allows Chinalco to use treated wastewater rather than fresh water in the vicinity to supply the Toromocho Project (Chinalco, 2013: 136). Such a cautious approach helps the company mitigate social risk related to pollution issues. Additionally, bearing the target of good community relations in mind, the company has established a social fund, Fondo Social Toromocho, and has implemented various health, education and career development programmes to improve local residents' living standards. In terms of labour issues, the company is committed to a

target of zero accidents and has made great efforts to provide a safe and effective work environment, including offering employees training, high-quality facilities and emergency medical treatment to prevent accidents (ibid: 163).

Aside from community and labour relationships, Chinalco also pays attention to relations with other stakeholders, such as the media. It shows openness to the public by providing periodic updates on the project to leading national press, and, releasing monthly newsletters reporting on project developments and community benefits on its informative website (Behre Dolbear, 2012: IV-23). By doing this, Chinalco not only manages to be socially and environmentally responsible but also tries to make itself perceived as such, and thus garner a positive reputation.

4. Conclusion

Mining is a complex activity with long time-horizons; large capital requirements; multiple environmental and social demands; and relatively high risks, in particular high social risks (pertaining to household life-cycles). Technology and terrain aside, the social risks arise because of a subtle but poignant juxtaposition: mining releases natural wealth and provides employment and revenue, often on a grand

scale; but at the same time it alienates that wealth from those whose culture has evolved on top of it, and it often redistributes the resulting employment, services, and revenues to others, leaving the original incumbents, once the mine has been exhausted, with piles of tailings, toxic run-off, and water scarcity.

Modern communications and awareness of finite resources have raised consciousness in this regard. The issue thus arises whether mining activity is still best envisaged as classical profit- (strictly, rent-) seeking, with clear losers as well as winners; or whether a broader sensitivity and adaptability to more diverse stakeholder concerns delivers more nuanced and more acceptable results. That is the core of the problem considered here in relation to the burst of resource-seeking direct investment by Chinese companies, mining for minerals in the Andes, over the past quarter-of-a-century – this being a burst of investment resembling the European scramble for resources in the last quarter of the 19th century.

The answer to the problem – shareholder-driven or stakeholder-mediated – cannot be provided in full in a short study relying on secondary material. Instead this work presents, mainly in the form of two brief case studies, a plausible evolution in the behaviour of Chinese investors and their Peruvian interlocutors: evolution from an inexperienced two-sided contractual relationship which delivers tension

over rent-seeking with ineffectual state-intervention on the side-lines; to a more sensitive multi-dimensional give-and-take relationship in which the investor's recognition of the local community's life-cycle interests reconciles the community to the 'economics' of the investor's requirements, reducing the need for what might be misguided local state-intervention.

The fact that the earlier project (Marcona-Shougang) has not to date resolved the difficult three-sided nexus of an inheritance of unionised wage-pressure, low labour-productivity requiring investment, and unprofitable operation penalizing such investment is, however, only partly a matter coming early in the succession of Chinese investments, without the benefit of learning-by-doing. Three other aspects contributed to the difficulty: first, Chinese state-owned companies do most naturally deal with the local state, rather than with the relevant stakeholders; but here the state was washing its hands of the investment through privatisation; second, a dialogue with unionised interests focuses more naturally on wages and productivity than on public goods and communal living conditions; and, third, the coastal and more urban setting (with more fluidity in the labour market) makes it harder to agree on investment outcomes in which community social goods cement trust. The later project (Toromocho-Chinalco) has had not only the advantage of learning-by-doing in terms of multi-dimensional bargains with local stakeholders; but the advantage of being able to

deliver a clear social good in the movement of the Morococho town from old tailings and toxicity to new quarters.

This article has referred to the modern device of a social licence to operate (SLO) as part of corporate social responsibility (CSR). This SLO is present at Toromocho and still elusive at Marcona. The device points to a particular Latin American problem arising from the weakness of the state – which on the one hand pursues mining investors actively, but on the other hand stands aside from the detail of the local stakeholder issues that complicate modern mining investment. The fall-back position, instead of properly-aligned government/community/investor interests, is for the Chinese corporate investor to short-circuit the poor communications between the central authorities and the communities, and get the stakeholders to subscribe to an instrument known as a social licence to operate (SLO). Subscription to an SLO is in effect a form of partial insurance against social risks: the investor operating under imperfect official guidance remote from local issues, may yet generate the external effects which lead to resentment and disruption – and the SLO may thus die along the way – but for the time being this instrument buys the sort of local trust which the remoteness of official action cannot secure.

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