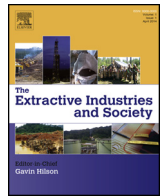




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Original article

# Chinese investment in Greenland's mining industry: Toward a new framework for foreign direct investment

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### ABSTRACT

This paper examines the dynamics of Chinese investment in Greenland's mining industry, drawing on findings from interviews with representatives from selected companies, organizations, and financial institutions. Support from the central government, along with political stability and an abundance of high-quality mineral resources, has facilitated Chinese investment in Greenland's mining sector in recent years. Chinese mining companies now operating in Greenland have, however, faced a number of problems along the way. A dearth of international management skills and stringent social and environmental legislation in particular have proved to be major challenges for Chinese mining companies investing in Greenland.

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## 1. Introduction

Since the end of the twentieth century, the pronounced summer melting of sea ice in the Arctic Ocean has triggered much speculation about the opening of much shorter sea routes linking Europe via the eastern coast of North America to Asia (Borgerson, 2008; Pelletier and Lasserre, 2012; Käpylä and Mikkola, 2013). Traditionally, there has been little interest from Asian, European, and North American shipping companies in developing regular shipping lines through the Arctic (Borgerson, 2008; Lasserre and Pelletier, 2011; Lasserre, 2014; Beveridge et al., 2016; Lasserre et al., 2016). With the recent surge of interest in the vast mineral potential of the Arctic, however, this view has changed (Arnarsson et al., 2014; Farré et al., 2014; Têtu et al., 2015a; Beveridge et al., 2016; Lasserre et al., 2016).

This bodes well for China, where demand for raw materials has increased significantly over the past 30 years (Zweig and Juianbai, 2005). To satisfy the country's appetite for minerals and fuels, Chinese mining companies have financed a number of mining projects across the globe, including in new frontiers such as the Arctic and Greenland more specifically (Wilson and Stammler, 2016). China's interest in the Arctic is not new (Ebinger and Zambetakis, 2009; Chen, 2012; Li and Bertelsen, 2013); it began to intensify in the early-1990s when Beijing launched its first 5-year

scientific research program in the Arctic Ocean in cooperation with German universities in Kiel and Bremen (Huang et al., 2014: 36; Bertelsen et al., 2016). This, however, has not stopped Scandinavian media outlets from portraying the growing scientific, economic, and diplomatic interests of China in Greenland very negatively (Reynolds, 2005; Shoumatoff, 2008; Izundu, 2010; Breum and Chemnitz, 2013). Moreover, Western portrayals of Chinese companies serving as trojan horses for state interests have found their way into local media outlets (Alexeeva and Lasserre, 2012; Lajeunesse and Lackenbauer, 2016; Taagholt and Brooks, 2016). Some commentators have condemned China's geopolitical strategy in Greenland outright and the Arctic more generally, while others have speculated on the potential impacts of arriving Chinese workers (Anonymous, 2013; Hansen et al. 2016) and Beijing's efforts to facilitate long-term access to the region's resources (Boersma and Foley, 2014).

In 2009, the Government of Denmark passed the *Act on Greenland Self-Government* (Act 473), the product of an agreement forged between it and the Government of Greenland (Government of Greenland, 2009). The act aims to provide more autonomy to Greenlanders, including freedom to manage the country's mining industry (Bjørst, 2016). The intentions and uncertainty surrounding the strategies of Chinese companies investing in Greenland's mining industry dominated discussions leading up to the passing of the act. Foremost among these was: given that Greenland's self-government strategy aims 'to maintain a high level of mineral exploration activity to increase benefits in the form of new jobs and increased income for Greenlanders' (Government of Greenland,

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2014), what plans do Chinese companies have to simulate local employment?

Despite the limited presence of Chinese companies in the Arctic (Têtu et al., 2015b; Têtu and Lasserre, 2017), there is a need to broaden understanding of the factors fueling Beijing's investment in the region, in particular, its growing interest in Greenland's mining industry (Song, 2011; Li et al., 2012; Liang et al., 2012; Mortensen, 2013; Lu et al., 2014: 446). Drawing on findings from semi-structured interviews with representatives from Chinese companies, organizations, and financial bodies, this paper helps to bridge this gap. The next section of the paper reviews literature that examines the motives of Chinese Foreign Direct Investment (FDI) in the mining industry. The third section presents our theoretical framework and associated concepts, outlines the methodology, identifies the sources of data drawn upon in the analysis, and details the thematic content employed. We will then identify the factors driving Chinese FDI in Greenland specifically, and highlight the challenges Chinese mining companies face there. Finally, we will discuss the main findings and provide concluding remarks.

## 2. Motivations of, and strategies employed by, chinese mining companies investing abroad: a critique

There is a growing body of literature which examines the motivations of Chinese firms investing abroad (Zheng and Williamson, 2003; Ralston et al., 2006; Larçon, 2009; Imparato and Corkin, 2010; Wei, 2010; Mlachila and Takebe, 2011; Amighini, 2012; Amighini et al., 2012; Dunning, 2012; Kolstad and Wiig, 2012; Deng, 2013; Hu, 2013; Huang and Wang, 2013; Reeves, 2013; Warmerdan and van Dijk, 2013; Zhang et al., 2013; Xia et al., 2013; Lu et al., 2014; Moghaddam et al. 2014; Andreff, 2015). However, it mostly provides simplistic assessments of the drivers of Chinese FDI: in OECD countries versus non-OECD countries; according to the type of ownership (Choi et al. 2010), whether public or private; and according to various theoretical frameworks which mainly consider the internal factors of firms. On the former point, the literature (Haglund, 2008; Ramasamy and Yeung, 2010; Hurst, 2011; Kolstad and Wiig, 2012; Ramasamy et al., 2012) argues that Chinese companies target OECD countries to gain access to new markets, and non-OECD countries mostly to secure strategic resources for Beijing. It tends to draw these conclusions even though there is very little evidence at the operational level of this strategy even existing (Li, 2013). Some papers (Amighini et al., 2012; Hu, 2013), however, argue that Chinese FDI in OECD countries is also driven by Beijing's thirst for supplies of strategic resources.

To date, few studies have focused specifically on the experiences of Chinese mining companies in the Arctic (Woo and Zhang, 2006; Yao et al., 2010; Li et al., 2012; Li, 2013; Lu et al., 2014), and the factors driving their investment in Greenland in particular. To add nuance to the analysis presented above, on the one hand, investment from Chinese state-owned enterprises (SOEs) is driven solely by Beijing's need to gain access to strategic resources. On the other hand, private Chinese companies (privately owned enterprises, POEs) are motivated by the prospect of gaining access to new markets (Liu, 2008; Deng, 2009; Li, 2013; Lu et al., 2014). This has been observed throughout Africa (Cheung et al., 2011; Li et al., 2012; Hu, 2013; Zhang et al., 2013), Latin America (Li, 2013) and the EU (Amighini et al., 2012). To our knowledge, no study has been undertaken to identify the drivers of Chinese investment in Greenland's mining sector. Our framework for analyzing this phenomenon considers a Chinese mining company whose objective is to maximize profits and which seeks to operate sustainably, and the specific political environment in which it interacts with its competitors, foreigners or indigenous (Korinek and Kim, 2010).

The success of Chinese companies in the mining industry of Greenland, therefore, is determined by a combination of political, economic and diplomatic factors. As has been the case for Western companies, Chinese mining firms will eventually benefit from diplomatic and financial support from Beijing. However, as Porter (1990: 3) correctly points out, "we must isolate the influence of the nation on the firm's ability to compete in specific industries". A Chinese mining company, state or privately-owned, will benefit from Beijing penetrating foreign markets (Morck et al., 2008; Deng, 2013; Hu, 2013; Lau, 2013; Li, 2013). This advantage may derive from *ad hoc* support or from a deliberate and articulated strategy: this is what is often referred to, in the case of the extractive industries, as a "Resource Diplomacy Strategy" (Jantzen, 1973), a rivalry between globalized economies to secure access to strategic materials to maintain levels of economic growth (Ozawa, 1992; Riordan, 2004; Skidmore, 2004; Zhao, 2008; Lu et al., 2014).

## 3. Methodology

### 3.1. A multilevel survey

The design of our survey design was informed by a geopolitics methodology used by Beveridge et al. (2016) and Lasserre et al. (2016). It sought to develop a more comprehensive understanding of the opportunities for, and the challenges faced by, Chinese companies operating in the mining "space" in Greenland. A sample of approximately 300 Chinese mining companies, organizations, financial institutions, and regulatory bodies was assembled, drawn from various sources. First, we selected the 21 Chinese mining SOEs operating directly under the supervision of the State-Owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China (RPC) (SASAC, 2011). Thereafter, 234 Chinese mining companies listed on world stock markets in Autumn 2013 were added to the sample. We also included another 19 Chinese mining companies selected from the China Beijing International Mining Exchange, an electronic transaction bourse and platform for mineral rights transactions in China. Finally, we included in our sample the Ministry of Foreign Affairs, the Ministry of Land and Resources, the Ministry of Commerce (MOFCOM), the China Mining Association, the Chinese Embassy in Denmark, the China Banking Regulatory Commission, the Industrial and Commercial Bank of China, the Export Import (EXIM) Bank of China, and the Chinese provincial governments.

We then contacted all parties on this list, first by email and then by phone. Interpretation service was required to engage some of the actors at the China Mining Congress & Expo 2015 in Tianjin and over the phone. First, they were asked whether they had investments, or not, in Greenland's mining industry during the period 1999–2015. Second, the Chinese actors on the list were asked whether they were interested in Greenland for market and/or economic motives, or looking to bring ore back to China. Finally, we focused on the internal and external factors fueling their investment in Greenland, and each was asked about the challenges they face. The research sought to test four basic assumptions:

- H1. That in the context of natural resource extraction, Greenland is a priority area geographically for China and that therefore, it should expect to attract a significant number of Chinese investments in the coming years.
- H2. Decisions about Chinese overseas investment in natural resource extraction are governed by Beijing's policies.
- H3. China's institutional and commercial banks are reluctant to finance overseas projects carried by small- and medium-sized companies.

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