THE POLITICS OF CHINESE MINING INVESTMENTS IN THE PHILIPPINES AND INDONESIA
The Philippines and Indonesia have two of the largest mineral reserves in the world, featuring 25 and 38 billion tons of precious and base metals. Both countries have a heavy concentration of gold, iron ore, lead, zinc, chromite, and copper. Between the two states, Indonesia’s oil and natural gas reserves are far more enormous. Both countries have been involved in mining from the colonial period up until the present. The Philippine Islands, as it was called then, became one of the more important sources of gold in the 1920s, eventually transitioning into the role of exporting copper and nickel to the American military from the early to mid-1930s. Similarly, the Dutch East Indies started the mining sector in the 19th century, becoming one of the larger sources of tin in the world. When both former colonies became independent, political elites and “strongmen” in both states empowered the mining sector to nationalize the economy and pursue import substitution industrialization (ISI). Former Presidents Ferdinand Marcos and Suharto of the Philippines and Indonesia, respectively, started exporting to the East Asian states during the Cold War, fueling the export-oriented “flying geese” model of Japan, South Korea, and Taiwan. Eventually, mining prices collapsed in the 1980s, which necessitated the reform of many Philippine mining firms. In contrast, Indonesia’s mining sector was never fully affected by the events in the 1990s. Decentralization changed the mining industry after Suharto. For both countries, the mining sector played a key role in their economic development and adapted to the rise of China in the late 1990s. As both sectors were reforming, China’s export-oriented industrialization (EOI) needed a massive infusion of cheap minerals to fuel their manufacturing sector. The Philippine and Indonesian governments were not only eager to supply minerals to the Chinese, but also open to accepting Chinese foreign direct investment (FDI) in their mining sectors. Yet while both governments had strong mining sectors in the past and wanted to accept Chinese FDI in the present, the investment pathway and form of Chinese FDI in the mining sectors varied. In the Philippines, Chinese investors concentrated their capital in the artisanal and small-scale (ASM) mining sectors, opting to work with local elites, middlemen, and regional business networks. Chinese investors in the ASM sector hire locals for rudimentary labor activities, bypasses the national regulatory agencies, and prefers short-term tenure. In Indonesia, though Chinese investors also
expand the ASM sector, investments are significant and growing in the large-scale mining (LSM) sector that encourages mineral processing yet limits value-chain upgrading. Chinese LSM imports Chinese nationals, generates employment for thousands of Indonesians, and encourages the gradual transfer of skills and technology. Despite their differences, both types of mining have noticeable development and negative spillovers. This paper examines the crucial puzzle: what explains the variation of Chinese FDI in both mining sectors? Why did the Philippines and Indonesia take different paths?

We suggest two interrelated but distinct points. First, we argue that both mineral sectors took divergent pathways during the Cold War and the 1990s, leading to different types of Chinese investments in both mining regimes. While the Philippines nationalized and relegated foreign capital to a minority role, Indonesia simultaneously pursued nationalization and liberalization during the Cold War. When mineral prices fell in the 1980s, the Philippine mining sector collapsed whereas firms in Indonesia stayed relatively stable. In the 1990s, the Philippines accepted neoliberal reforms that diminished the role of the state in the sector and empowered regional-local elites to build firms. The Indonesian mining sector did not need to liberalize, but decentralization lent significant powers to regional-local elites who started selling mineral tenements to domestic conglomerates and small-scale mining firms that affected the sector. Second, Chinese firms in both sectors come in through two different routes. While Chinese investors work with small-scale mining firms in the Philippines, major state-owned enterprises (SOEs) work with the government to develop mineral processing and enact greater influence in the sector. Our paper demonstrates how Chinese investments are adaptable to the different pathways depending on the trajectories of their national economies.

Our data in describing both sectors is built on field research conducted in the Philippines and Indonesia, particularly drawing from interviews with government officials, Chinese firm representatives, and workers.

SOUTHEAST ASIA AND CHINA

What are the historical underpinnings of China’s capital exports to Southeast Asia? There are two historical bases for the mediators of Chinese investments in Southeast Asia. First, European colonizers captured Southeast Asian pre-modern states and polities during various moments of European history. However, Southeast Asia experienced similar levels of economic transformation and colonial aggression in the 19th century. The European colonial economy increasingly integrated the Philippines, Indonesia, and the Malaysian Federation in the 19th century, transforming the colonies into sources of natural resources for European production. New innovations in transportation and military capabilities made it possible for the Europeans to explore previously unconquered areas of the Philippines, gradually expand across the Indonesian Sultanates, and slowly incorporate the Malaysian states. In the Riparian states, the French and British expanded by plunging the Kingdom of Thailand into economic dependency, shattering the Nguyen dynasties, and conquering the remaining Lao/Khmer polities.

Second is the historical migration of Chinese into Southeast Asia. While other regions in the world have Chinese diasporas, the Chinese population in Southeast Asia has been estimated to reach 33 million. Migration from China to Southeast Asia has changed the population and ethnic dynamics (Wu 1991). The region has historically been a recipient of vast numbers of Fukien and Hakka migrants since the 15th century. Though the European regimes initially institutionalized racial discrimination based on Catholicism, the Chinese eventually became middlemen and traders after centuries of political discrimination. In the 21st century, at least 33 million of ASEAN’s 500 million are considered ethnically Chinese. Furthermore, there is an undercounted population of people with partial Chinese heritage: Chinese mestizo in the Philippines, the Kabya in Burma, the Khmer kat Chen, Luk Krueng in Thailand, Peranakan Cina in Malaysia and Indonesia. The Chinese and the mixed Chinese populations have been treated differently in many parts of Southeast Asia. Race riots occurred in Indonesia and Malaysia in the post-war period, whereas the Chinese mestizo, the Kabya, and the Luk Krueng were gradually assimilated into their respective societies to some degree. However, some of these Chinese migrants became business or economic elites, emerging to control significant parts of the economy.

During the Cold War, Mao Zedong’s government attempted to export communism to the Southeast Asia (Kampen 2000). Communist insurrections funded by the PRC and the Soviet Union fought in the mountains of Indonesia, Malaysia, and Philippines. Groups also propped up in Burma, Thailand and Laos. In the meantime, Vietnam and Cambodia became hotspots for civil war and genocide. By the 1980s, China’s leadership under Deng Xiaoping marked a turn in China-ASEAN relations. Diplomatic relations were first established with Thailand, followed by the subsequent normalization of ties with Singapore, Brunei, and Indonesia. Eventually, all Southeast Asian states opened their economies to Chinese FDI and aid across the region. China participated in the ASEAN Regional forum in 1994 and acquired a formal observer status in 1995. While there is some degree of optimism over the PRC, there were also worrying trends. Territorial issues still continue as Beijing reiterates its formal claim of the South China Sea, which garners worrying reactions from other claimant ASEAN states. Furthermore, China pressured ASEAN states to renounce their ties with Taiwan in the 1980s. The PRC launched missiles off Taiwan’s waters in the 1990s, which led to the dispatch of U.S. ships in the vicinity.

China’s domestic conditions also started to transform. As Ho-Fung Hung shows (2015), outstanding debt in China skyrocketed from 148 percent of GDP to 282 percent, vastly surpassing the US and
developing worlds’ debt levels. China’s growing economic contradictions resulted in the surge in its exports of foreign direct investment, development finance, and other forms of capital inflows. In the early 1990s, Chinese FDI numbered around a few hundred million US dollars scattered around a handful of sub-Saharan African and Southeast Asian states. Since the early 2000s, Chinese FDI surged from US$2 billion to US$300 billion in 2012, expanding across different parts of the world across a variety of sectors. Following China’s recent economic slowdown and leadership transition, Beijing altered the behavior of Chinese FDI to help rebalance from export-led to consumption-driven growth (Camba & Hung, 2018). This included diversifying FDI acquisitions away from solely resource investments to a broad portfolio of strategic assets across a variety of sectors.

Despite these political concerns, economic relations between the PRC and ASEAN states became increasingly integrated. Until recently, territorial issues were pushed aside by China at the end of the 1990s and early 2000s. Instead, multilateral relations emerged through the ASEAN-China Free Trade Agreement (ACFTA) in 2002 and the Regional Comprehensive Partnership (RCEP) in 2012 (Percival, 2007). China’s bilateral development finance, overseas development aid (ODA), and FDI to ASEAN states also significantly increased. For example, Chinese ODA to Laos totaled around US$75 million between 1988 and 2000. However, ODA increased to US$125 million between 2001 and 2004. Other Southeast Asian states also received similar increase. For trade, the volume between China and ASEAN trade reached US$20 billion in 1995, but eventually ballooned to US$480 billion in 2014. Ironically, ASEAN's obstructed growth led to China's tremendous rise in the 1990s. ASEAN states eventually adjusted to the so-called Sino-Centric Global Production Network to remain competitive in the global economy. While huge state initiatives, such as the “Belt and Road Initiative,” continue to hover, China’s “going out” strategy is broadly transformative to Southeast Asian states.

CRISIS & REFORM: THE PHILIPPINE AND INDONESIAN MINING SECTORS

While China and Southeast Asian relations strengthened, it is crucial to assess the historical and contemporary conditions of Philippine and Indonesian mining in order to explain China’s current model of exporting capital to both sectors. This section explains how the Philippine and Indonesian mining sectors reacted to the crisis in the mid-1980s: (1) interest rate shocks and the global commodity glut; (2) a combination of the state’s shift from rowing to steering and domestic politics that led to the proliferation of small-scale mining; and (3) the continuation of neoliberal restructuring and the state’s persistent inability to steer the sector.

The impact of the commodity glut and interest rate hikes can be understood by looking at the development strategies of postcolonial states in the post-war period. From the post-war period to the
1980s, many post-colonial states engaged in import substitution in a vain attempt to copy the Western development strategy (Devlin, 2014; Frieden, 2006). Import industrialization encouraged the buildup of domestic industries, construction of infrastructure, and financing of SOEs, culminating in the state’s direct management of economic sectors. To fund these projects, post-colonial states borrowed low-interest loans from the international commercial banks (Devlin, 2014). However, the United States devalued the dollar in 1979, the so-called Volcker shock raised US interest rates three times above the world market average (Panitch & Gindin, 2012). In 1974, petrodollars tied to oil imports parked new capital in the hands of commercial banks, stimulating a movement of capital from development projects in the Third World into the banks of New York and San Francisco. Consequently, development projects in the Third World were delayed and abandoned afterwards because of an inability to access capital for reinvestment (Bello et al. 2005). An effect of interest rate hikes, an excessive supply of minerals flooded the world market, pushing down the global prices and forming deficits for mineral exporting states. In 1974, the world copper price averaged at US$0.93 per pound (Devlin 2014). With the global commodity glut, copper prices fell to US$0.67 in 1982, which peaked at an all-time low of US$0.62 in 1986 (see Camba 2016).

Global mineral prices drastically diminished drastically, leading to unprofitability, unemployment, and diminished social roles. In 1983, Philex Mines, one of the most profitable companies in the Philippines during the post-war period, did not have enough revenue to pay its international loan obligations and workers. In 1983, copper mining companies petitioned a deferment of all taxes, duties, and fees payments to the Philippine government. The Marcos regime issued the Presidential Letter of Instruction (LOI) 1416 which gave 5 of the financially distressed mining companies payment deferment. But except for gold, the commodity glut diminished the profitability of all kinds of minerals. Philippine mining companies of all sizes needed to defer taxation and international loans payments to survive. In the aggregate, the share of mineral products in exports fell from 21.33% to 12.3% in 1985 (Camba, 2015). With the political crisis of the Marcos government and the lack of external financial sources, around 14 large and medium scale mines had to shut down. Mines started to slow down operations, fire employees, and limit operations (Camba, 2015).

Marcos left the Philippines heavily indebted to international funders after his reign. The Philippine state, mining companies, and all kinds of SOEs needed payment deferment and preferential debt scheduling to survive. The World Bank (WB) and the International Monetary Fund (IMF) awarded these conditions in return for the implementation of structural adjustment programs (SAPs). In 1987, President Corazon Aquino (1986-1992) set the initial foundations of the neoliberal restructuring by stressing the role of foreign companies in national recovery. Such emphasis on the model became apparent in the National Economic Development Authority’s (NEDA) Medium-Term Philippine Development Plan (1987–1992), which dismantled state monopolies as well as in the adoption of Executive Order (EO) 266, an investment omnibus code, that reneges the state’s funding commitment to domestic mining companies (Bowie and Unger 1997). State assistance to domestic mining companies, which could have potentially weathered the commodity glut crisis, was discontinued by EO 266 (Camba, 2016).

However, other mineral exporting states across the world infused an enormous amount of capital to their mining companies to withstand the global commodity shocks (Nem Singh & Bourgoin 2013). Indonesia, one of these states that diverged from most of the developing world, maintained their state’s role in the mining sector. Former Indonesian dictator Muhammad Suharto diverted state funding to keep Indonesian mining companies alive despite the financial, social, and environmental costs. The Indonesian dictator remained in power until 1998. His patronage links with Indonesian mining companies kept state funding alive despite the social and environmental costs. Indonesia’s large-scale mining sector survived and eventually profited from American, Australian, and Canadian mineral investments in the early 2000s (Camba, 2017b). These states maintained their direct help in the mining sector supported by productive mining companies and skilled mining professionals.

Under Suharto’s regime, the mining sector was relatively stable. Indonesia’s mining industry was dominated by large American, Australian and Canadian MNCs (Leith, 2003). Indonesia’s state-owned mining company PT Aneka Tambang, despite its relatively modest performance compared to other MNCs, operated in a stable manner. Suharto’s patronage surely contributed to the survivability of mining operations. Specifically, Suharto’s willingness to subsidize and continue financing the operations of the SOEs despite falling prices of commodities and low demand were the most important factors. In addition, MNCs which had sufficient capital and could freely borrow from capital markets, occupied the Indonesian mining sector. While most of the Indonesian business sector suffered from the 1997 monetary crisis, the mining firms celebrated the falling exchange rate. The exchange rate of the Indonesian Rupiah (IDR) went on a downward spiral from IDR2,350 to IDR16,000 to US$1. Indonesia mining companies adjusted their salaries to the changing conditions, maintaining their steady supply of skilled engineers and workers. Most importantly, the Indonesian state excluded the mining sector from the demand of the IMF’s liberalization and regulation, making the sector friendly to foreign investor but not subject to extreme forms of reform, from IDR2,350 to IDR16,000 per US$1. Salaries of staffs were adjusted due to increasing profits. The mining sector was also excluded from IMF’s demand to Indonesia for liberalization. Mining, as it was already foreign friendly sectors, was not in the liberalization agenda.

Second, in response to the crisis, the Philippines privatized many
state-owned companies. As part of the agreement with the WB and IMF, EO 266 privatized some of the assets of state-owned companies (World Bank 1987). The Philippine government through the Philippine National Bank and the Development Bank of the Philippines privatized and sold some of the assets of Philix, Benguet, and Lepanto: North Davao, Maricalum, Bayong Bahay, and Basay. Major private companies, such as Atlas and Macrocorp, had to give up the ownership of their assets in exchange for foreign equity infusion, losing their share in some substantial mineral investments: Hinobaan and San Antonio (World Bank 1987). The number of operating mining companies decreased from 39 in the 1980s to 16 in the 1990s (Camba 2015). As mining companies began to default one by one, workers and engineers were terminated from their positions. The state, thus, retreated from its direct-management role to make way for private capital.

And last, the continuity of neoliberal restructuring and the state’s inability to steer the sector after Aquino culminated in the further gutting of the sector. During Aquino’s time, the EO 266 already shifted the principle of land ownership away from the traditional leasehold system. The new code regarded the state as the initial tender that would treat land as a commodity for mining, more mining companies closed and larger Filipino-owned companies reduced their operations to cut losses, streamlining their business interests in exploration and exploitation phases, resulting in deficits (Israel, 2010). At the same time, more progressive political reforms were implemented, for example, the recognition of indigenous peoples’ rights through the Indigenous Peoples Rights Act of 1997. The sector plummeted from the 1990s to 2003 (Nem Singh & Camba 2016).

The relative stability of Indonesia’s mining industry changed when the reformation government imposed the decentralization of political power, enabling regions sufficient economic autonomy in the post-1997 era (La Botz 2001). While Suharto focused on Javi, Bali, and parts of Sumatra, most Indonesian regions were left behind, including but not exclusive to Aceh, Papua, and Sulawesi. Some of these regions were given the power to regulate certain economic sectors, such as mineral and coal mining, with objective of equal development. Instead of development, the new local rulers abused the power. As local government officials started selling mining licenses called IUPs (Ijin Usaha Pertambangan), patrons and friends of these officials started purchasing mining tenements that often located in the MNCs concession (Leith 2002). The following administration are less supportive to mining. In addition, the surge of resource nationalism and multiple other regulations created many problems to multinational corporations, making it more difficult for companies to operate. These political changes created more problems to MNCs in Indonesia, inducing some of them to partially or fully divest their investments. Other smaller mining companies were also affected by these political changes (La Botz 2003).

CHINESE INVESTMENTS IN PHILIPPINE AND INDOONESIAN MINING

GENERAL COUNTRY DYNAMICS

Arroyo attempted to increase Chinese FDI and financing in the country, but by the end of her term, all but one of these major projects were cancelled or withdrawn (Camba, 2018). Her administration attempted to bring in controversial construction contracts, such as Zhongxing New Telecommunications Equipment (ZTE) Corporation’s privatization bid for the Philippine National Broadcasting Corporation (PNB) and the China National Machinery Industry Corporation (Sinomach), which started the construction of a high-speed rail project under partial ownership. Major investment projects were also affected. While the Industrial Commercial Bank of China (ICBC) ultimately decided to withdraw its offer (Camba, 2017a), 18 Chinese agribusiness projects were hindered by multiple regional-local elites, leading to their eventual withdrawal. At the start of Benigno Aquino’s (2010-2016) term as president, China was open to funding more than 10 major projects. In 2011, Aquino himself acquired the commitment of the Chinese government to provide more than US$13 billion worth of aid and investment (Camba, 2017b). However, when the South China Sea issue erupted in 2012, these plans were eventually shelved by both the states. At the end of Aquino’s term, most investments were from the private firms engaging in joint ventures, or smaller investors located in manufacturing, services, tourism, and real estate. At the end of Aquino’s term in 2015, the Philippines only had US$712 million of Chinese FDI, one of the lowest levels in South East Asia (Camba, 2018).

In 2005, President Susiio Bambang Yudhoyono (SBY) (2004-2014) signed a joint declaration for a “strategic” partnership with Chinese President Hu Jintao. The declaration resulted in visa exemptions, diplomatic and service visits, maritime cooperation, infrastructure and resource exchanges, economic and technological assistance, and other bilateral partnerships (Gammeltoft & Tarmidi 2013). While Chinese FDI was not especially high during SBY, it should be clear that SBY’s economic strategy revolved around private sector participation and commodity exports. China was a major commodity market for all kinds of minerals, most especially nickel ore. There were
controversial unfinished construction contracts during SBY, ranging from construction to roads. Yet none of these resulted in any major mobilization. When President Joko “Jokowi” Widodo emerged, he opened the infrastructure market to the Chinese firms, shifting from an infrastructure strategy around Public Private Partnership to developing financing. Capitalizing on the Belt and Road Initiative (BRI), Jokowi used the Chinese for multiple projects (Salim & Negara 2016), ranging from the Jakarta Bandung Railway and toll roads to the Indonesia Morowali Industrial Park. Between 2012 to 2017, Chinese FDI experienced an enormous growth, jumping from 12th to the 3rd largest investor. Data from the Indonesian Investment Coordinating Board shows that China only trails Singapore and Japan. Some datasets show that Chinese FDI in Indonesia reached US$7 to US$8 billion, but others calculate it at US$2 to US$3 billion only.

Aggregate figures support the narrative that the Philippines has low levels of Chinese FDI but Indonesia has the highest. Table 1 illustrates different conditions of Chinese FDI in both states and the broader impact on the mining sector. As Table 1 shows, in the list of low-to-middle income countries, Indonesia has received the highest amount of Chinese FDI, yet the Philippines has received lowest. These indicators represent the different features of states in 2010. Figure 1, which is taken from the Chinese Ministry of Commerce’s Official data, shows the amount of Chinese FDI in Southeast Asian states. In 2015, Indonesia has received the highest amount and the Philippines has the lowest in the list. MOFCOM data does exclude Hong Kong, which might underestimate the total amount of Chinese FDI.

**PHILIPPINE ARTISANAL MINER OR SMALL-SCALE MINER (ASM)**

The state’s retreat and the autonomy given to local governments led to the rise of the small-scale mining sector. The bankruptcy and the closure of many mining companies led to the unemployment of hundreds of mining engineers and thousands of other skilled engineers.
(Verbrugge 2014). It is important to note that (illegal) small-scale mining remained a lucrative livelihood strategy in mining regions, and resultant unsafe and (socially and environmentally) costly extractive activities occurred at the margins of the state (Lopez 1992). Gold was the one and only commodity that remained profitable during the commodity glut years. As demand for gold increased in the world market, small-scale mining in Central Africa, Ghana, Ivory Coast, and many sub-Saharan African states proliferated (see Hilson 2009). The newly unemployed from state-owned companies and agriculture became the labor force for small-scale mining. Quite contradictory to the EO 266 that aimed to restructure the mining sector in favor of foreign capital, the Philippine state eventually passed Republic Act 7076, or the People’s Small-Scale Mining Act, that gave power to local actors to decide on artisanal small-scale mining (ASM) operations.2

Local elites joined the burgeoning ASM sector that began to extract and sell undervalued minerals through illegal exports and smuggled contraband (Lopez 1992). Mining had partly become a part of the informal economy, guided by the logic of flexible accumulation (Verbrugge 2015). Local politicians and investors started acquiring potential mineral areas without investing in exploration and extraction. As an executive from a major mining company noted, “a lot of very promising mineral areas . . . [have been] held hostage to really greedy and outrageous demands from people.”3 While the capacity of the national government to check on the illegal operations was weak, local politicians had the power to legitimize mining operations.

Filipino companies that survived the neoliberal reforms underwent joint ventures with foreign investors. However, Chinese firms could only really invest in the country through small scale mining. China’s focus on ASM mining in the Philippines, despite China’s economic demand for minerals, can be explained by the politics of foreign ownership and geopolitics in the South China Sea during the Aquino administration (Camba 2017b). First, major Chinese firms were killed by elite mobilization of the Arroyo administration. Second, Filipino firms dominated the mining sector and only worked with some foreign firms in limited amounts. Third, the Aquino administration stood their ground in the South China Sea, making it extremely difficult for politicians to work with Chinese investments. Alongside these changing perceptions, the Philippine state and firms began to increasingly favour Australian and Canadian firms in the mining sector. Allowing foreign ownership rests on considerable political ties with the ruling administration and economic linkages with Philippine firms.

In order to avoid politicization, Chinese firms started working with Filipino-Chinese families or their business partners.4 For these firms, utilizing existing political connections to fund or purchase mines from ASM firms appeared to be the pattern. This strategy became logical because smaller mining companies often operate on tiny tracts of land and then move elsewhere afterwards. Many of these Filipino-Chinese use their connections with regional and local elites whose economic influence and political patronage over communities to facilitate and enable Chinese investors to purchase mines or illegally funded ASM. There is currently no data set that accurately gauges the overall number of miners and scale of ASM operations in the Philippines, their activities, and variations among them. However, key actors of the Philippine mining sector are aware of their existence and activities.5

Organizing ASM operations needs a considerable sum of money, not within the reach of most rural communities in the provinces. Monetary investments are necessary to purchase the means of extraction, the labour of engineers and miners, and the permission of regional-local politicians. As a result, some ASM firms began to receive considerable foreign capital infusion from other mining companies or investors, exchanging the labour payments and mining equipment for the mineral output.6 These arrangements between ASM firms and investors exist in a grey area, ranging from commonly accepted practices like selling mineral output domestically to illegal ones such as exporting or smuggling ores to the foreign market.7 ASM capitalizes on skilled workers left behind by the destruction of state-owned companies, the retrenchment of workers, and the lack of state response to compensate afterwards (Verbrugge 2015).

**INDONESIAN LARGE-SCALE MINING (LSM)**

Indonesia’s mining sector was previously dominated by Western countries. However, in the late 2000s, the Indonesian central government decided to reassert their control over the mining sector, which coincided with China’s decision to expand their investment in the industry. In the beginning, China simply wanted to import minerals. However, some other mining firms wanted to invest. We focus on one crucial case. Specifically, the Tsingshan Group, a company headquartered in Zhejiang Province, was one of the earliest Chinese investors in Indonesia’s burgeoning mineral processing sector. As the largest stainless-steel producer in the world, Tsingshan had the capacity to build a smelter in Indonesia, one integrated and built within an industrial park. Working with the Bintang Delapan Group,8 Tsingshan’s long-time partner, both firms sought to build a smelter in Eastern Indonesia. In response to the state’s imposition to ban high-grade nickel exports, the Mining Investor encouraged major investors like Tsingshan Group to develop an industrial park. In the view of these officials, investing in the sector would be more productive and developmental. As a result, Tsingshan, Bintang Delapan, and the Indonesian government all contributed to building the “Indonesia Morowali Industrial Park,” or IMIP, in the Morowali Regency, in Central Sulawesi Province.9

Supported by an impressive amount of capital, IMIP boasts ports with 100,000 tons deadweight, 1830-megawatt steam power plants, and an airport, which is almost finished. In addition, investors and guests...
The park has exclusive access to internet provided by the Chinese firm, which links to underwater cables and China’s own satellite. With 16 tenants across the park, including but not exclusive to Australian, Japanese, and Korean companies, the park produces stainless steel and other steel products. In addition, PT QMB New Energy Metal, a joint venture between Chinese and Japanese firms, joined the park recently, producing the material for electric vehicle batteries. At the moment, Tsingshan is reportedly developing another nickel tenement in Weda Bay located in East Indonesia with plans to develop a US$5.5 billion industrial park. Tsingshan acquired the project from Eramet, a French company who now still holds minority ownership in the project.

While the new mining regime does not look appealing to Western investors, Chinese firms have found it a profitable place to expand. In nickel mining, Chinese money could be found across different parts of the business chain: joint ventures, ore purchasing agreement, or project financing to acquisition. Indonesia has given China major incentives to build an industrial park in the nickel-rich zone of Central Sulawesi. The other major investment in the province belong to Virtue Dragon by the Delong Group, which is located in South East Sulawesi. Both firms consume the largest supply of nickel within the country. Both firms channel capital in previously unused areas and give hope to developing downstream industries. However, there are major issues. As the biggest nickel buyers, the smelters tend to control the buying price despite the government regulations to indicate fair pricing. Specifically, both firms set the price at a far lower reference point than that of the Shanghai Index, pushing the miners to sell their nickel at a far lower price. With little to no profits to show, large and small-scale mining companies are unable to fulfill other responsibilities, such as paying proper taxes, conducting environmental impact assessment, or conducting corporate social responsibility. Many other mining firms also need to extract minerals from “restricted areas” in order to compensate for the loss from selling the nickel in such a cheap price.
Both firms receive major incentives from the Indonesian government, ranging from the industrial operation license, minimum taxes, non-tax revenue for ports and income taxes. Smelters outside the industrial park need to pay for these facilities. The Indonesian government also needed to construct housing facilities for the local employees, build the schools to train the students, and provide security for the investment. Chinese firms pay for their own workers and fly them from China to Indonesia.11 Due to the limited or lack of regulation, some Chinese tourists come to Indonesia to work illegally for IMIP. As a result, these two big mining firms have created an oligopsony, leading to the practices of the mining firms to extract cheap minerals.

Chinese smelters also rely on Chinese technology, suppliers, and contacts. Many local businesses do not get to work or benefit from the major projects. Some local businesses have demanded the government to create regulations for the Chinese firms to work with local businesses.

CONCLUSION

Our paper concludes with the argument that the different pathways that both states took during the Cold War and the 1990s explain the emergence of different mining regimes. Both regimes are currently receiving different forms of Chinese FDI: smaller firms in artisanal small-scale mining in the Philippines and major firms in largescale mining in Indonesia.

Figure 2 demonstrates that China acquires most of its nickel imports from the Philippines and Indonesia. Both mining sectors have taken different pathways in recent years. While Indonesia dominated the nickel exports, the government’s decision to pursue value chain upgrading has led to the construction of an industrial park within China. The park has invited key Chinese firms to build an integrated
smelter complex, worker facilities, and training camps. As a result, Indonesian mining firms in different sizes began selling their nickel to the Chinese firms within Indonesia, leading to the export slump.

In contrast, the Philippines has become China’s largest exporter of nickel ore. Though the Benigno Aquino administration has been cautious around China, most mining firms in the Philippines saw the economic opportunity and began exporting to China in massive amounts. In addition, Chinese investors through their regional and local connections have invested in ASM mining. These firms have been illegally smuggling resources in the country, which means that current figures underestimate the contribution of the Philippines.

We conclude with two key points. First, it is crucial to recognize that Chinese investments and firms take on different types, varieties, and forms. In Indonesia, major Chinese firms built an integrated park, yet in the Philippines these firms took refuge in the black market. Both forms present problems to host states and needs to be managed properly in order for the investments to become developmental. Chinese firms also compete among themselves. During the Arroyo administration, major Chinese firms wanted to invest in the sector. However, these talks were killed by Filipino, foreign, and small-scale Chinese mining companies (Camba 2018). Currently, the Indonesian government is dealing with mining companies who want to sell their ore at a higher price but could not because of the state’s encouragement to sell high-grade ore to the Chinese smelters. As of November 2019, the Indonesian state is about to ban low- and high-grade nickel exports to accelerate the developing of mineral processing. In the Philippines, reforms during the Aquino administration keep out further mining investments. The lack of a coherent strategy in concert with resistance from multiple actors keep the Philippine mining sector from reaching its full potential. Second, we propose that both countries must use nickel as a bargaining chip against China. The Philippines should focus on finding another nickel export partner, which could generate leverage for the country in the South China Sea or other issues (Camba & Magat 2019). In Indonesia, finding another investor willing to build an industrial park and smelter inside the country could alleviate some of the sector’s current problems.
endnotes

1 MOFCOM shows Chinese FDI in Indonesia closer to $8 billion while host state data only reaches $2 to 3 billion.

2 While Marcos also passed the Presidential Decree 1899 in 1984, the RA 7076 was an upgrade in terms of local government autonomy.

3 Interview with non-executive director, Australian Firm, Quezon City, 2018.


5 Interview with Chinese Investor, Majority Shareholder, Zambales, 2019.

6 Interview with a Filipino politician, Mining Investor, Zambales, 2019.

7 Ibid.

8 Interview with, Suryawirawan, I. Gusti Putu, Special Advisor to the Minister of Industry. 2019.

9 We visited IMIP in April 2019

10 Interview with Local Staff, PT. VDNI. 2019.

11 Interview with San, Bei, Head of Smelters. 2019.

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ABOUT

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