Rubber Trees in Vang
Vieng, Laos.
PC: Roman Korzh.

Strategic Resources and Chinese State Capital

A View from Laos

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The claim at the heart of Ching Kwan Lee's *The Specter of Global China* (2017) is that Chinese state capital differs from other forms of global private capital. But Lee acknowledges that 'state capital' is a complicated category—not all state-owned enterprises share similar connections to the state, and many private companies have robust ties to state support and influence. She is careful to show that not all state-linked firms share the 'logic of encompassing accumulation' (the pursuit of goals beyond profit, such as other

measures of growth, employment creation, maintenance of social stability, etc.) that sets Chinese state capital apart from other types of investment. In response to the question at the heart of her book—'Is Chinese state capital a different kind of capital?'—Lee concludes that, 'yes, it can be *made* different under certain conditions' (2017, 28) but it is not always so.

One pivotal condition determining whether a Chinese company operates differently from global private capital is whether they aim to secure access to a 'strategic' (战略物资)

resource. Lee shows that Chinese construction firms in Zambia, which include state-owned enterprises (SOEs) and firms with state-backed concessional loans, operate as any other construction firm would; in essence, they share the ‘single-minded pursuit of profit maximization’ (2017, 28) typical of all forms of global private capital regardless of their varied links to the Chinese state. The Chinese copper mining firm NFCA, in contrast, aims not only to pursue profits but also to accrue political capital and secure access to copper, which China considers to be a strategic resource. Lee presents a set of ‘market-defying corporate decisions by the Chinese state mine’ (2017, 29) as evidence of its logic of encompassing accumulation—decisions which show that the company deprioritises profit maximisation in order to secure steady access to copper and garner political capital with the Zambian state. This makes Chinese state capital more flexible and responsive to host country state and society’s demands.

In this essay, I aim to extend Lee’s work by examining the history of the Chinese state’s commitment to securing access to resources it deems strategic, and the ways in which this history structures firm-level approaches to investing in rubber, another strategic resource. Lee explains that the Zambian state treats copper as a strategic sector because it remains ‘the linchpin of the economy and the main source (70 per cent) of foreign earnings’ (2017, 24), but why copper is considered so important to the Chinese state is left less explored. Here, I examine the history behind the Chinese state’s promotion and protection of certain sectors as strategic and reflect on how this has resulted in a complex set of contradictions as China goes global. This history is especially important to understanding my research on Chinese investments in rubber plantations in northern Laos. I conclude that, in order to understand how the designation of a resource as strategic changes the behaviour of firms and the structure of a sector, we must ask: strategic in what sense, and strategic for whom?

The Mantra of Self-reliance

The designation of certain sectors and resources as strategic is not unique to China, but it has been a pillar of the Chinese Communist Party’s approach to economic development. The Chinese state has designated certain resources as strategic since the country’s founding, and economic self-reliance (自力更生) was the organising objective around strategic resources (Yang 2019). In this essay, I trace the evolution of Chinese approaches to self-reliance and strategic resources in order to show that neither is a stable or apolitical category. Rather, both terms evolved along with changes in China’s political economy and are used by the state and other actors to achieve different strategic ends. They strengthen whoever can attach their own interests to them, resulting in the construction of complex networks of power and connections around commodities like rubber and copper.

Self-reliance was initially a campaign slogan used by Mao Zedong to boost morale during wartime scarcity in the 1940s. After the Sino-Soviet Split in the 1960s, as the country weaned itself off Soviet support, self-reliance became a nationalistic rallying cry. Chinese economic reliance on the Soviet Union was a result of its own underdevelopment as well as extensive trade embargoes—including restrictions on copper and rubber imports—which Western nations placed on China as a result of its involvement in the Korean War (Cain 1995; Tisdell 2013). China’s emphasis on self-reliance was not unusual for the time; it ran parallel to a global emphasis in development economics on import-substitution industrialisation for developing countries. The rise of neoliberal economics since the 1980s has swept away allegiances to this approach in most countries, but China’s acute economic isolation during its formative period engrained self-reliance deeply in Chinese ideals of patriotism, geopolitical independence, and state power—and the rhetoric of self-reliance is now experiencing a renaissance in the context of the US-China trade war (Thomas 2019).

Although the reform era (starting in 1978) marked a gradual move away from the isolationism of the Mao era and towards economic openness and global trade, China's leaders retained their commitment to self-reliance under a doctrine of 'taking self-reliance as the principal means and external assistance as a subsidiary' (Chen 1992, 60; see also Yang 2019). Reforms were done selectively, with a focus on strengthening domestic industry and fuelling economic growth but with carefully set limitations on what sectors were privatised. Self-reliance, and the state support necessary to maintain it, thus was not completely abandoned but instead became something reserved for sectors providing resources and services vaguely identified by the state as important but scarce, thus strategic. Even since China joined the World Trade Organisation in 2001 and increased its pursuit of global integration and growth-oriented planning, scholars have argued that the country's leaders remain committed to self-reliance, in an approach characterised as 'selective and strategic integration that bends globalization to China's long-term nation-building goals' rather than an unfettered capitulation to global capitalism (Kerr 2007, 78).

As China's economy becomes increasingly intertwined with the rest of the world, self-reliance in strategic sectors creates internal contradictions between parts of the economy which have been marketised and those which remain supported by the state—especially as those parts are increasingly integrated with each other and the larger global economy. For example, the continued protection of the domestic rubber sector directly contradicts efforts over the last two decades to establish and expand domestic tire and automobile manufacturing. The state levies a hefty 37 percent tariff on natural rubber imports to protect domestic producers and keep them from shifting out of this strategic crop (interview, Kunming, August 2018). Protective tariffs serve as a lifeline without which domestic rubber cultivation would collapse, but they also drive up input prices for tire manufacturers, who

have called on the state to lower rubber tariffs for decades to no avail (Reuters 2003; Patton 2015). China consumes 41 percent of globally traded rubber, most of which is used by its tire manufacturers. Its demand for rubber has risen rapidly in the last few decades, driven by a growing domestic automobile manufacturing industry. The Chinese state also worked hard in the early 2000s to attract the top global tire companies, offering them a range of incentives to establish manufacturing operations in China, while also investing state support into upgrading domestic tire manufacturing operations (interview, Beijing, December 2016). The practice of protecting domestic rubber—still trumpeted today as strategic to national security—at the cost of having to support the tire sector is an economic contradiction which only deepens as China's economy becomes more globally integrated.

I draw on this example to suggest that the designation of resources as strategic is primarily political. It establishes a certain discourse around that resource—a discourse constructed of powerful narratives of the threat of resource insecurity to Chinese political preservation and independence. The persistence of the mantra of self-reliance despite China's growing global integration and the economic contradictions it poses can be understood, in part, because it justifies continued state interventions into parts of the economic sphere despite a push to marketise the rest (Kerr 2007; Lieberthal 1995; Thomas 2019). It portrays state protection of, and intervention in, strategic sectors as a matter not simply of economic strategy—in many cases, such as the 'market-defying corporate decisions' Lee describes, self-reliance is not economically logical but is instead upheld as a matter of national security, social stability, and the preservation of China's political independence. My interest, therefore, is in the designation of rubber as 'strategic' and how this designation empowers any actors who can attach their own economic interests to it.

How Is Rubber Strategic, and for Whom?

Rubber has long been considered strategic by the Chinese state, and domestic rubber producers enjoy a range of forms of state support, trade protections, and market advantages as a result. But rubber is also important in ways that differ from copper—not only as an indispensable raw material but also as a mechanism for extending state territorial control and economic development in the borderlands. A broad constellation of actors benefit from evoking rubber as strategic, ranging from central state leaders in Beijing to Yunnan provincial authorities, from Lao state actors at different levels to Chinese firms (both state and private) investing in rubber in Laos.

Rubber is the primary input for high-quality tires and the belts and tubes that run most machinery, which makes it pivotal to industrial activity, transportation, and military operations. It was first designated a strategic resource in China in 1951, in response to a trade embargo established by Western countries (initiated and enforced by the United States) which cut off Chinese imports of key industrial materials, including both rubber and copper. The embargo seriously threatened China's ability to import tires, which at that point were primarily used by the military (Cain 1995, 49). That year, the central government approved the 'Decision on Cultivating Rubber Trees' and in 1952 established a plan and allocated state resources to develop 8 million mu (533,333 hectares) of rubber plantations (Sturgeon and Menzies 2006, 24). Initially, then, the pursuit of self-sufficiency in rubber was an economically-rational response to scarcity and a strategic (military) need.

Through the next two decades, rubber also evolved into a pivotal territory-securing device for the country's sensitive southwestern borderlands. A tropical crop previously cultivated primarily in Southeast Asia and South America, rubber could only be grown in a few peripheral provinces in China: Hainan,

Guangxi, and Yunnan. It was promoted throughout the 1950s through the state farms of those three provinces, which evolved out of borderland military units (similar to Xinjiang's *bingtuan* 兵团). As state farm rubber plantations expanded throughout Yunnan, they enclosed upland minorities' fallow forests and converted them into monoculture rubber, driving a dramatic rise in the province's demand for labour to establish and manage the new plantations. Yunnan State Farms (云南农垦集团) plantations became key sites for drawing Han migrants, including a huge number of 'sent-down' youth (知青), into these ethnic minority-dominated regions, and for integrating the borderlands into the national economy (Hille 2013; Sturgeon and Menzies 2006). Today, rubber is still glorified as the crop that tamed the borderlands, pulled millions out of poverty, and transformed the tropical jungles of Xishuangbanna into productive, legible plantation rows.

Rubber continues to be recognised as strategic by the State Reserve Bureau and to be protected as such. In 2007, the State Council issued the 'Opinion on Promoting the Development of China's Natural Rubber Industry', which reemphasised Beijing's view of natural rubber as 'an important strategic material and industrial raw material'. It also provided guiding ideology and principles for the expansion of China's rubber industry through investment abroad. As such, import tariffs continue to insulate domestic rubber farmers from global competition and price fluctuations, and there are stringent restrictions on the conversion of domestic rubber plantations into other cash crops. Just like the CEO of the NFCA mining company in Lee's study who declares that 'one day, if there was an embargo, then Chinese companies would of course sell only to China' (2017, 34), people invested in the Yunnan rubber sector cite state protections as justified by the threat of future embargos. 'Rubber trees are our country's strategic resource' one state farms branch leader told me, and while 'right now all is quite peaceful', he asserted that the state would preserve China's

rubber plantations in case of war (interview, Xishuangbanna, October 2017). The long history of rubber's promotion and protection has made the sector especially important to the province's development and many parts of the provincial economy are structured around rubber.

Each of these ways in which rubber is understood as strategic has, in turn, shaped Chinese rubber investment in Laos and is drawn upon to justify a number of interventions by different actors in the country. In order to encourage the Lao government to facilitate Chinese rubber investments as a form of development cooperation, Chinese diplomats visiting Laos in the early 2000s repeatedly touted rubber's instrumentality in developing and integrating the Yunnan borderlands. In 2004, China's then Deputy Prime Minister Wu Yi signed an agreement with the Lao central government for Yunnan State Farms to establish a target of 2.5 million mu of rubber (166,666 hectares) (Shi 2008), which catalysed a wave of Chinese investment into the Lao rubber sector. Lao state officials themselves also actively took up this portrayal of rubber as strategic, in part because it fit state goals of bringing infrastructure to remote border regions, eradicating opium and shifting cultivation, and establishing 70 percent forest cover across the country by 2020 (Lu 2017). In this sense, discourses of rubber as a tool for the state-driven transformation of traditional landscapes and a way of securing state territorial control generated synergies between the Lao and Chinese central states' promotion of rubber.

An Alternative to Opium Cultivation

Rubber was also promoted as an alternative to opium cultivation, a discourse that has profoundly shaped the structure of the Lao rubber sector and the 'market-defying' decisions of Chinese firms. Opium is an

important livelihood for farmers living just beyond China's borders in Myanmar and Laos, and efforts to eradicate its cultivation since the 1970s have been largely ineffective (Cohen 2009). In 2004, in response to a troubling rise in domestic opiate use, the Chinese government established the Opium Replacement Programme (ORP), which aims to reduce opium cultivation by encouraging growers to switch to licit cash crops. To achieve this, it provides financial and bureaucratic support to Chinese companies investing in large-scale commercial agriculture where opium is grown in northern Laos and Myanmar, including highly valuable quotas for importing rubber back to China tax-free. Rubber has become the main crop established by participating companies, and its reputation as an alternative to opium and shifting cultivation, and more broadly as a tool for developing and taming remote, peripheral spaces, has been eagerly adopted by Lao state officials who have also promoted the crop and catalysed a wave of Chinese capital that flooded into Laos through the 2000s (Lu 2017; Lu and Schönweger 2019).

The import quotas granted to firms by the Chinese state through the ORP and the Lao state's treatment of rubber as a form of development cooperation have generated firm-level behaviour that resembles logics of encompassing accumulation, but through different mechanisms than those that Lee observes in Zambia's mining sector. Quotas are especially important to rubber investors because rubber imports are taxed at such high rates. Since a drop in global rubber prices in 2011, moreover, quotas have become the defining factor in whether Lao rubber can reach the Chinese market because companies in Laos (state and private, Chinese and non-Chinese) cannot profitably process and export rubber without them. As a result, much of the rubber tapped even in central and southern Laos "is being transported overland and traded through the Yunnan border instead of going through the far closer borders with Thailand or Vietnam" (interview, Khammouane, December 2017; interview, Vientiane, June

2019). And because quotas are granted based on companies' previous import volumes, Chinese investors participating in the ORP—which constitutes nearly all Chinese rubber companies in northern Laos, private and state owned alike—are incentivised to procure a steady quantity of rubber regardless of the market price, as they cannot risk not filling their quota and losing their allotment or having it reduced. As Chinese ORP companies jockey to source smallholder rubber, they keep prices competitive and continue buying smallholder latex even when prices are too low for Vietnamese and Thai companies operating in Laos to collect beyond their own plantations. As in Lee's case of NFCA, Chinese state support allows Chinese rubber investors in Laos greater flexibility and resilience to market downturns than their counterparts from other countries, though the incentive structure that ORP quotas creates differs from what drives a typical Chinese state-owned enterprise's logic of encompassing accumulation and also drives all ORP investors, state and private.

There has also been an effort over the past few years for Chinese rubber companies in Laos to work with both the Lao state and the Yunnan provincial government to lobby the central government in Beijing for an expansion of ORP quotas (interview, Kunming, December 2017; interview, Vientiane, August 2018). This would benefit Chinese firms in Laos in obvious ways—for instance, by allowing them to export even more rubber from Laos to China tax-free—and advantage the entire rubber sector across Laos by improving its access to the Chinese market. The ORP could also help solidify Yunnan's place as the hub for rubber processing in China, which generates province-level state revenues. But rubber farmers in Yunnan already foresee the Lao market eroding the advantages protective rubber tariffs provide them and insist on their need for continued state support (interview, Xishuangbanna, May 2018). All of these actors evoke the strategic importance of rubber and in doing so position themselves as contributors to Chinese resource security and economic independence,

despite representing contrasting interests and sometimes even advocating for different policy interventions. The result is the construction of complex networks of power and connections around the increasingly transnational rubber supply chain that drive and shape the influx of Chinese capital in Laos.

Nuances of Chinese State Capital

Through its contrasts with copper mining in Zambia, the case of Chinese rubber investments in Laos can bring insights into the nuances within the category of 'Chinese state capital'. Rubber is considered strategic in multiple ways—not solely as a key industrial material of which having a secure supply is deemed an issue of national security (like copper), but also as a tool for civilising China's remote borderlands, a development cooperation intervention, and an alternative to opium cultivation. Using the case of rubber, I argue that treating the label of 'strategic' as a discourse reminds us not to take that label for granted, but rather to interrogate the history of how resources come to be deemed strategic, recognise differences in how they are strategic, and unravel the networks of actors and their corresponding interests surrounding that resource. I suggest this as a way of better understanding the decision-making of individual firms in strategic sectors and the mechanisms structuring the logic of encompassing accumulation. Lee attributes to Chinese state capital as it extends beyond China's borders. ■

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