# The Importance of the Four Benefits of Economic Development in the Mekong: the case of copper and gold mining in the Lao PDR

アジア産業研究センター客員研究員／ジェームズクック大学特任教授　マシュー・アレン

## Introduction

In the transition from the Tokugawa/Edo Period to the Meiji Period in Japan (mid to late nineteenth century), as the state divested itself of traditional industries, and as new, modern industries and businesses emerged, it was said that there was a need for three conditions to be fulfilled if a business was to be successful. That is, these businesses needed to benefit the buyer, the seller and the public. These were the so-called '*sanpou yoshi*' (three benefits). In the 21st century increasingly as states modernise and become more economically sophisticated a fourth caveat has been introduced to the triplex, that of benefit to the environment. Indeed while arguably a modification of the need to benefit the public, the environment stands as an increasingly significant factor in the creation of new enterprises. In Japan in the early 21st century it is inconceivable that a new enterprise that was not environmentally aware would be successful. This is because the environment in which people live is perceived to be of great importance to the quality of people's lives.

However, in the Mekong region the environment is not yet a highly significant factor in decisions about investment. In industries that have potentially powerful environmental impacts, capital investment appears to be the dominant factor in decision-making about permissions. Indeed, it is the economic impact of investments that is perceived to be the most important single element. While the buyer's position too is not really the concern of the state (so long as the revenue generated benefits the state), and the public's position is also of limited interest to the state (so long as no further costs are entailed to mitigate the economic investment), the seller's position is of considerable importance to the state, as it supports the role of the seller.

This article examines the proposition that there are four benefits that should be met in order for large-scale investment in environmentally sensitive industries to occur. The risks associated with eschewing a consideration of the environment are measured in the medium and long term impacts of projects. In the text that follows the focus is on an overseas mining company establishing a copper and gold mine in Lao PDR, the Seppon Mine. The article looks at how the mine owners (Pan-Aust, an Australian mining company, working in combination with the Laotian government who own a ten percent share of the enterprise) were able to avoid significant investment in caring for the environment, while at the same time paying lip service to the need to do so. In this context it is proposed that there are inequities in mining activities depending on the developmental stage of the nation that is hosting the investment.

## 1. Setting the scene

Superficially the Mekong has long been associated with Indochina and the historical and cultural legacy of the Vietnam War and the post conflict socialism that evolved to replace European and American economic colonialism. However the Cold War has warmed, and there is an increasing global awareness of the Mekong's shifting politics, partly due to large scale investment in the region, and to multinational companies moving manufacturing offshore to supply a rapidly growing domestic economy.

In the twenty-first century perceptions in the Asia-Pacific have shifted considerably and in particular the region has become increasingly known as a decentralised area for offshore manufacturing production in textiles, high technology products, consumer goods and heavy industrial goods. Based on low set up costs, limited environmental restraints, a low or limited production base with great potential to grow, relatively highly skilled labour capacity, and low costs associated with women's labour, the region has attracted considerable interest from overseas manufacturers and importers.

Taking advantage of cheap labour, a limited regulatory environment, lax environmental standards, limited government engagement with diverse cultures coexisting in remote regions of Lao PDR and Thailand, Asia-Pacific mining companies have moved in to procure operating licences to mine copper and gold in rich seams that have been identified. The investigation of these seams has been conducted by multinational mining operations, and there has been fierce competition for access to the potentially lucrative mineral rights on offer.

In short, then, it appears that from the perspective of the Asia-Pacific's business cultures, the nature of the Mekong as third world, under developed, with a wealth of natural and labour resources, and within easy geographical reach of the region strongly influences how businesses are perceived. That is, the region is seen as a potential cornucopia of wealth for foreign investors and traders, much in the way that other parts of Southeast Asia were seen by British, American, Dutch, French and Portuguese traders in the nineteenth and twentieth centuries.

For the purposes of this paper I would like to concentrate on one case study. This case has been a high profile one, largely because it is a marquee example of international mining investment and development in Lao PDR. According to those consultants employed by the company responsible to sort out the closure of the mine, it has set new standards in environmental and cultural responsibility in the 'extractive' industries. Yet the term 'extractive industries' says quite a lot about the nature of the business undertaken by the company. Below I will look at how the Pan-Aust Mining Corporation invested in, and 'extracted' its profit from the Lao PDR, and at the costs and benefits to the communities in which it was located.

However, before we begin to look at the case study of the Sepon Gold and Copper mines and the Phu Bia plant in any detail it is useful to first examine what we mean when we talk about 'culture'. Culture is a difficult thing to define. It has a multitude of meanings and nuances. Ultimately though culture is what we carry around in our heads – it is our internal systems that we use for understanding the world in which we live.

Clifford Geertz's *Thick Description*: *towards an interpretative theory of culture* (1973) remains a seminal piece of anthropological writing, not least because it engages directly with the notion of culture – what it is, how it works, how we internalise it, and how we attribute meanings to it:

> Believing […] that man is an animal suspended in webs of significance he himself has spun, I take culture to be those webs, and the analysis of it to be therefore not an experimental science in search of law but an interpretive one in search of meaning. It is explication I am after (Basic Books, 1973: 3-30).

This approach to understanding culture, and the recognition that it is highly complex, interpretative and relates to the nature of human imagination and the meanings we create for ourselves in our heads is anathema to how governments, media, mining companies and [their] environmental consultants construct 'culture' for popular consumption today. Indeed the corporations and governments involved in the systematic destruction of the environment through using the extractive industries rather play a different game with respect to culture. That is, they employ a rather meaningless set of values that have at their core the notion that culture is developmental – something that needs to grow and develop. Underlying this orientation is the assumption that money and education are essential to providing those from 'primitive' cultures with adequate compensation to enable them to 'develop' into fully fledged members of the wider community, represented in turn by the mining companies and the representative of government that provide the miners with their licenses to explore, exploit, and profit from what is in the earth.

With this caveat in mind, I would like to turn my attention to the Phu Bia Copper and Gold mine in Lao PDR.

## 2. Case Study – the Sepon Gold and Copper Mine in Lao PDR

The Phu Bia Copper and Gold mine in Lao PDR has been used as a 'marquee' project by the Lao government, according to reports produced by the mining company responsible for the development of the site, Oxiana P/L, a partner of Pan-Aust, one of Australia's larger mining concerns, both significant players in overseas extractive industries. Supported by other mining exploration companies such as Rio Tinto and CSR, Pan-Aust and Oxiana have worked together to exploit the resources in developing countries in as efficient a manner as possible. The cooperation between companies takes place because the companies see mutual gain and good profits in working together rather than in competition, in deregulated environments. This is in contrast to the situation at home in Australia, where there is considerable resistance to untrammelled mining, regardless of what it is, and where it is located. Environmental activists, left leaning state governments, and (an albeit hollow) federal government commitment to the Paris Accord for climate change has made working in Australia in this industry less appealing over recent years.

The company rhetoric is somewhat different to the on-the-ground (in the ground?) reality. Let's look at the Pan Aust Sustainability Report, 2011 to get some sense of how the mining giant justifies its activities in Lao.

> Pan-Aust owns a 90 percent interest in the Lao-registerd Company, Phu Bia Mining Limited through the Company's wholly owned subsidiary, Pen Mekong Exploration Limited. Phu Bia Mining has a Mineral Exploration and Production Agreement with the Government of Laos. This agreement regulates the taxation and royalty regime as well as the Company's exploration, development and mining activities within the Phu Bia Contract Area in Laos (page 4).

As the report goes on to say, the key audience for the report is Pan Aust's stakeholders. Interestingly, the company's activities conform with the Australian Minerals Industry Framework for Sustainable Investment.

> 'In 2010 there was significant progress of community initiatives adjacent to the Phu Kham Operation and villages along the haulage route, however a number of community projects planned were not completed. This was largely due to deficiencies in the current tripartite approval process between the Company, the government and villages. In consultation with the relevant parties, the Company has commenced streamlining the approval process to enable completion of projects in 2011 (page 4).

The Company managed to train 12 workers altogether in 2010, falling short of its target of training 30 workers. There is a pattern of aiming high, and not achieving its stated aims throughout the 2011 report.

## 3. Environment

Environmental issues have caused considerable problems for PanAust too, as the following admissions from their 2011 report highlights:

> The management of surface water and optimising the site water balance is a key environment challenge at Phu Kam. To ensure changes to the mine plan are taken into account, both we and dry season surface

water management plans were formally developed and implemented in 2010.

PanAust is a signatory to the International Cyanide Management Code and has ensure that the design of the Ban Houayxai gold-silver process plant and ancillary facilities are compliant.

Our 2010 objective to undertake a baseline Carbon Footprint Analysis at Phu Kham in 2010 was not achieved. However we are on track to complete this by the third quarter of 2011.' (page 6)

While the company may well have been on the 'fast track' to complete the analysis, it was not completed in time, and the value of the tracking of the footprint was somewhat obscure given the ongoing issues with spills and other environmental problems created by the mines. The following short report is from the Coastwatchers' website. Coastwatchers is an international environmental organisation of concerned experts and citizens operating primarily within the Mekong:

2005 PHU BIA MINE, LAOS A cyanide spill occurred at the Phu Bia gold mine in Laos, operated by Australian company Pan Australian Resources. The cyanide killed fish in the nearby rivers and poisoned villagers within at least 3km distance from the mine site. It appears that at least 60-100s of villagers fell ill as a result of poisoning after eating contaminated fish and drinking contaminated water. Despite confirmation by the government owned media that hundreds of villagers were poisoned from the cyanide spill] http://www.coastwatchers.org.au/wp-content/uploads/2015/09/CW-appendicies-ABC-to-submission-to-NSW-Planning-August-2015.pdf

The above occurred, despite PanAust's 'Values' which include:

Respect for people:
respect for the environment through best practice environmental performance that reflects the expectations of the communities in which we operate and promotes an internal culture of environment and social awareness;
respect in the way we manage our daily business activities for the people and cultures of our host countries." (PanAust company report, 2015)

From Australia's corporate perspective, then, there are views of the mines that are complex. On one hand it appears that there is a need to conform to current environmental and social regulations, and on the other there appears to be a need to extract as much profit on behalf of 'stakeholders' as is possible.

In terms of the four benefits that could apply to this case, there needs to be some assessment of germane factors. That is, the mines pay lip service to the need to be environmentally sensitive, and to be culturally aware. The government in Lao PDR also acknowledges the lip service that is paid to them on these fronts. However, there does not appear to be much accountability for either companies or the state when it comes to how these responsibilities are actually enacted.

After the mines shut down the longer term affects of the mining activities become apparent, and the costs of environmental and cultural negligence emerge. It is in this area that Australia's corporates' attitudes towards business and culture in Laos become crystallized. Although not widely understood in host countries, such as those in the Mekong, the economic benefits for communities from mining are often short-term, and are strongly influenced by global prices for the commodities extracted. As markets wax and wane, so too do corporate responsibilities.

As part of the process of establishing mining operations in areas with little commercial experience, and with histories of wartime impacts from the US and its allies in dropping bombs and ordnance on the region, the employment of women is also of great significance. Local women employees in the mining industry are rare compared to men, and women carry the burdens of households and traditional agricultural production in Lao society. In cases where mining companies establish mines such as the copper and gold mines of Phu Kam, not only are women not initially employed by the company, they become unwilling victims of the transmigration processes that underscore the provision of the land for exploitation. Without employment, with little compensation, with limited education, and facing transmigration to new villages with no access to their traditional agricultural and fishing areas, women in particular are disadvantaged through the processes associated with extractive industries in the region.

With mining companies working in concert with Lao government officials, villages are moved wholesale from areas in which mineral deposits are discovered to other areas, where they are resettled in quasi urban environments in most cases, and provided with some 'modern conveniences' as compensation for the move. These environments distort traditional labour economies from the region, and women in particular are disempowered and disadvantaged by such strategies. However, the focus of all employment and training is the sustainability of it over time. And it is the mine closures that generate further impacts on the region.

## 4. Mine Closures and Corporate responsibility

So how do Australian mining companies view their responsibilities in dealing with the closure of the mining operations when they have extracted what they require? Interestingly they have a relatively positive record, internationally (see Mauric et al, 2012, for example). But their relations with villages, villagers, local governments and the environment in developing nations in the Mekong have a long way to go before they are seen as genuinely positive. Indeed consultants brought in to administer mine closures have been quite damning of the processes employed to compensate communities into the future (personal communication, June 2016).

The reason for this condemnation is founded on a simple attitude which permeates much of the foreign investment in the extractive industries – that is, that the people of Southeast Asia, and in particular those from the Mekong may well work land that is valuable for both agriculture and mining, but they are culturally, economically and developmentally less sophisticated than either their own government or the foreign investors who share their interest in the land. Through serendipity they may live on areas that have rich seams of copper and gold, but they are rarely in actual control of the land. The land subsequently may be repatriated by the state, and is taken with limited compensation paid out to those who have lived and worked the land for many generations in order to ensure more profitability for the state at the cost of traditional owners. This dichotomy between the rich and the poor, those who have and those who do not is fundamental to understanding the attitude of many foreign corporations towards the business and culture of the Mekong region.

There are therefore a number of elementary points that need to be made in order to answer the simple question, how does business in the Asia Pacific view the Mekong:

First, on the basis of this very reduced and simplistic case study, the answer is quite simple – foreign companies see business and culture in the region as underdeveloped and ripe for exploitation.

Second, exploitation appears to be endemic among corporate planners, and engagement with the state has proved advantageous for Asia Pacific mining companies.

Third, internationally, the actions and investments of Australian miners in particular are seen to be relatively positive, and the World Bank has supported many of their activities. That is, the mining operations generate foreign capital, and provide new and positive infrastructure in developing nations. However, from the corporates' perspective such a benign view is anathema. They are concerned simply with profitability and mitigating the circumstances in which they carry out their production. That is, they are concerned first with their shareholders' welfare, and secondarily with the welfare of those people in whose nation they are conducting their activities. This attitude is consistent with multinational corporations' activities globally, and is not exceptional.

Therefore, continuing with interpreting how in the Asia Pacific the Mekong as a region is viewed from this particular case, it is seen as a region with:

1. great economic potential
2. great natural and human resources
3. cheap and skilled labour potential
4. cultures which are able to be exploited in order to make economic gain

5. a low regulation environment which can positively affect the bottom line
6. low taxation for foreign nationals and
7. a geographically advantageous location – close to mainland China, East and Southeast Asia, and near enough to Australia to keep logistics costs manageable.

In short, it is perceived as a third world solution to first world investment conundrums for Asia Pacific mining companies, which are increasingly being restricted in exploring, developing and exploiting natural resources at home due to intensive lobbying from environmental and local organisations, determined to make the regulatory costs of mining so expensive as to force the miners to reconsider and relocate operations. This approach to resisting miners at home has had the consequence that Australian mining companies and others in the Asia Pacific increasingly have looked to develop operations overseas in low regulatory, low wage economy-based nations, located in geographically advantageous positions with governments keen to attract investment in return for the development of infrastructure and the generation of both infrastructure and foreign exchange.

While it is clear that in the case of the mines in Lao PDR there are many casualties of mining development in terms of loss of income, loss of homes, destruction of the environment, loss of tourism revenue and loss of innocence for people in the areas located at or near the sites of development, the large-scale benefits mentioned above have been significant fillips for the developing state. In short, the development of mining in Lao has benefited a large number of people in this third world economy in ways that without the investment from Australia, would not have been possible. This orientation follows closely the stated ideology of the Asian Development Bank and its plan for the development of a free trading economic zone within the Mekong subregion.

## 5. A further context – the Asian Development Bank and the GMS (Greater Mekong Subregion) project

GMS projects have aimed to open up Mekong countries to large-scale investment in industries such as mining, hydropower and plantation agriculture. To do this it has supported the building of roads, bridges, dams and power lines criss-crossing the region. It has also supported key agreements between governments to make trade and investment easier.

This form of development can have a huge impact on the 70% of people in the region who rely upon agriculture and natural resources for their living. Many of these people have insecure tenure or control over land, river and forest resources; and are unable to compete against or challenge the claims of large commercial investors (often foreign investors). Furthermore large scale infrastructure projects, such as dams and roads, have a high potential for serious and unintended negative impacts upon local people. Once they have occurred, negative impacts are very difficult to compensate for or mitigate against. (Oxfam, A Citizen's Guide to the Greater Mekong

Subregion: Understanding the GMS Program and the role of the Asian Development Bank, 2008, page 15)

The above context, that attempts to locate the economic development of the Mekong within the wider context of the preservation of the environment and agricultural ways of life, has increasing currency in contemporary leftist and humanist understandings of the movement of global capital. That is, there are many readings of the costs associated with the development of infrastructure, industry and human resources in nations that have limited natural advantages that challenge the integrity of the ADB and the models for economic development. Such approaches have considerable relevance to the case study demonstrated above, particularly given environmental problems, and problematic post-mining relocation and re-education issues involved in the Phu Bia case.

Effectively the perceptions relate to differing approaches to economic development, and how this can be achieved. According to Oxfam (2008),

> The Greater Mekong Subregion (GMS) Program was started by the Asian Development Bank (ADB) in 1992. From the beginning it has been based upon an ambitious vision of transforming the six countries of the Mekong Region into a single borderless economy - what the Bank calls regional economic integration. The goal has been to facilitate a free flow of goods, investment and people between Mekong countries, leading to rapid economic growth (page 17).

While there are clear limitations to this philosophy, it is not a clear cut case of one party is 'right' and another 'wrong' in determining what kind of development is 'best' for the people of the Mekong subregion. However, it is clear that there are significant downsides to unregulated and untrammelled developmental policies that look to locate people from developing nations within the wider international community. Although there are considerable advantages that may accrue to the people of Lao PDR in the medium term, it has yet to be seen how gender, class, and environmental issues will balance out in the longer term.

The mechanisms employed to develop infrastructure and economic opportunity are largely financial, and are based on loans, some of which are tied to specific developments and specific developers (tied loans), others which are 'untied' to developers but are based on specific projects. There are also aid projects, led by nations with economic interests in the region, such as Japan, Australia, and the United States. These lenders often attempt to informally tie loans to provisional acceptance of developers and projects that will enhance the return from the loans – what is referred to as 'prudent' economic loans. The scale of the loans is so significant however that it may be fair to say that repaying these loans will put enormous pressure on the nations of the Mekong, and the loans will continue to be an incentive to continue with the process of economic development, driven by the attitudes of the ADB. Between 1992 and 2008 the GMS projects received $3.4 billion from the ADB and a further $3 billion from other sources to promote infrastructural development (ADB 2009).

## Conclusion

To conclude it is probably fair to say that in the Asia Pacific views of the Lao PDR people, while patronizing, uninformed and limited are immaterial in respect of the development of a business culture that maintains a 'hands-off' approach to engaging local communities and cultures. Moreover, the definition of 'culture' mentioned above has limited value for businesses that are less concerned with how people live than with how those who live can be either exploited as labor or moved as obstacles to their businesses. Standardized business practices continue to dominate the relations between first and third world communities, businesses and cultures. And driving such activities is the continuation of large scale capital transfers that make activities such as mining possible. It is certainly in the interests of the large Australian miners to continue their investments in the region, particularly in light of the shrinking capacity of Australia to produce mining outcomes that are financially responsible. Such attitudes that promote the continuation of a first world view of the Mekong are likely to persist into the future.

It is important to reconfirm the significance of companies working within environmental regulations, and to acknowledge that in advanced societies, in advanced industries, and in advanced territories, environment is an important consideration. With reference to this reconfirmation, environmental risk management must be implemented in respect of corporate ideas and strategies in developed nations.

This is somewhat similar to the '*sanpou yoshi*' (the so-called 'three benefits') issue that influenced the relations between merchants and society in the emergence of the modern period following Japan's isolation (that is, production needed to benefit the seller, the buyer, and the public). In the present era, there is little doubt that the fourth caveat alluded to in the introduction needs to be added to this structure – benefit the environment – to create a 'four benefits' system. Yet there remain obstacles that stand in the way of environmental benefits being seriously engaged in the Mekong. Perhaps the most significant obstacle remains financial. One of the major competitive advantages of mining being conducted in third world countries like Lao PDR or Cambodia is that of relatively lax and under regulated environmental restrictions. Conforming to these restrictions is both expensive and time consuming for foreign investors, and needs to be built into their overall financial planning for the economic viability of the enterprise. And there are other places globally that may suit their investors more than nations with expensive regulations.

Ultimately, though, all nations and all extractive industries will need to be environmentally responsible. The world faces serious challenges with climate change, overpopulation issues, food production shortages, wars and famines globally, and unless there is some common set of values concerning the importance of the environment future generations will carry the cost. The four benefits of economic development should become foundational in all nations, not just in the developed world.

## Sources cited


Asian Development Bank, Annual Report, 2009

Coastwatchers, Recent Major Cyanide Gold Mine Disasters. Available at: http://www.coastwatchers.org.au/wp-content/uploads/2015/09/CW-appendicies-ABC-to-submission-to-NSW-Planning-August-2015.pdf (accessed July 18, 2016)

Oulavanh Keovilignavong, 'How mining investment has shaped the local community in Phu He, Laos, MK32 WLE Mekong Fellowship Report, 2015

Lao PDR Dept of Energy and Mining, Utilizing Mining and Mineral Resources to Foster the Sustainable Development of the Lao PDR, International Council on Mining and Metals, Lao PDR, 2015.

Amy Mauric, Clinton Mccullough, Charlie Wilson-Clark, Andrew Witcomb, Jeff Millgate. 'Closure Planning in a Developing country - a case study from the Phu Kham Mine, Laos, south-east Asia', Edith Cowan Universities Publications Online, Australian Centre for Geomechanics, Perth, ISBN 978-0-9870937-0-7, 2012.
Oxfam, A Citizen's Guide to the Greater Mekong Subregion: Understanding the GMS Program and the role of the Asian Development Bank, 2008

PanAust Sustainability Report for 2011, Melbourne Australia, 2011 available at: http://www.panaust.com.au/laos

Viengsay Luangkhot and Somnet Inthapannha. 'Gold Mine in Laos Accused of Toxic Pollution', RFA Lao Service, 2013.