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THE ROLE OF CHINESE MINING INDUSTRY IN DOMESTIC AND GLOBAL ECONOMY

Maqola Xitoyning oltin qazib olish sanoati, tog’-kon va metallurgiya sektori, oltin qazib olish, Xitoyning qazib olish sanoati, makroqisliq sanoati, qisim sanoati, biznes strategiyalar.

The economy of China has experienced 30 years of tremendous success making China’s economy the largest of the world’s largest. The prosperity depended on a mixed ownership economy that consolidated capitalism within a command economy. The Chinese government’s spending has been a huge driver of its development.

The gross domestic product is the indicator of the China’s economy. The growth was $23.12 trillion being the largest one in the world in 2017. That’s 6.8% more than in 2016 (graph 1). China’s GDP grew at 6.5% year-over-year in the third quarter of 2018. The Chinese growth rate has slowed since the double-digit rates before 2013. Its economy increased 11% in 2013, 7.3% in 2014, 6.9% in 2015, 6.7% in 2016, 6.7% in 2017 and 6.5% in 2018 (World Bank, 2020).

Nowadays the people’s Republic of China is the largest producer of pure gold, holding the palm in this industry since 2007. The country is the second largest importer of gold after Russia. Therefore, many experts of the gold market suppose that China currently has the largest reserves of the main metal currency of our planet.

From 1950 to 2004, Chinese people were officially prohibited to own gold in any kind of form by law. The long-term ban created an unprecedented demand for gold jewelry in private sector immediately after the abolition of this law.

In 1977, China’s gold reserves did not exceed 400 tons. A powerful boost to accumulation was observed in 2010, when gold and foreign exchange reserves doubled in one year. It is important to notice that the price of a Troy ounce reached its historical maximum. Despite the high cost of precious metal, Chinese government continued to buy gold in significant volumes.

All foreign exchange reserves of China at the beginning of 2019 amounted to 3.2 trillion. However gold accounts only for $74.07 billion. The remaining reserves consist of foreign currencies and debt obligations of different countries.

The import of physical gold to China has increased by 750% since 2010. China is actively accumulating physical gold in various forms, pursuing strategic goals unknown to the world. It is clear that the main debtor and economic opponent of China is the United States of America, China’s gold reserves in 2019 amounted to about 1,860 tons. Every year China extracts approximately 250 tons of gold that are mostly located in the mines of the East Shandong province. In 2016 the Chinese government announced that they produced 453 tons of gold that was set as the world record of the production of gold for one year. At the same time, national banks were actively purchasing bars of gold and golden coins on world markets.

China is the world leader of consumption of jewelry gold. In 2017 the Chinese people bought jewelry gold even more than Indians whose population has long been famous for its irreplaceable love of gold jewelry.

China energized its previous dramatic increase with massive government spending. The government possesses strategically significant companies that dominate their industries. It regulates the top 3 energy companies: PetroChina, Sinopec, and CNOOC. They are less productive than private firms and profit just 4.9% for resources contrasted with 13.2% for privately owned businesses. However government ownership permitted China to guide the companies to high-priority projects (Yongtao, 2018).

China requires a few things of foreign organizations who want to offer goods or services to the Chinese populace. They should open industrial facilities to utilize Chinese laborers. They should share their innovation which can be used by Chinese companies by themselves in the future.

Moreover, The People’s Bank of China, the country’s national bank, firmly controls the Yuan to dollar esteem in order to deal with the costs of exports to the United States. The central bank wants them to be a little cheaper than those produced in the United States of America. It can accomplish this since China’s average cost of living is lower than the developed world. By managing its exchange rate, China can take advantage of this disparity.

Fig.1. Annual GDP growth rate in percentage terms for 2000-2018

Gold mining in the People’s Republic of China has made that country the world’s largest gold producer by far with 463.7 tons in 2016. For the year 2007, gold output rose 12% from 2006 to 276 tons to become the world’s largest for the first time—overtaking South Africa, which produced 272 tons (fig. 2). South Africa had the leadership until 2006 being the largest for 101 years straight since 1905. The major reasons for this change in position had been due to...
South African production falling by 50% in the past decade as production costs there have raised, more stringent safety regulations have been implemented, and existing mines have become depleted (Zhou Hao, 2018).

Fig. 2. Production of China’s gold industry for 1970-2014

On the other hand, as of 2014 gold output in China had more than doubled since year 2000. In recent years, China’s gold mining industry has received increased foreign and domestic investment, and project numbers have increased as more discoveries have been found. China produced nearly 300 tons of gold in 2008. It is also the only country in the top three where production rose in 2008. In 2014, production had increased to 450 tons and it was expected to reach 490 in 2015. The second-largest producer, Australia, mined 274 tons in the same year, followed by Russia with 247 tons. South Africa is now in the 6th position with 152 tons.

Domestic producers still suffer from a lack of scale. In 2000, there were about 2,000 gold producers - most of them relatively small and unsophisticated by international standards. Few producers are able to operate on a global platform, though the number of producers had shrunk to about 800 in 2007 after mergers and acquisitions and restructuring and consolidation. Most of these firms’ technological standards and management are weak and inefficient.

The country’s oldest and largest gold producer is the China National Gold Group Corporation (CNGGC), which accounts for 20% of total gold production in China and controls more than 30% of domestic reserves. CNGGC also controls Zhongji Gold, the first publicly listed gold mining company in China.

China’s gold reserves are relatively small (about 7% of the world total). Production has usually been concentrated in the eastern provinces of Shandong, Henan, Fujian and Liaoning. Recently, western provinces such as Guizhou and Yunnan have seen a sharp increase, but from a relatively small base. There is gold mining in Tibet in Maizhokunggar County east of Lhasa.

Foreign investment

Top foreign investment has come from Canada and Australia. Though, foreign investment still constitutes a very important part of gold mining expansion, since 1995 it has no longer been actively encouraged by the Chinese government.

Vancouver-based Jinshan Gold Mines Inc. started production in July at its Chang Shan Hao gold mine in China’s Northern Province of Inner Mongolia, reaching 15,000 ounces of gold by December 18, 1995. The mine is designed to produce about 120,000 ounces of gold per year, making it one of the country’s largest producers.

Multibillion-dollar Indian Liberty Group owns two mines in China that have been mining since 2012. Gold Fields and Australia’s Sino Gold Mining Ltd., have set up a joint venture focused on discovering large gold deposits in China with the potential to produce about 500,000 ounces a year. Sino Gold has been buying stakes in Chinese gold deposits and explorers. In May 2012 it started production at its Jinfeng Gold Mine in southern China, with planned gold production of 180,000 ounces per year.

Demand and consumption

Most of China’s gold output stays in the country where it is transformed into jewelry and manufactured items, though the country’s export role is increasing. In 2007, fabrication rose 18%, helped by demand from China’s increasingly wealthy middle and upper classes. With a rapid rise in domestic demand, China is now the world’s fourth largest gold-consuming country. Chinese market demand accounts for 9.2% of worldwide gold consumption.

Investment in Foreign Mines

In 2006 the Chinese Government began encouraging some private and state-owned companies to pursue mining deals outside of China. In the 10 years that have since passed, the number of major mining/mineral projects in Africa that are owned by Chinese firms have increased from only a handful in 2008 to more than 120 in 2015. A 2016 report stated that Chinese mining companies intend to continue and even increase investments in foreign assets. In 2012, the China General Nuclear Power Corporation (CGNPC) invested in the Hu sab project in Namibia, one of the world’s largest uranium deposits, and mining started in 2015. Chinese mining companies have invested and purchased assets in Sierra Leone, at least nine mining companies in South Africa, Zimbabwe, and the Democratic Republic of Congo (DRC).

Chinese investors have gained the full control over one of the strategic gold deposits in Russia. According to the signed agreement, the state-owned gold mining Corporation China National Gold Group receives 70% of the “klyuchevskoe” gold Deposit. The company is required to invest half a billion dollars in the mine. The total reserves of the Deposit are almost 50 tons. The mine is estimated at 2 billion dollars taking the cost of one ton of precious metal as 40 million dollars. In spite of the fact that the agreement is economically not profitable for Russia, half of the total working staff at the enterprise consists of Chinese workers.

Futures market

In January 2008, China opened its first gold futures market in Shanghai in response to domestic demand for gold, as well as allowing its producers to hedge risks from daily gold price fluctuations.

For many years China has been the top producing nation, accounting for 12 percent of global mine production. However, this is 6 percent lower than 2017 and marks the fourth consecutive year of declines. The downturn is largely due to tighter environmental policies imposed by the government. For example, stricter control over the use of cyanide at gold mines forced several operations to cut back production.

Moreover, China’s reserves of unmined gold are deep and growing. By the end of 2017, the country had identified gold resources and reserves of 13,195.60 tonnes (t) (fig. 3), a substantial figure in itself and an increase of 8.45% year-on-year.

Fig. 3. China national identified gold resource reserves 2008 to 2017

The growth of China’s mining industry shows no sign of slowing down. Despite a slowing economy and the continuing trade war with the United States, the Chinese steel industry shows signs of being resilient. In 2020, China produces about half of the world’s steel and imports more than 70% of the world’s seaborne iron ore. The country also produces around 90% of the world’s rare earth metals. Minerals from the mining industry in China are used to make everything from iPhones to missiles, in addition to numerous other goods that the American consumer and the U.S. economy rely on.

All nine of the biggest Chinese mining companies are included in the list of the 40 largest mining companies in the world. The stocks of these companies trade on the Hong Kong Stock Exchange or the Shanghai Stock Exchange. Namely, the top nine mining Chinese companies are China Shenhua (integrated energy company), China Coal Energy Company Limited (focused on coal), Zijin Mining Group (gold mining and melting), China Northern Rare Earth Group (rare earth metals), Jiangxi Copper (focused on Copper), Shaaani Coal and Chemical mines, China Molybdenum, Shandong Gold Mining, Yanzhou Coal Mining Company Limited.

China’s gold industry is not merely focused on expansion by acquisition; it has also kept abreast of market trends, exploring innovation and development both domestically and overseas. Over the years, the industry has expanded to cover the entire value chain, encompassing exploration, mine production, processing, distribution, sales, trading and investment.
Today, many of the larger gold companies, such as China Gold, Shandong Zhaojin, Shandong Gold and Zijin Mining Group, are keen to extend their reach and drive growth. China Gold, for example, set up Gold Jewelry Corporation Limited to penetrate downstream markets. Its China Gold brand has proved both popular and successful. As China’s economy continues to grow and technological innovation remains a priority, the outlook is bright. But certain steps need to be taken if the gold industry is to maximize its potential (Zhang Yongtao, 2018).

First, mining companies should drive exploration, increase investment in mining assets and cultivate existing resources to improve reserves and ensure the sustainable development of the industry more broadly. The entire industry needs to work together to drive improvements in areas such as human resources, R&D and sustainability. These are common issues, which may be best tackled by the industry as a whole.

Second, the industry would benefit from structural reform. Underperforming businesses need to be shut down, while a round of consolidation would improve productivity and remove excess capacity. Inefficient supply should be reduced, environmental considerations should be increased, risk management policies should be improved and companies should remain keenly aware of market developments at home and abroad. The industry should also focus on cooperation along the value chain, with stronger connections between business and finance, national and international markets and upstream and downstream. This would foster growth and encourage innovation to the benefit of the entire industry.

Third, the industry needs to work together to drive improvements in areas such as human resources, R&D and sustainability. These are common issues, which may be best tackled by the industry as a whole. Fourth, the industry needs to work on a long-term “green mining” strategy and improve its approach to social responsibility. Principles and environmental standards need to be upheld, resource recovery should be enhanced, emissions controlled, governance strengthened, and improvements delivered across a wide range of areas, such as education and training, occupational health, accountability and safety.

Fifth, the gold industry is already starting to cooperate as part of the B&R initiative. But there is real potential for further gains, through integration at home and development abroad. To that end, state-owned enterprises and private companies can join forces to support the B&R initiative, seeking out countries with rich gold resources and working with them to develop mines and enhance production.

China’s gold industry is already in a strong position. But it could become even stronger. International growth, technical innovation and an increased focus on environmental, social and governance issues will help the industry to become a true world leader with global market influence (Zhang Yongtao, 2018).

To conclude, over the past two decades China’s gold market has developed a robust trading infrastructure, based around the Shanghai Gold Exchange, the Shanghai Futures Exchange (SHFE) and over the counter dealing in the commercial banking sector. The Chinese gold market is still growing and developing affecting the economic growth of China and the global production of gold industry significantly. However, it is believed that China’s gold market now needs to become more integrated with the global gold market, so it can fully realize its potential.

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Abstract

The article describes the impact of the Chinese gold industry on the world gold market and the economic growth of China for the period 2000-2020. Despite a slowing economic trend, the Chinese mining industry continues to experience growth. China produces about half of the world’s steel, imports more than 70% of the world’s seaborne iron ore, and produces around 90% of the world’s rare earth metals. The paper demonstrates the importance of the Chinese mining sector and describes the key concepts of the successful government and business strategies.

Keywords: Chinese gold market, mining sector, gold production, Chinese economic growth, Macroeconomics, government policy, business strategies

References


