July 6, 2010

The trend of resource hungry economies reaching out to control global resources is continuing. State-run companies like JOGMEC (the Japan Oils, Gas and Metals National Corporation), Korea Resources Inc., China Megtallurgical Group Corp and others are hunting for technology metals.

At the beginning of 2010, Toyota Tsusho acquired a 25% stake in Orocobre's Chilean lithium operation. Toyota Tsusho is a partially owned subsidiary (22%) of Toyota, the motor company. Additionally Toyota Tsusho will be responsible for securing a Japanese government-guaranteed low-cost debt facility for at least 60 percent of the Project‟s development costs. This facility is expected to be secured through the Japan Oils, Gas and Metals National Corporation (JOGMEC), a state-owned entity that provides assistance to Japanese companies in securing supplies of mineral resources.

Yesterday, another Japanese trading house (Itochu Corp) announced that it would buy a 20% stake in US lithium extractor Simbol Mining. The deal gives Itochu exclusive rights to market Simbol lithium in Asia. Simbol extracts lithium from geothermal brines in California. Note that at the time of publishing, there is no evidence that a state-owned enterprise is involved. However, Simbol Mining holds an exclusive license to patented silica extraction technology from the Department of Energy,

But it is not just Japan joining into the fray. Last week, a Korean company called Posco (Asia's third-largest steelmaker) purchased the 60% of China's Yongxin Rare Earth Metal Co., along with state-owned Korea Resources Inc.

China is internationally renowned as being the most acquisitive. The most recent news is that despite instability, violence and danger China is ploughing ahead with their resource development plans in Afghanistan. Their copper needs must be desperate. The Aynak copper mine, located in the valley where Al Qaida trained for the 9/11 attacks, will begin production by 2013. The mine is a joint venture between China Megtallurgical Group Corp and Jianxi Copper.

According to a recent Associated Press article, Ghullam Mohammad Yalaqi, the Afghan commerce and industry minister said, "China is the biggest buyer of raw materials in the world, whether that's in Africa, Asia or any other part of the world. So if China wants to come to Afghanistan, why not?"

To the rest of the world, China is seen as a stable partner and an investor. Meanwhile, America has a different reputation, as indicated by the AP article.

Beijing has reaped admiration for projects such as the 350-bed Jamhuriat Hospital. Inaugurated last summer, it was built in three years by 200 Chinese workers who lived on-site in temporary lodgings, said hospital director Ramazan Karimi. The hospital sits empty, though, because the government hasn't allocated any operating funds, he said.

"The Afghan people prefer this gift from China. The Chinese side has done streets, roads and clinics in Afghanistan," Karimi said. "They didn't bring their troops here."

Foreign direct investment and the international flow of capital drives development, and should be looked upon favorably. However, there is a difference between international investment by individuals and private companies, and those companies that are controlled by a foreign government. A problem arises if capital markets are distroted by government willing to invest at a premium in order to gain influence the geopolitical stage. Governments may make investments that are not designed to increase effiency, but rather to destroy it and kill a foreign country's competing industry.

According to IAGS Executive Director Gal Luft's testimony before the House Committee on Foreign Affairs in May 2008,

"Willingness to pay above market prices, use government assets to back up financial deals or manipulate prices to increase returns should all be red flags that trigger response. The U.S. already has a rigorous safeguard mechanisms against undesirable foreign investors. The Committee on Foreign Investment in the U.S. (CFIUS) protects national security assets in sectors such as telecommunications, broadcasting, transportation, energy and minerals in which there is a clear potential danger to national security."

Luft asserts that countries that seek to invest internationally should also allow foreign investment freely.