CHINA'S REACH

By the Staff
of The Associated Press

Heng Sinith • AP

Workers adjust stones at a dam construction site by China National Heavy Machinery Corporation at Tatay, in Koh Kong province, Cambodia.

AP

CHINA'S REACH

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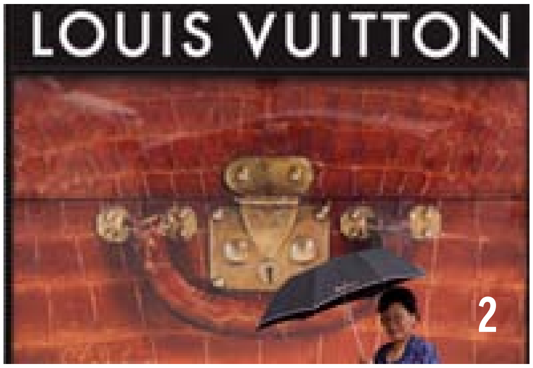

Dec. 2, 2012

AP IMPACT: China passes US as top trade partner for much of world, changing lives globally

By JOE McDONALD and YOUKYUNG LEE
Associated PRess

SEOUL, South Korea — Shin Cheol-soo no longer sees his future in the United States.

The South Korean businessman supplied components to American automakers for a decade. But this year, he uprooted his family from Detroit and moved home to focus on selling to the new economic superpower: China.

In just five years, China has surpassed the United States as a trading partner for much of the world, including U.S. allies such as South Korea and Australia, according to an Associated Press analysis of trade data. As recently as 2006, the U.S. was the larger trading partner for 127 countries, versus just 70 for China. By last year the two had clearly traded places: 124 countries for China, 76 for the U.S.

EDITOR'S NOTE — This is the first installment in "China's Reach," a project that will analyze China's influence with its trading partners over three decades, and explore how that is changing business, politics and daily life. Keep up with AP's reporting on China's Reach, and join the conversation about it, using the hashtag (hash)APChinaReach on Twitter.

In the most abrupt global shift of its kind since World War II, the trend is changing the way people live and do business from Africa to Arizona, as farmers plant more soybeans to sell to China and students sign up to learn Mandarin.

The findings show how fast China has ascended to challenge America's century-old status as the globe's dominant trader, a change that is gradually translating into political influence. They highlight how pervasive China's impact has been, spreading

Ross D. Franklin • AP

Stacey Rassas, right, a quality control manager at a Suntech Power Holdings Co., a Chinese-owned solar panel manufacturer, examines a solar panel at a company facility in Goodyear, Ariz.

from neighboring Asia to Africa and now emerging in Latin America, the traditional U.S. backyard.

Despite China's now-slowing economy, its share of world output and trade is expected to keep rising, with growth forecast at up to 8 percent a year over the next decade, far above U.S. and European levels. This growth could strengthen the hand of a new generation of just-named Chinese leaders, even as it fuels strain with other nations.

Last year, Shin's ENA Industry Co. made half his sales of rubber and plastic parts to U.S. factories. But his plans call for China, which overtook the United States as the biggest auto market in 2009, to rise fivefold to 30 percent of his total by 2015. He and his children are studying Mandarin.

"The United States is a tiger with no power," Shin said in his office, where three walls are lined with books, many about China. "Nobody can deny that China is the one now rising."

TRADE IS A BIT LIKE FOOTBALL — the balance of exports and imports, like the game score, is a neat snapshot of a jumble of moves that make up the economy, and both sides are apt to accuse each other of cheating from time to time. Also, the U.S. and China are both rivals and partners who can't have a match without each other, and a strong performance from both is good for the entire league.

Trade may get less publicity than military affairs or diplomacy, yet it is commerce that generates jobs and raises living standards. Trade can also translate into political power. As shopkeepers say, the customer is always right: Governments listen to countries that buy their goods, and the threat to stop buying is one of the most potent diplomatic weapons.

China has been slow to flex its political muscle on a large scale but is starting to push back in disputes over trade, exchange rates and climate change.

"When a German chancellor or French president goes to China, right at the top of the list, he's trying to sell Airbuses and other products and is being sensitive to China's political concerns, like on human rights," said C. Fred Bergsten, a former U.S. Treasury Department official who heads the Peterson Institute for International Economics in Washington.

The United States is still the world's biggest importer, but China is gaining. It was a bigger market than the United States for 77 countries in 2011, up from 20 in 2000, according to the AP analysis.

The AP is using International Monetary Fund data to measure the importance of trade with China for some 180 countries and track how it changes over time. The analysis divides a nation's trade with China by its gross domestic product.

The story that emerges is of China's breakneck rise, rather than of a U.S. decline. In 2002, trade with China was 3 percent of a country's GDP on average, compared with 8.7 percent with the U.S. But China caught up, and surged ahead in 2008. Last year, trade with China averaged 12.4 percent of GDP for other countries, higher than that with America at any time in the last 30 years.

Of course, not all trade is equal. China's trade is mostly low-end goods and commodities, while the U.S. competes at the upper end of the market.

Also, even though Chinese companies invest abroad and employ thousands of foreign workers, they lag behind American industry in building global alliances and in innovation, which is still rewarded in the marketplace. China's competitive edge remains low labor and other costs, while the U.S. is the world's center for innovation in autos, aerospace, computers, medicine, munitions, finance and pharmaceuticals. The Chinese have yet to build a car that will pass U.S. or European emission standards.

If the trend continues, China will push past the U.S. this year.

And the United States still does more trade overall — but just barely. If the trend continues, China will push past the U.S. this year, a remarkable feat for a country so poor 30 years ago that the average person had never talked on a telephone.

"The center of gravity of the world economy has moved to the east," said Mauricio Cardenas, the finance minister in Colombia. Like most of Latin America, his country is still more closely tied to the U.S., but its trade with China has risen from virtually nothing to 2.5 percent of GDP, a more than tenfold increase since 2001. "I would say that there is nothing comparable in the last 50 years."

In one sense, China's growing presence in trade is just restoring the Middle Kingdom to its historic dominance. China was the biggest economy for centuries until about 1800, when the Industrial Revolution propelled first Europe and then the U.S. into the lead.

China began its return to the global stage in the 1990s as a manufacturer of low-priced goods, from T-shirts to toys. Factories in other countries slashed costs to meet the "China price" or were pushed out of the market.

As the new millennium dawned, the U.S. remained by far the world's dominant trader, rivaled collectively by Europe but no single nation. However, from 2000 to 2008, China's imports grew 403 percent and exports 474 percent, driven in part by its entrance into the World Trade Organization and its move to higher-value production.

China's imports of oil and raw materials for its factories propelled resource booms in parts of Asia, Africa and Latin America. China's demand for steel for manufacturing and construction grew so fast that its mills now consume half the world's output of iron ore.

Zambia, a major copper producer, switched to the China column in 2000. Australia, a coal and iron ore exporter, followed in 2005. Chile, another copper supplier, moved in 2009.

Meanwhile, exports surged as Apple, Samsung, Nokia and other electronics giants shifted final assembly to China. Shipments of mobile phones, flat-screen TVs and personal computers have jumped sevenfold over the past decade to nearly $500 billion. That made China a major customer for high-tech

Lee Jin-man • AP

Masked employees work at ENA Industry's assembly line in Gyeongsan, south of Seoul, South Korea.

components supplied by countries such as South Korea, which swung into China's column in 2003, followed by Malaysia in 2007.

In the U.S., Vermont-based manufacturer SBE Inc. started exporting capacitors — energy-storage devices used in computers, hybrid cars and wind turbines — in 2006. The company now gets 15 to 20 percent of its revenue from China, and has hired 10 employees there.

As China grew richer, its people spent more.

Chinese ate more pork, fried chicken and hamburgers, rapidly sending up the demand for soybeans to make cooking oil and feed for pigs and cows. Some cattle ranchers in Latin America turned grazing land into fields of soy, a crop few in their region consume. Soybean exports helped push Brazil into the China column in 2010, and put China neck and neck with the U.S. as Argentina's top trading partner.

The United States is the largest exporter of soybeans to China.

In the Brazilian state of Mato Grosso, some 10,000 miles (17,000 kilometers) from Beijing, farmer Agenor Vicente Pelissa and his family raise cattle and soy on 54,300 acres, a farm twice the size of Manhattan. Half their 21,000-ton annual soybean harvest goes to China.

"We've invested more in technology and in better machines and equipment to meet this rising demand," Pelissa said. "If it hadn't been for China, we would not have not modernized our operations, at least not as quickly as we did."

Even in the U.S., better known for manufacturing, farmers are rushing to sell to China. The United States is the largest exporter of soybeans to China, followed by Brazil and Argentina. China's purchases of American soybeans have risen from almost nothing 20 years ago to a quarter of the crop: 24 million tons worth $12.1 billion, America's largest export to China.

The boom is having a profound effect on farming communities, said Grant Kimberley, whose family farm near Des Moines, Iowa, now grows 4,000 acres of soybeans, up from 3,500 eight years ago.

"It's provided more revenue for these farmers than they've ever seen in their lives," said Kimberley, who is also director of market development at the Iowa Soybean Association. He said he sees more young people returning to the farm. "People can see there's an opportunity to make nice livings for their families."

IT WAS THE 2008 GLOBAL crisis that showed the resilience of China's exporters.

The recession set everyone back, but China less so than the U.S. or other major traders such as Germany. China does a bigger share of its trade with developing countries that suffered less and rebounded faster, while the United States sells to rich economies that are struggling. Chinese companies have boosted exports by 7 percent this year despite anemic global demand.

During the recession, Shin, the South Korean auto parts manufacturer, saw his sales fall 50 percent. He shut one of three

Sidali Djarboub • AP

A red and white tape is used around the building site of the Great Mosque of Algeria in Algiers. China is now pushing into construction and engineering, where U.S. and European companies have long dominated.

production lines, and banks stopped lending him money.

But China's auto market was powering ahead. So Shin hired an employee in China, and is now making plans for his first factory there. On a business trip to Germany, clients told him their Chinese factories would be larger than those at home.

Parents like Shin, who work at companies doing business with China, in turn fed enrollment growth at schools such as Teacher Ching, a Chinese-language kindergarten in Seoul.

Nancy Ching, the daughter of immigrants from Taiwan, opened the school with 15 students in 2004, the year after South Korea first moved from the U.S. column to the China column. Today she has 60.

"Mothers who send their kids here believe our children's generation is the China generation," she said in Chinese-accented Korean. "In the future, without learning Chinese, one won't be able to get a job."

China resumed its upward trajectory in the last two years. Even with key Western markets in a slump, exports are up 58 percent since 2009. Imports are up an even sharper 73 percent.

Rising incomes have driven demand for wine and other luxury goods, making China a lifeline for European and American vineyards when the global crisis battered traditional markets.

The Chinese have "helped Bordeaux a lot these past three years," said Florence Cathiard, owner of Chateau Smith Haut

Lafitte in the Pessac-Leognan area of France's southwest, home of high-end Bordeaux wine.

France's wine exports to China first surged in 2009, and by last year, China had surpassed the U.S. as a customer by volume. Americans still spend more, because they buy more expensive wines. But China is developing a taste for grand cru wine, the "great growths" that are considered exceptional and command higher prices.

Cathiard acknowledged that she was initially wary of China as a reliable market for her high-end wines. But the turning point for her came around 2008, when she was blown away by the number of people showing up for a master class by her chateau at a wine expo in Hong Kong.

China's trade evolution is to move beyond exporting TVs and lawn furniture to selling services and investing abroad.

China now accounts for 25 percent of Cathiard's sales, making it her largest market.

The owners of Chateau Haut-Bailly, also in Pessac-Leognan, first traveled to China to test the waters in 2000, and it was too early.

"At the time, they didn't know what a cork or a corkscrew was," said Veronique Sanders, the chateau's general manager.

Chinese sophistication has since advanced rapidly, she said.

"The difference with other emerging markets we've gone into in the past is the size of the country, which means it has an absolutely incredible potential."

THE NEXT STEP IN CHINA'S trade evolution is to move beyond exporting TVs and lawn furniture to selling services and investing abroad.

The investment trend started with state-owned companies that bought stakes in foreign mines and oil fields. Smaller and private Chinese companies followed, acquiring foreign enterprises to gain a bigger foothold in overseas markets, more access to resources and better technology for their own development.

China is now pushing into construction and engineering, where U.S. and European companies have long dominated.

In Algeria, Chinese state-owned companies pushed aside established French and German rivals to win contracts to build a $12 billion cross-country highway and the $1.3 billion Great Mosque of Algeria. The Chinese have also built highways, dams and other projects in developing countries and are starting to win contracts in the U.S. and Europe.

On a new 50-kilometer (30-mile) highway leading north of Nairobi, the capital of Kenya, dark asphalt stretches across six to eight lanes.

The $300 million road was built by three Chinese companies and financed by the African Development Bank and the Export-Import Bank of China. It has cut a trip that took several hours 18 months ago to 10 minutes, said Joseph Makori, a professional driver.

"When we see the people from America, they say, 'We want to assist Kenya'," said Makori as he looked for work at an interchange about 10 kilometers from downtown. "But I don't see it. China comes and I see one thing: the road."

Chinese companies are starting to win government contracts in Kenya, which has ports that offer access to landlocked Uganda, South Sudan and Rwanda. Governments in Africa are keen to work with China because it does not tie development to human rights or democracy, said Stephen Mutoro, secretary general of the Consumer Federation of Kenya.

"China appears to have a long-term plan based on increasing its commercial interests where governance issues are given a back burner," Mutoro said. The experience of Congo might foreshadow a more complex approach that Beijing envisages for other African nations. In 2008, the two governments signed a $9 billion deal for Chinese companies to build 177 hospitals and health centers, two hydroelectric dams and thousands of miles of railways and roads. In exchange, Congo was to provide 10.6 million tons of copper and 600,000 tons of cobalt.

The deal has since been scaled back to $6 billion under pressure from the International Monetary Fund, which felt Congo was taking on too much debt.

China's outbound investment totaled $67.6 billion last year — just one-sixth of America's nearly $400 billion — but it could reach $2 trillion by 2020, according to a forecast by Rhodium Group, a research firm in New York City.

As a result, Chinese companies are using a new export — jobs.

Employees at Volvo Cars worried after Chinese automaker Geely Holdings bought the money-losing Swedish brand from Ford Motor Co. in 2010. But two years later, instead of moving jobs to China, Geely has expanded Volvo's European workforce of 19,500 to about 21,500.

Majority-owned U.S. affiliates of Chinese companies support about 27,000 American jobs, up from fewer than 10,000 five years ago, according to Rhodium.

In Goodyear, Arizona, Stacey Rassas was laid off in May 2010 after a 16-year career in quality control for aerospace and aluminum manufacturers. By late autumn, she and her husband were worried they might lose their house.

She finally landed a job that December at a new factory that makes solar panels for one of the world's biggest solar manufacturers.

"It was the best day ever," she said.

Her new employer? Suntech Power Holdings Co., a Chinese company.

McDonald reported from Beijing. AP Business Writers Sarah DiLorenzo in Paris and Jonathan Fahey and Scott Mayerowitz in New York and AP writers Michelle Faul in Johannesburg; Louise Nordstrom in Stockholm; Luis Andres Henao in Santiago, Chile; Cesar Garcia in Bogota, Colombia; Paul Schemm in Algiers, Algeria; Stan Lehman in Sao Paulo; Troy Thibodeaux in New Orleans; and Jason Straziuso and Tom Odula in Nairobi, Kenya; and AP interactive producer Pailin Wedel in Bangkok contributed.

Dec. 5, 2012

China's reach — arm's length

By CHARLES HUTZLER
Associated Press

A MONGOLIAN mining company broke ground in the pebbled Gobi desert last spring for a railroad that will haul more coal to China — but (only after years of testy debate and) with an expensive caveat.

Citing national security, the government ordered the rails be laid 1,520 millimeters apart, Mongolia's standard gauge inherited from the Soviets. The width ensures that the rails cannot connect to China's, which are 85 millimeters (about 3 ½ inches) closer together. So at the border, either the train undercarriages will need to be changed or the coal transferred to trucks, adding costs in delivering the fuel to Mongolia's biggest customer.

When it comes to China, Mongolia will only go so far and no further.

EDITOR'S NOTE — This story is part of "China's Reach," a project tracking China's influence with its trading partners over three decades and exploring how that is changing business, politics and daily life.

"This is a political decision," shrugs Battsengel Gotov, the tall, boyish-looking chief executive of Mongolian Mining Corporation, which is building the railway from its prized coal mine, a few hours grinding truck drive north of the Chinese border.

In the world's rush to get rich off China, Mongolia works mightily to ensure that Chinese investment does not become Chinese dominance. It's a balancing act shared by many countries, especially on China's periphery. Mongolia, though, stands out for its vulnerability and determined deflection of Beijing's embrace.

Landlocked with 2.8 million people spread over an area twice the size of Texas, Mongolia is dwarfed by China, with its 1.3 billion people and the world's second largest economy. Fully 90 percent of Mongolia's exports — coal, copper, cashmere and livestock — go to China, which in turn sends machinery, appliances and other consumer goods that account for a third of Mongolian imports. The rising trade with China now amounts to three-fourths of Mongolia's economy, one of the highest ratios in the

Andy Wong • AP

Trucks loaded with coking coal line up to enter a customs border between Mongolia and China near Tsogttsetsii, in southern Mongolia.

world, according to an Associated Press analysis of IMF trade data.

Mongolia's one other neighbor, Russia, remains important, supplying fuel and owning half a mammoth copper mine and half the national railway system, legacies of the 70 years Mongolia spent as a Soviet client state. But China, with its huge population and voracious demand, looms larger than resource-rich, thinly populated Russia.

Mongolia has sought to minimize both Moscow's and Beijing's influence by forging links with other world powers. The fledgling democratic government has contributed troops to U.N. peacekeeping missions in Sierra Leone and other countries, and to the American war in Iraq. U.S. Secretary of State Hillary Clinton, on a visit in July, praised Mongolia as "an inspiration and a model."

In measures that politicians here say are aimed at China without naming it, Mongolia also caps immigrants from any one country to a third of one percent of the population, or less than 10,000 people, and restricts the numbers of foreign workers and types of investment.

"We will not be another Africa," said Ganhuyag Ch. Hutagt, a banker and former vice finance minister who wants to turn Mongolia into an international center of finance. "We cannot afford to have one particular nation control our businesses."

From the steppe to the streets of the capital Ulan Bator, Mongolians evince a distrust of Chinese. The sentiment goes beyond a neo-Nazi fringe that shaves the head of Mongolian women who sleep with Chinese. Almost everyone says China is stealing Mongolia's coal.

When NBA star Dwight Howard appeared at an outdoor promotion for leading mobile phone operator Mobicom Corp. in Ulan Bator last November, the popular Mongolian rapper Gee warmed up the crowd with his hit "Hujaa" — a pejorative term for Chinese.

Unlike neighboring countries from Japan to India, Mongolia has no Chinatowns. The tens of thousands of Chinese workers drawn to Mongolia's mineral boom are rarely seen, living in fenced-off mining camps hidden in the vastness of the Gobi or behind high construction walls at building sites in the capital Ulan Bator. They are told to stay off the streets to avoid being beaten up by youth gangs. The few Chinese restaurants advertise "Asian" not Chinese food.

Coal country is where Mongolia's balancing act is put to the test.

Coal country is where Mongolia's balancing act is put to the test. Chinese demand for copper and especially coal has propelled the Mongolian economy to one of the world's fastest growing, making some wealthy and driving down poverty in a still poor country, and China wants a larger share of the resources.

Tsogttsetsii, the county seat closest to Mongolia Mining Corporation's coal mine and the planned railroad, bursts with activity. A new airport and apartment complexes rise out of the empty, tawny Gobi. Trucks full of coking coal veer off a company-built paved road to the Chinese border to avoid potholes, crushing tufts of grasses herds of camel and goats feed on.

On the Mongolian side of the border squat a few blocky concrete buildings for guards. Across the fence, the Chinese city sprawls and gleams, a vision perhaps of what Mongolia could be if it fully opened to China. "There are more buildings. There's more construction. It's more developed. The landscape is nicer," said Dizaibadiin Luvsandorj, a gaunt former Buddhist monk-turned-coal hauler who makes the trip every week or so. Still, he doesn't like to stay on the Chinese side, he said, because "food is expensive."

NOWHERE ELSE DOES China's footprint loom so large yet seem so faint. Even in totalitarian, hermetic North Korea, Chinese road-building crews string banners of Chinese characters along the construction sites.

In Cambodia, where trade with China has nearly doubled from 10 percent of GDP in 2006 to 19 percent in 2011, and Chinese investments run from rubber plantations to telecommunications, the government has done Beijing's bidding. It sent back ethnic Uighurs seeking asylum. This July, it squelched an attempt by Southeast Asian allies to use an annual forum to pillory Beijing for its expansive claims to disputed South China Sea islands.

In Myanmar, also known as Burma, China's presence became so intrusive

Andy Wong • AP

A Mongolian woman walks past a Louis Vuitton outlet near the Sukhbaatar Square in Ulan Bator, Mongolia.

it incited a backlash. A military-backed government counted on China for investment and diplomatic protection for two decades. Trade with China officially hovered around 10 percent of GDP, not including widespread smuggling. Chinese companies have been so busily extracting timber, gems, oil and gas that locals complain “China is using Burma as a supermarket.” In the city of Mandalay, a real estate rush by Chinese has priced locals out out of the market. Alarmed by the onslaught and the outcry, the government moved away from Beijing last year, taking steps toward democracy.

Myanmar, also known as Burma, grew dependent on Chinese investment and diplomatic protection during nearly two decades of military-backed rule, though lately an anti-Chinese backlash has emerged. The country’s trade with China has hovered around 10 percent of GDP for the past decade. Chinese companies have been so busily extracting timber, gems, oil and gas that locals complain “China is using Burma as a supermarket.” Its second city of Mandalay has seen a real estate rush by Chinese, driving up prices and pushing out poorer locals. Alarmed by the onslaught and the public outcry, the government switched tack last year, taking steps toward democracy as the

West wanted and suspending an unpopular Chinese dam project.

MONGOLIANS HAVE WORRIED about being swallowed by China at least since Genghis Khan's Mongol conquerors swept across much of Asia in the 13th century. Wanting a written language to unite Mongol tribes, he turned to a Turkic people, the Uighurs, to develop a script and not to China, whose character-based language was used in Korea, Japan and Vietnam.

Chinese came to dominate commerce and comprised about 10 percent of Mongolia's 1 million population after it was absorbed into the last Chinese dynasty, the Qing, set up by another group of horseback warriors, the Manchus. Purges, first by a murderous White Russian general and his motley army and then in the 1960s and '70s by Mongolia's Soviet-backed government, killed or drove off the remaining Chinese.

Mongolia's mining fever is driven by Chinese consumption.

After peacefully shedding communist rule, Mongolia searched for ways to shake off its dependence on Moscow and keep Beijing at bay.

"It's an identity problem we Mongolians have not to be drawn into that big melting pot" of China, said Col. Munkh-Ochir Dorjjugder, director of defense studies at National Defense University and a former head of analysis for Mongolia's intelligence agency. "This tiny tribe this tiny group that has survived all this time now wants to preserve what we have."

To do so, they crafted an outreach to major global players; they called it the "third neighbor" policy, taking a throwaway phrase U.S. Secretary of State James Baker used on an early bridge-building trip in 1990. Beyond sending troops to Iraq and Afghanistan and offering an air base after September 11 to court the U.S., Mongolia has drawn in Japan as a key investor, the European Union for guidance on development and even faraway NATO as a security partner. The approach has been enshrined in a national security strategy.

Amid the current China-fueled rush for resources, the strategy identifies Mongolia's mineral wealth as a security Achilles heel, citing the risk of "turning into a raw materials appendage to other countries." As part of that, China and Russia are each limited to a third of Mongolia's total foreign investment.

The government has kept foreign companies bidding to mine off-balance, drawing in U.S., Japanese, British as well as Chinese and other firms so that no one dominates. A $500 million low-interest loan from China for development projects sits untouched, because the government worries Beijing wants to use it to force mining concessions.

When the government-run Aluminum Corporation of China Ltd., known as Chalco, tried to take a controlling stake in a South Gobi coal mine near the Chinese border by buying shares from other foreign investors, parliament hurriedly passed a law this summer to stop it. Chalco dropped its bid.

By requiring Mongolia Mining, a private

Andy Wong • AP

A Chinese worker takes a break at a room inside a construction building site in downtown Ulan Bator, Mongolia.

company listed in Hong Kong, to use a different railway gauge than China, the government is adding $2 to $4 in costs to every ton of coal, or about $120 million each year.

The railroad was debated for more than two years in parliament. A transport minister and other powerful politicians argued the railway should first connect with existing tracks to Russia.

In a compromise both are being built, though Russia doesn't need the coal and its nearest port is 4,000 kilometers (2,500 miles) away. The coal could be shipped via the port to Japan or South Korea, but the trip would add $100 to every ton.

"Mongolia's mining fever is driven by Chinese consumption," said mining company CEO Battsengel. On the wall of his 16th story corner office in the center of Mongolia's capital hangs a map of the northeastern China cities, railways and ports his company wants to tap into. "We have two big superpowers as neighbors. Virtually, we have one customer."

Even in the coal belt where the prosperity of the China boom is most evident, the China trade is unpopular.

Myadagmaagiin Zolzaya, a retired carpenter and herder, left the pasturelands to live in a traditional round tent known as a "ger" in one of the neighborhoods springing up on the fringes of Dalanzadgad.

The city, near where American explorer Roy Chapman Andrews made his much-heralded discovery of dinosaur eggs in the 1920s, is now Mongolia's richest because it's a staging ground for Tavan Tolgoi, a prized deposit estimated to hold 6.4 billion tons of coal, enough to meet Chinese demand for centuries.

Myadagmaagiin left his goats and sheep to his eldest son and followed his other children to the fast-growing city, where they found work: three sons in construction and his daughter as a cook.

Now, while looking after his grandchildren, the balding 58-year-old Myadagmaagiin fumes about the mines, the environmental damage and the throngs of Chinese workers they have attracted. Like many across Mongolia, he knows that a state-owned mining company is selling China coal at below international market prices — a fact repeated endlessly on the country's independent but highly partisan TV stations.

The mining company agreed to a relatively low price of $70 a ton in return for an upfront payment of $250 million that it used to develop the mine.

"Mongolians should get the jobs in Mongolia, and the benefits should go to Mongolia, not the Chinese. They will take the wealth and leave a big hole," he said.

Money is spilling out of the South Gobi, funding businesses and creating jobs elsewhere in the country. If growth holds, economists project that in a few years every able-bodied Mongolian capable of holding a job will likely be able to find one. Full employment means that Mongolia must import labor to keep growing. China is the handiest source.

In its desire for coal, Beijing has treaded carefully against Mongolia's push-back. In the pre-boom days of 2002, Beijing blocked freight trains from entering China for two days when the Dalai Lama — the exiled Tibetan leader reviled by the communist government — came to preach to Mongolian Buddhists. Last November, the Dalai Lama returned, and Beijing protested in words only. It did not cancel long scheduled Cabinet-level meetings.

The Dalai Lama preached in a new 4,000-seat sports arena in Ulan Bator. It was built and donated by China.

AP writer Denis Gray in Yangon, Myanmar, contributed to this report.

Rob Griffith • AP

A four-wheel-drive vehicle follows a large mining truck as it makes its way to the top of a Boggabri coal mine near Gunnedah, Australia.

Dec. 9, 2012

China's money changes the landscape in Australia

By ROD McGUIRK
Associated Press

GUNNEDAH, Australia (AP) — Tony Clift's family has plowed the rich black soil of Australia's Liverpool Plains for six generations. The thought of selling never crossed his mind — until a Chinese company came to town.

Shenhua Watermark Coal offered to buy farms at unheard-of prices. The decision wasn't easy, Clift says. His pioneer ancestors settled the land in 1832. But farming is a business nowadays, and selling his 6,500 acres (2,600 hectares) made business sense.

"If someone offers you a whole heap of money, you've got to take it," says the 50-year-old father of two, sitting at the kitchen table of the palatial hilltop home he built with the windfall. A sea of yellow stretches out below, canola fields planted on less fertile land he bought 25 miles (40 kilometers) to the north.

EDITOR'S NOTE — This story is part of "China's Reach," a project tracking China's influence on its trading partners over three decades and exploring how it is changing business, politics and daily life. Keep up with AP's reporting on China's Reach, and join the conversation about it, using the hashtag (hash)APChinaReach on Twitter.

Soaring coal prices fueled by China's economic growth have made mining parts of the Australian landscape far more lucrative than farming it. It's one example of how China's emergence as a global trading power may transform countries in ways never contemplated and not yet fully understood.

The Associated Press analyzed China's trade with other countries as a percentage of their gross domestic product, using an International Monetary Fund database. It found that, on average, trade with China had climbed to 12.4 percent of GDP by 2011. By comparison, the peak reached with the U.S. in the past 30 years was 10 percent in 2001.

In Australia, where trade with China hit 7.7 percent of GDP last year, exports of coal and iron ore have helped Australia fend off recession for 21 years and deliver the largest trade surpluses in 140 years of record-keeping.

China's rapid rise has given Australia its strongest terms of trade since a global wool

Rob Griffith • AP

Farmer Tony Clift points past bright yellow canola crops towards the location of a proposed coal mining site near Gunnedah, Australia.

boom in the 1950s, says economist Peter Robertson at the University of Western Australia. "That boom was fairly short-lived," he wrote in an email response to questions. "This one's length is unknown. It may turn out much bigger depending on China's future growth."

The former British colony's relationship with China is deepening in other ways too:

— More than 29,000 Chinese became permanent residents in the year ending June 30, 2011, for the first time eclipsing the United Kingdom, the traditional source of migrants. While India topped China in the next 12-month period, that appears to have been a blip.

There are fears that coal dust, endless coal trains and damage to the aquifers could forever alter a pastoral way of life.

— China accounted for nearly two-thirds of the 10,407 business visas in the most recent year — investors and entrepreneurs either given residency or put on a likely path to it.

"Here we have China not only being out biggest trading partner, it is now the major source of migrants and the major source of international students studying here," says Peter Drysdale, an emeritus professor of economics at Australian National University.

"The study leads to migration leads to investment, leads to the deepening of the economic relationship and the interaction between the communities," he adds. "The scale of it is ... now starting to cover a space that historically the relationship with the United Kingdom covered."

In eastern Australia, the China boom is reawakening the sleepy town of Gunnedah. Construction workers and surveyors in high-visibility, fluorescent green shirts are a common sight, a constant reminder that the plans to mine are the cause of the economic resurgence.

Not everyone is happy. The prospect of mining has divided the town of 12,000, including members of the extended Clift clan. There are fears that coal dust, endless coal trains and damage to the aquifers could forever alter a pastoral way of life, perhaps even make it untenable.

Shenhua spokeswoman Melanie Layton says the land will return to farming after the 30-year life of the mines.

Gunnedah, whose previous heyday came during the 1950s wool boom, may be undergoing one of its biggest transformations since it was settled in 1856, says Adam Marshall, who stepped down as mayor in September. "We did have a mini coal boom in the early 1980s, but nothing on the scale which we're seeing now."

Coal mining has a long history in Australia, but never before has it encroached on such prime farmland as the Liverpool Plains, a 4,800-square-mile (12,400-square-kilometer) flatland bordered by mountain ridges and dotted with volcanic hills about 275 miles north of Sydney.

Shenhua Watermark, a subsidiary of state-owned China Shenhua Energy, the world's biggest coal mining company, spent

Rob Griffith • AP

Whitehaven Coal mine outside Narrabri, Australia.

167 million Australian dollars (more than $170 million) to buy 43 farms covering 36,300 acres. Ex-mayor Marshall says sellers told him Shenhua paid several times market value.

George Clift, 83, who refused to sell, is upset that his cousin Tony did.

"You're supposed to hand it down to the next generation, so if you're not going to do that, you shouldn't have been handed the land in the first place," he says. "I'm very, very sad to see how everything's turning out for the next generation; we've seen the best of Australia and I think it's only going to deteriorate from here on."

Tony Clift says he believes the state would have forced him to allow mining anyway — and probably for less compensation than Shenhua paid for the land. Mining companies can take landowners to court if the two sides can't agree on access to the land.

"Yeah, it causes some problems in the family. That's life," Tony Clift says. "I'd rather take the money and run now than watch my whole block get dug up."

Japan's heady growth powered a boom in the 1980s, but trade with China, which dethroned Japan as Australia's top trading partner in 2009, appears headed even higher.

The 7.7 percent of GDP it reached in 2011 eclipsed Japan's average of 6.4 percent in the 1980s and even its peak of 7.4 percent in 1985. One quarter of Australian exports are now shipped to China.

Mark Beeson, a political scientist at the University of Western Australia, injects a note of caution: Resource booms are often followed by busts.

Commodity prices have already come off highs as global mine production catches up with Chinese demand and the global economy has slowed. Some companies have shelved mine expansion plans.

But the outlook for investment remains strong, the Australian government says, with about AU$500 billion in projects still in the pipeline.

"There're lots of things that could go wrong, of course, but if it carries on, it's going to get more and more important," Beeson says.

Once word got around that he had sold, others who had once greeted him with a friendly "G'day" stopped acknowledging him.

In some ways, it already is: Turf wars between farmers and miners have triggered a national debate over agricultural land use, a rarity for such a sparsely populated country. In October the government announced plans to create a national register of foreign-owned farmland amid concern that such record-keeping has been piecemeal in the past.

Not since the 1950s, before the modern, free-trade era, has a country done more trade with Australia as a percent of GDP.

Then, Australian trade policy gave Great Britain preferential treatment and put the needs of the British Empire ahead of national interests. At the peak of a Korean War wool boom, trade with Britain reached as high as 19.5 percent of GDP, according to Australian government statistics.

Though Great Britain and the United States remain far more pervasive influences, China is becoming part of the political and social fabric in Australia, says Chen Jie, a lecturer on international relations at the University of Western Australia. He notes that lawmakers now visit China at the invitation of business interests there, influencing Australian politics.

"It's a new phenomenon. It's challenging some of the old assumptions in Australia," he says.

Including the price of land in Gunnedah.

Paul Smyth almost fell off his harvester and into a crop of sunflowers when a Shenhua representative called him on his cellphone two years ago to offer AU$6 million for his 1,100-acre farm — quadruple its market value. Smyth had bought the farm 12 years earlier for around AU$700,000.

"You'll have to run that past me again; I'm in a very noisy machine," he recalls saying. "I heard him first up, but I just couldn't believe my ears."

He adds: "If I lived two or three lifetimes there, I would never see a farmer come along and want to buy it at that price."

Once word got around that he had sold, others who had once greeted him with a friendly "G'day" stopped acknowledging him.

"If I was in their shoes, I'd be exactly the same way, I guess," says Smyth, who has retired at 57 and moved to a 3-acre property near the coast.

Those who remain are in limbo.

Shenhua has completed exploratory drilling after paying New South Wales state

Rob Griffith • AP

Mining site personnel walk by a Whitehaven Coal mine near Gunnedah, Australia. In eastern Australia, the China boom is reawakening the sleepy town of Gunnedah.

AU$300 million for exploration rights, but it won't be able to mine unless it wins state environmental approval for what would be three open-cut pits.

With the future uncertain, farmers don't want to invest in improving their farms, and no one wants to buy them. The affected include those who chose not to sell and others who were never given the choice, because they live on the periphery of the actual coal mining zone.

"I've got 1,000 hectares of land that's irrigated from underneath," says Andrew Pursehouse, whose farm lies outside the zone but under ridges that Shenhua plans to excavate. "If something happens to that water resource, my land is going to be worth only a third of what it is now."

Layton, the Shenhua spokeswoman, says the company may buy more farms in the years ahead if they are affected by dust and noise. The company plans to mine the ridges and leave the soil untouched and plant trees for those it destroys.

Smyth misses the Liverpool Plains, but he doesn't believe that farming and mining can coexist.

"I think that's just a pie in the sky pretty picture that they paint," he says. "I think it should be left alone. I feel guilty in lots of ways because I was one of the ones that weakened and got out of there."

Dec. 12, 2012

Hands off our heritage: some wary of China's reach

By SARAH DiLORENZO and NICK PERRY
Associated Press

LIFE IN THIS FRENCH village revolves around wine. The backyards of its tidy suburban houses nurture the grapes that have made Burgundy famous the world over. At an auto repair shop, everyone seems to have an opinion about the recent sale of a local vineyard to a Macau casino magnate.

"It's a piece of French heritage that's heading abroad," says mechanic Bertrand Babouhot. Across the road, rows of gnarled vines run up a slope toward the rundown chateau that was sold. "It's like selling the Eiffel Tower to the Americans."

On the other side of the globe, farmer Margaret Peacock expresses similar outrage over the sale of 16 dairy farms in New Zealand's rural heartland to a wealthy property developer from Shanghai.

EDITOR'S NOTE — This story is part of "China's Reach," a project tracking China's influence with its trading partners over three decades and exploring how that is changing business, politics and daily life.

Such sentiments have long been directed at Americans and Japanese. Now it's China's turn, a sign that the new economic giant is beginning to usurp America's role as a leading trader and global investor.

Crushing grapes in France and milking cows in New Zealand represent much more than ways to make a living. Both are traditions that cut to the core of cultural identity, forming part of a national heritage the French call "patrimoine."

So when outsiders pay substantially above market rates to buy such assets, it often awakens deep feelings of unease. Many recognize that the foreigners are providing much-needed cash to often struggling industries, but they also fear losing a part of their country's soul and the intellectual capital that adds value to their economy.

China's overseas investment totaled

Laurent Cipriani • AP

A modern sculpture of a monk by a French artist sits near the Gevrey-Chambertin castle in Burgundy.

$67.6 billion last year, one sixth of America's $400 billion, and could reach $2 trillion by 2020, forecasts Rhodium Group, a New York research firm.

While much has been in mining and other relatively anonymous businesses, Chinese investors have also set their sights on such iconic assets as automaker Volvo in Sweden, corner bars in Madrid and farmland in Argentina.

Sometimes, as in Sweden, the investment is accepted in the face of few other serious offers for a struggling company. Under Chinese ownership, Volvo has added about 2,000 workers in Europe. Other times, as in New Zealand, the reaction is a lawsuit — even if the would-be buyer is rescuing a bankrupt farm.

"If they want to buy land, they should come and live here and farm it themselves," Peacock says over a cup of tea. "Like the rest of us."

It can be hard to distinguish where genuine concerns end and xenophobia begins. After all, China is just the latest in a long line of foreign buyers, but with a culture that many in the West find more alien than those that came before.

Gevrey-Chambertin is the kind of French village where the waiter chastises diners who don't order a glass of locally made wine, even at a midweek lunch. So when Louis Ng Chi Sing purchased the thousand-year-old Chateau de Gevrey-Chambertin and some surrounding vineyards in May for 8 million euros ($10.5 million) it set off a firestorm.

The 24-hour news channels descended on the village, and the national newspapers wrote up full-page stories chronicling the loss of a piece of France to "le Chinois," French for a Chinese person.

Ng actually hails from Hong Kong and works in Macau. While both are Chinese territories, their economies are measured separately from China's, so his vineyard purchase wouldn't be included in China's overseas investment.

The backlash against him, though, is closely linked to China — as is his casino fortune. Mainland tourists, notably high-rollers who frequent flashy private rooms, have helped Macau overtake Las Vegas as the world's biggest gambling market.

I honestly don't see how my purchase would constitute the beginning of a radical change of an age-old tradition.

Grape growers in Gevrey-Chambertin say the price Ng paid is exorbitant and threatens their ability to keep their vineyards in family hands. Jean-Michel Guillon, who led a local bid to buy the chateau, says a state agency valued the estate at 3.5 million euros. His group first offered 4 million euros, then 5 million, but the Masson family, which has owned the estate for more than 150 years, refused.

"They said, 'We want more, we want a million each,'" Guillon says in his cellar, surrounded by barrels of fermenting grape juice. "There are seven of them, so 7 million, minimum."

In some ways, China has become a savior for some French vineyards, although few in France are willing to say that out loud. China is now a major buyer of wine, picking up the slack as sales to other countries slip. Indeed, China has become Bordeaux's largest export market.

But Burgundy is not Bordeaux. It is inland, with smaller family farms and a stronger sense of tradition. People here have cherished their simple way of life for centuries.

In an email, Ng says it was the quiet, enduring traditions that first drew him to the Burgundy region and he promised not to ruin that. He describes his purchase of the chateau not as a business opportunity, but in the way most people explain why they bought their summer house.

"While I can appreciate their concern to some extent, I honestly don't see how my purchase would constitute the beginning of a radical change of an age-old tradition," he writes.

Still, Guillon says that, because of China's reputation for counterfeit products, he worried that Ng would slap the Gevrey-Chambertin label on any old wine — though France has extensive protections against such fraud and there's no suggestion Ng has such plans.

Others see the sale as an opportunity. The vineyard has never produced great wines and the respected local vintner whom Ng has hired is likely to raise their quality. Most important, Ng's interest in the village will shine a spotlight on its wines, another local winemaker, Gerard Quivy, says. "This can only help increase the value of Burgundy's wines."

A similar battle is playing out in New Zealand's rural Waikato region, where winding roads thread across one-lane bridges, past giant ferns and sprawling farms. Life in the town of Reporoa is much like it has always been. It's a place where a mother pushes a stroller down the middle of the road, her pet cat prancing along behind. Where twice a day, children help round up cows many times larger than themselves for milking.

Yet things did change in the boom before the global financial crisis. Banks let Allan and Frank Crafar leverage their farm to buy more and more land until they owned 20,000 cows and had become the biggest family dairy farmers in the country. When the market for dairy products plunged, the brothers were caught out with massive debts, and their operation was forced into bankruptcy in 2009.

Last year, Chinese developer Jiang Zhaobai stepped in. His company, Shanghai Pengxin, won a bid to buy and fix up the 16 Crafar farms with an offer of more than 200 million New Zealand dollars ($165 million).

Like in France, the outcry was quick and loud.

"New Zealanders have every reason to feel outraged and betrayed," opposition lawmaker Winston Peters said. "Our country is being run for the benefit of foreign companies and the international money industry."

Farmers in New Zealand, like the vintners in France, fear for the integrity of their brand. They worry that Chinese milk will be sold under a New Zealand label. Adding to their worries is a 2008 case, in which six babies in China died and another 300,000 were sickened by infant formula that was tainted with melamine, an industrial chemical added to watered-down milk to fool

Laurent Cipriani • AP

Jean-Michel Guillon, owner of the Domaine Guillon, stands in his cellar Gevrey-Chambertin in Burgundy.

tests for protein levels.

A local consortium of businessmen, farmers and indigenous Maori appealed the sale in court, arguing that it didn't meet requirements that sales of farms to foreigners benefit the country and that the investor has relevant business experience and acumen.

The group put in a counter offer: 171 million New Zealand dollars, which they claimed was a fair market price. Lower courts rejected their appeal and, in October, the Supreme Court decided not to hear the case, allowing the sale to proceed.

For Shanghai Pengxin, the purchase was an opportunity to expand its fledgling farming interests. Among those who can afford it, baby formula made with New Zealand milk is highly valued in China because it is seen as pure, particularly in light of the melamine scandal.

China should understand the significance of losing land.

Shanghai Pengxin spokesman Cedric Allan says he and the company were taken by surprise at the nationwide outcry.

"There was no significant Chinese investment in New Zealand farms before, so that was a first. And the size of China makes people more apprehensive than they are about other countries," he said. "There was also an emotional campaign run against the purchase, the likes of which I haven't seen before. I guess in times of financial uncertainty, people say 'Heavens. Should we really be selling farms overseas?'"

Edward Moana-Emery, a Maori, spent five weeks this year camped on one of the farms in protest before he was arrested by police. Standing outside his tribe's "wharenui," or meeting house, he summons the spirits of his ancestors. He says his tribe — the Ngati Rereahu — wants to buy back two of the farms, because they hold special historical significance and were improperly taken away by British settlers.

China should understand the significance of losing land, because Hong Kong was taken by the British, he says. "They gave Hong Kong back to you Chinese. You fellows had all the celebrations. How do you think we feel? Because we have lost the land for 126 years."

Allan says the company is willing to meet with the tribe about the two farms, but "whether they get a deal depends on whether it works for us and them. As an overseas investor, it's very hard to buy farms, and we don't sell them lightly."

In Argentina, a town in Rio Negro province prevented a Chinese company from signing a 30-year lease for nearly 800,000 acres of farmland on the grounds that agriculture on that scale would interfere with traditional cattle-raising in an area steeped in the gaucho, or cowboy, myth. The order blocking the lease said the deal would have forced the local people to watch their history and tradition "flow as if draining the blood from our soil for the destined ports of others."

Still, many farmers in New Zealand are acutely aware of the importance of China, which has become by far the largest buyer of the country's dairy products.

Over the past decade, New Zealand's

trade with China has more than doubled as a percentage of GDP, and China has overtaken the U.S. as New Zealand's second-largest export market after Australia.

"The whole question of foreign investment is always an emotional one," says Brian Hanna, the mayor of Te Kuiti, another Waikato town, and a farmer himself. "I think land is important. But we can't have our cake and eat it. We need overseas investment and we are not big enough to sustain our own economy at the moment."

Around the globe, there remains a more existential: that China is buying up farmland to ensure food supply for its 1.3 billion people. But Xu Jianguo, China's ambassador to New Zealand, says Chinese investors simply see a market opportunity.

In fact, he says China's strategy is quite the opposite. No other country would have the ability to feed China in a food crisis, he says, and any dependence on other countries could be used as a weapon against China.

"With the improvement of Chinese people's living standards and welfare, we do have high-end consuming needs," Xu says. "Yes, we do import a lot of red wines from France and dairy products from New Zealand. But that volume compared to the total needs of the Chinese market is ... "

He laughs, trying to find the English language analogy to describe something so tiny.

Perry reported from the Waikato region in New Zealand. Associated Press writers Kelvin Chan in Hong Kong, Jack Chang in Mexico City, Joe McDonald in Beijing, Karl Ritter in Stockholm and Alan Clendenning in Madrid also contributed.

Laurent Cipriani • AP

Gevrey-Chambertin castle amid vineyards in Burgundy, eastern France.

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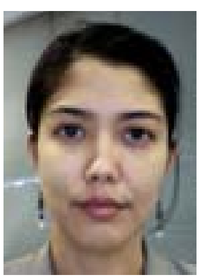

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