

# The Dilemma between Profitability and Sustainability for Australian Companies in The Mekong Region : How do Australians Perceive The Mekong Region's Business and Culture?

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Australia's historical relations with the Mekong have influenced its orientation towards business and culture in the region today. Seen through a first-world lens, Australians today are users of the Mekong's third-world goods, services and resources. Australian mining companies have been able to take advantage of limited regulations, few environmental restrictions, and a positive economic context in order to extract resources from the region. While supporting their own corporate goals, and in turn contributing to infrastructural development in the region, such corporations have largely elided engaging environmental regulations and social responsibilities in conducting business in the Mekong. This paper briefly considers one case of a mining company's actions in the Lao PDR, and poses the question, how do profitability and sustainability balance each other in a third world context, when first world expectations and funding drive the investment?

**Keywords** : culture, perception, natural disaster, first world, third world, environment, the Sepon Gold and Copper Mine, corporate responsibility, shareholder's value, natural resource, human resource, bottom line, 'Three Benefits' and 'Four Benefits'

## I. Introduction

### 1. Relations between Australia and the Mekong region

When we begin to examine how it is that Australia sees the Mekong, its business and its culture, we are faced with a number of disparate representations. 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 awareness in Australia of the Mekong's shifting politics, partly due to large scale investment in the region, and to Australian companies moving manufacturing offshore to supply a rapidly growing domestic economy. There is

also a 40 year history of significant migration from the region to Australia following Australia's disastrous defeat in the Vietnam War which has led to better relations between Australia and the region.

### 2. Three perceptions of Australians for Mekong regions

In the twenty-first century perceptions in Australia 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 in particular low costs associ-

ated with women's labour, the region has attracted considerable interest from Australian manufacturers and importers.

A second perception has followed: as the familiarity with the region has grown following the accession of a new generation of post-Vietnam War business people in Australia, the region's potential for tourism has also developed rapidly, with shopping tours, historical tours, and cultural tours dominating the emerging market.

A third perception, which brings elements of both the above together, has also emerged since the late twentieth century. Taking advantage of cheap labour, limited regulatory environment, lax environmental standards, limited government engagement with diverse cultures coexisting in remote regions of Lao PDR and Thailand, Australian mining companies have moved in to procure operating licences to mine copper and gold in rich seams that have been identified.

### 3. 1<sup>st</sup> world vs. 3<sup>rd</sup> world

What we see, then, in the view from Australia is typical of a first world nation viewing the third world. From the middle class comfort of placid and peaceful lives Australians are en masse unaware of the difficulties of life among third world peoples, the discrepancies between life in Australia and overseas brought home when natural disasters strike, or when man made conflicts/terrorist activities take place. Indeed it is in the Australian psyche that people from regions that are not economically developed are potential terrorists - particularly if they are Muslims. (Australia's 'stop the boats' campaigns, supported by both major political parties are evidence of this entrenched xenophobia).

In short, then, it appears that from mainstream

Australia's perspective the nature of the Mekong as third world, under developed, with a wealth of natural and labour resources, and within geographical reach of Australia 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.

This is not to say that all Australians perceive the region as ripe for capital plundering, just that there is a strong tendency for people who engage the region to do this. There are of course also the activities of environmentalists and humane societies, interested in how to mitigate some of the damage caused by the untrammelled development of cultures and environments within the Mekong region.

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.

### 4. What do we mean by 'culture' ?

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, with Max Weber, 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, construing social expressions on their surface enigmatical (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 the extractive industries rather play a different game with respect to culture. That is, they employ a facile, 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 educa-

tion 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.

## II. Case Study - the Sepon Gold and Copper Mine in Lao PDR

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<http://www.panaust.com.au/laos>

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 as efficient a manner as possible.

### 1. Success at what cost?

However, the rhetoric is somewhat different. 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-registered Company, Phu Bia Mining Limited through the Company’s wholly owned subsidiary, Pen Mekong Exploration Limited. Phu Bia Mining has a Mineral Ex-

ploration 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 are 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.

## 2. 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 ac-

count, 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-appendices-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.

The reality is that it is when the mines shut down that the long term affects of the mining activities become apparent. And it is in this area that Australia's corporates' attitudes towards business and culture in Laos become crystallized. Although not widely understood, 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 ordinance on the region, the employment of women

is also of great significance. Women employees are rare compared to men, and women carry the burdens of households and traditional agricultural production in Lao society.

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 re-settled 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.

### **3. 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 corporate Australia - that is, that the people of Southeast Asia, and in particular those from the

Mekong may well be in physical control of certain natural resources, but they remain less developed than those who own and extract the resources. This dichotomy between the rich and the poor, those who have and those who do not is fundamental to understanding the attitude of Australian corporations to 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 Australia view the Mekong :

First, on the basis of this very reduced and simplistic case study, the answer is quite simple - Australian 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 Australian mining companies.

Third, internationally, the actions and investments of Australian miners 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

Australians see the Mekong as a region 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 South-east 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 conundra for Australian miners, 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 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, loss of 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.

#### 4. 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). (See Chapter 3) 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 the 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 un-

trammelled 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).

### III. Conclusion

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To conclude it is probably fair to say that Australians' views of the Lao PDR people, while patronising, 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 labour or moved as obstacles to their businesses. Standardised 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 'san pou 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, benefit the buyer, and benefit the public). In the present era, perhaps we need to add one further caveat to this structure - benefit the environment - to create a 'four benefits' system.

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