Leverhulme Centre
for Research on Globalisation and Economic Policy

The University of Nottingham

# China will learn from Rio Tinto debacle

Press release

**China has suffered a "painful lesson" from the failure of the ill-fated tie-up bid between Chinalco and Rio Tinto, GEP's leading Chinese economist has claimed.**

The state-owned aluminium company's controversial attempt to invest in the Anglo-Australian mining giant collapsed amid shareholder anger and political pressure.

Had it succeeded, the $19.5bn deal would have represented the largest-ever overseas investment by China.

Instead Chinese esteem has been damaged by the eleventh-hour breakdown of negotiations, according to Professor Shujie Yao, co-ordinator of GEP's China and the World Economy programme.

Regarded as one of the world's leading experts on China's role in the global economy, Professor Yao is also Head of the University of Nottingham's School of Contemporary Chinese Studies.

Commenting on the Rio Tinto debacle, he said: "I think the Chinalco board has shown naivety and a lack of international business experience here.

"A western suitor with Chinalco's cash would have been more ruthless earlier on and not given Rio Tinto time to recover. It's a painful lesson for Chinese business."

Chinalco spent $14bn buying a 9% stake in Rio Tinto, the world's second-largest mining company, in February 2008, at almost the peak of the market.

A year later, when it offered a "strategic partnership", Chinalco had lost more than 70% of its first investment.

The deal was in part intended to recoup those earlier losses, but protests from shareholders and apparent political pressure from the Australian government persuaded Rio Tinto to scrap it.

Professor Yao said: "This unilateral action by Rio Tinto is like putting salt on the wound Chinalco suffered as a result of its investment in 2008. Rio Tinto may have come out as a big winner, but it has totally lost its reputation in China.

"Let us hope that it will not run into trouble again and need another bailout by the Chinese. If it does, the conditions imposed would be very different."

Professor Yao suggested Rio Tinto had used Chinalco during the long-drawn-out saga and admitted: "This will be a blow for Chinese esteem.

"Rio Tinto has been courting two lovers at the same time – one openly and one under the table.

"It was the Chinese who stepped in to bail the business out four months ago when it was in desperate trouble, but the recovery since has given Rio Tinto the chance to work up a covert deal to block further influence from Chinalco."

However, Professor Yao said Chinalco's efforts still signalled China's wider determination to pursue a "massively interventionalist" industrial strategy.

The aim, he said, is to create powerful multinational corporations that will act as "global champions" to maintain China's market share and its position in the international economic order.

He said: "The financial crisis has trapped many large western firms in heavy debts, but China has many billions of dollars to invest in them through state banks and big businesses.

"If Chinalco were a private company no western banks would lend it money, because it is making losses and would not be able to pay back any debt in the short term.

"But four of the biggest state-owned Chinese banks lined up to lend the company more than it required for its second round of investment in Rio Tinto.

"This kind of lending activity is possible only in China, where the state-owned banks and state-owned businesses are treated as the left and right arms of the state to achieve its national long-term development objectives.

"The dragon has woken up – and, despite what has happened with Rio Tinto, the West still needs to face tough challenges."

## About GEP

GEP is based at the University of Nottingham and is substantially funded by grants from the Leverhulme Trust.

In January 2008 it opened GEP in Malaysia at the University of Nottingham's purpose-built Semenyih campus, 30km from Kuala Lumpur.

In November 2008 it launched GEP in China at the University of Nottingham, Ningbo, China.

GEP is keen to promote its research work and is committed to communicating its expertise through the media and to assisting journalists whenever able.

Website: www.gep.org.uk

## Professor Shujie Yao

Shujie Yao is a Professor of Economics and the co-ordinator of the Globalisation and Economic Policy Centre's China and the World Economy programme. He is also Head of School at the University of Nottingham's School of Contemporary Chinese Studies.

In an article published in the Journal of Asian Economic Literature he was ranked in the top 10 Chinese scholars specialising in the country's economy. He is chief editor of the Social Science Edition of the Xi'an Jiaotong University Journal and founder editor of the Journal of Chinese Economics and Business.

He has been a consultant to organisations including the World Bank, the EU and UNCDF.

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