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**9B19M071**

China Gold International in Canada: What’s Next?

Jing Li and Natalie Bin Zhao wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On November 1, 2017, Jerry Xie sat at his desk in his sixth-floor office in One Bentall Centre in Vancouver, British Columbia, Canada, just blocks from the waterfront, and pondered the future development of China Gold International Resources Corp. Ltd. (CGI). Xie was executive vice-president and corporate secretary of CGI, the only overseas-listed subsidiary of China National Gold Group (CNG), a Chinese state-owned gold company. He was expected to report his plan to Xin Song, the chairman of the board of both CNG and CGI, in a meeting to be held in Beijing, China, in a week’s time. CGI was perceived as the international flagship company of CNG and was listed in both Canada and Hong Kong, yet it had two mines in China and none in Canada. The parent firm needed Xie’s help to answer a question from the global capital market: should CGI be kept in operation in Canada?

Meanwhile, Xie also felt pressure to address in this report concerns from the company’s stakeholders in North America. He sensed the discomfort and suspicion the Canadian and American stakeholders felt toward CGI because it was a subsidiary of a Chinese state-owned company. This led to another important question Xie must answer: how could CGI deal with concerns that North American stakeholders commonly had over foreign state-owned companies, especially those from China?

Xie knew he had to be careful about what he was going to state in the report because things could go badly both financially and politically. He still vividly recalled the tremendous stress he faced having to deal with communication challenges between the parent company and CGI when he joined the company in March 2009, not long after CGI was acquired by CNG.

The clock was ticking, and it was already 5:00 p.m. The office had emptied, and the sun had set. Xie opened his laptop and started typing notes for the upcoming meeting, hoping he could avoid yet another late night.

China Gold International Resources Corp. Ltd.

CGI was an integrated mineral-development company headquartered in Vancouver, British Columbia, Canada, and listed on both the Toronto Stock Exchange (TSE) and the Hong Kong Stock Exchange (HKSE), with CNG as the ultimate controlling shareholder (see Exhibit 1). CGI aimed to become a leading gold and by-product non-ferrous mining company. The company’s principal properties were the Chang Shan Hao Gold Mine (CSH Mine), located in Inner Mongolia, China, and the Jiama Copper-Gold Polymetallic Mine (Jiama Mine), located in Tibet, China.

CGI held 96.5 per cent interest in the CSH Mine. Phase 1 of the CSH Mine commenced production in July 2007, and Phase 2 construction was completed in August 2013. The CSH Mine was one of China’s largest gold mines, placing CGI in a leadership position in China. This gold mine was the cornerstone of CGI’s growth strategy. CSH Mine produced a large, bulk-tonnage, low-grade gold deposit and reached a processing capacity of 60,000 tons per day in 2014. Gold production from the CSH Mine remained consistent: 46,621 ounces in the third quarter of 2017, compared to 46,654 ounces for the same period in 2016.

In December 2010, CGI completed the acquisition of Skyland Mining Limited (Skyland), which had the chief asset of 100 per cent interest in the Jiama property hosting a large-scale copper-gold polymetallic deposit. The acquisition of Skyland was CNG’s first significant step toward its goal of making CGI its flagship company abroad. Phase 1 of the Jiama Mine commenced production in September 2010, with copper production reaching 40.4 million pounds in 2016 (the sixth straight year of increased production) and Phase 2 under commission.

On January 30, 2017, CGI reached a market capitalization of CA$1.08 billion and was included as a component of the S&P/TSX SmallCap Index. CGI’s stock index identifier was CGG. In August 2017, Standard & Poor’s Financial Services LLC upgraded the rating outlook on CGI from negative to stable and reaffirmed the company’s BBB long-term corporate credit rating.[[1]](#footnote-1) The company was perceived as a healthy, fast-growing firm because of its senior management team’s long-term commitment and the strategic role it played for its controlling shareholder, CNG.

China National Gold Group (CNG)

CNG was established in 2003 based on the China Gold General Corporation founded in 1979. CNG was the only central, state-owned entity in China’s gold industry under the supervision of the State-Owned Assets Supervision and Administration Commission (SASAC) of the State Council. CNG was the chairman member of the China Gold Association and was the only Chinese member of World Gold Council, a prestigious organization consisting of the world’s largest and most forward-thinking mining companies. Its goal was to provide industry leadership and claim global authority on the gold market.

CNG was a comprehensive company that integrated full value chain activities including technological research, engineering design; mine exploration, extraction, and production; processing and refining; and the trade of non-ferrous metals including gold, silver, copper, and molybdenum. CNG had seven main business sectors: gold, international business, jewelry, construction, resources, irradiation, and trade. CNG had 57 subsidiaries, among which two were publicly listed: CGI and Zhongjin Gold Corp. Ltd. (the latter was also a domestically listed subsidiary). The revenue of CNG had been increasing since 2012, but the company started to experience losses in 2014 (see Exhibit 2). The principal goal of CNG was to fully explore, develop, and utilize gold resources using advanced science and technology while being strongly committed to responsible and sustainable mining.

CNG’s Acquisition of CGI

In April 2008, CNG purchased CA$218 million worth of securities in Jinshan Gold Mines (Jinshan), a Canadian company listed on the TSE. Jinshan was formerly named Pacific Minerals and incorporated in 2000. The change of the name in 2004 to Jinshan, meaning “gold mountain” in Chinese, reflected the company’s focus on gold exploration, development, and production in China. On that November evening in his Vancouver office, Xie remembered having read published statements by Jinshan’s president concerning the acquisition by CNG:

We successfully entered China five years ago with the objective of becoming a significant player in the Chinese gold mining industry. This seminal relationship with China Gold validates our progress and significantly expands our platform for growth in the global gold mining industry.[[2]](#footnote-2)

According to Xin Song, the vice-president of CNG when acquisition occurred, CNG was interested in Jinshan for the following reasons:

First, in terms of resources development, China has limited domestic recourses, so it is necessary to look abroad for more resources and to do business overseas with international companies. Canada, with a comparatively advanced mining sector, is home to a large number of mining companies and, particularly, listed mining companies. It has a relatively higher concentration of mining rights, information in the trading market, and information about prospecting companies and large-scale mining companies. It also hosts a global mining conference every year. An important reason we have set our eyes on Canada is largely due to its advanced capital market for the mining industry.

In fact, Canada was the leading global centre for mining finance. The TSX and TSX Venture Exchange (TSX-V) listed 57 per cent of the world’s publicly traded mining companies[[3]](#footnote-3) (see Exhibit 3 for more information on Canada and the world mining market.)

Xie took on his new position in the corporation in 2009, and in December of that year, Jinshan proposed to change its name to China Gold International. CNG approved the name change in July 2010 and wanted to use the new name to reflect the parent company’s full commitment to the subsidiary in developing and managing it as a vehicle for CNG to enter the international market.

Post-Acquisition Management Issues

Although both sides expected synergies from this acquisition, in the two years following the acquisition, Jinshan experienced significant chaos, impaired morale and performance, and high turnover among the top management team and board members (Exhibit 4 shows the financial performance of CGI from 2008 to 2016). All top management team members of Jinshan and four of the five independent directors of the board left the company within two years of the acquisition by CNG.

Departure of Executives and Board Members of Jinshan

Xie was surprised by the high turnover among the top executives and board members. In fact, after the acquisition, CNG tried to keep the original management team of Jinshan and asked them to continue their service as a way of acquiring local management expertise. However, it soon became apparent that there were significant tensions and disagreements between the chairman of the Jinshan board appointed by CNG and the top executives of Jinshan. Xie agreed with Song’s opinion:

The biggest challenge is the integration of the culture of the controlling shareholders of the Chinese company and the culture of the management team of the Canadian company. To illustrate with an example—important proposals and agenda items are usually well communicated before a board meeting is convened in China, but the Canadian management believes that is the responsibility of the CEO and they only need to be notified one or two days before the meeting, which is very different from the expectations of the board chairman and the controlling shareholders. The Canadian management believes a lot of things can be delegated to specific teams without the involvement of the chairman. In Western countries including those in North America, the corporate CEO is the leading person in the company’s day-to-day operations, whereas in China the board chairman has a lot of authority and a big say, including in the company’s daily operations. That’s because the chairman is the legal representative of a company, according to Chinese laws. Therefore, many legal responsibilities fall on the legal representative who has to manage lots of matters.

What further frustrated the local management team was that their decision-making speed had been significantly slowed down. They were used to making decisions through email correspondence. However, as Song commented, “In China, it is common practice to address issues through meetings. Internal emails can’t be used as a basis for decision-making. There must be meetings and meeting minutes.”

Even when the Jinshan board reached an agreement on an important decision, the decision was still not final because CNG needed to communicate with other internal stakeholders such as the communist party organization and external stakeholders including its supervisory administration (i.e., SASAC). The involvement of party organizations in a company’s governance was to strengthen the communist party’s leadership role in the corporate sector and help combat corruption.[[4]](#footnote-4) Xie struggled with the same intercultural board issues that affected Ian He, chair of several CGI board committees, who said:

In Western companies, the board is the final decision-making body where most decisions are made except for extremely important issues that have to be approved at the shareholders meeting. In China, however, the board is not the final decision-making entity. For example, when you report a proposal to the board chairman, it won’t necessarily be approved immediately because the chairman doesn’t have the final say.

Song also reflected on the differences between the two parties in the leadership style and decision-making procedures:

In North American companies, it is the CEO who calls the shots. The CEO alone has the final say. By contrast, decision-making in Chinese state-owned companies follows a democratic and collective process for the purpose of preventing dominance by any single individual. Decisions are made by the leadership team that consists of seven to nine members. For regular and simple issues, majority votes are needed to pass a decision. For issues of material significance, a vote yielding two-thirds majority is required. Companies have specific policies in this regard. In summary, decisions are made by a collective group rather than by one person in Chinese companies, yet decision-making in foreign companies relies more heavily on one single person, and there are fewer members in the leadership team.

From a Chinese background himself, Xie knew that cultural differences undoubtedly also contributed to the management chaos. As Ian He had observed:

The Chinese culture emphasizes the spirit of sacrifice [for the collective], and individual interests need to yield to collective interests. The spirit of sacrifice is something Western companies rarely talk about. Since this mantra is so important in the Chinese culture, it is manifested in corporate culture, especially in the culture of state-owned enterprises [SEOs]. Senior executives, also as Party members, need to think beyond their individual interests and think more about their social responsibilities.

Xie also recognized challenges in intercultural business dealings:

Chinese leaders deliberately talk in a very implicit or subtle way. For example, if a leader doesn’t agree with something you’ve proposed, he won’t reject it directly to your face but instead would probably say something like, “Let’s talk about it in a few days.” Then the foreign guy would actually start counting days and ask about it again in a few days. With more cases like this over time, the foreign management team started to feel differently about the Chinese leaders, and misunderstanding and distrust naturally developed as a result.

What also complicated the postacquisition situation was the transition of Jinshan from an exploration-oriented to a production-oriented company. As Ian He commented:

An exploration-oriented company aims to find mineral resources without worrying about generating profits or cutting costs, and managing such a company is fairly simple. In contrast, a production-oriented company focuses on mining production with the main goal of generating profits. The Jinshan CEO was responsible for and good at mining prospecting and exploration-type operations, so he was not quite familiar or comfortable with mining production.

Meanwhile, in 2008, gold prices experienced fluctuations, with a price hike followed by a dip, and Jinshan was suffering from massive losses and was in need of large amounts of capital to sustain and complete the second-step construction. Ian He further recalled:

An additional investment of ¥600 million[[5]](#footnote-5) was needed, but the company had neither that amount of money nor the capacity to raise money because its stock price had plummeted from CA$3.11 to CA$0.47. In that kind of dire circumstance, salary cut was a necessary evil, though it affected the interests of many people. Furthermore, after the CNG acquisition, senior executives felt their power curtailed due to organizational restructuring (as part of the focus switching from exploration to production), with less flexibility and less decision-making authority. All these things came together like a perfect storm and gave people the impression that everything was due to the acquisition deal, but, as a matter of fact, it was because of all these negative factors as mentioned above.

Hiring of Jerry Xie

Xie tipped back in his office chair and recalled coming to CNG upon the departure of the former CEO of Jinshan in 2008 (see Exhibit 5 for Xie’s curriculum vitae). He had been hired to assist in handling all the resulting turmoil and challenges in CGI. Having accepted the offer without much hesitation, he now contemplated his two main reasons for taking the job.

People like himself, he thought, who had gone overseas and worked in North America for some time, usually developed a genuine wish to help Chinese companies go global. Working at local Canadian companies, like-minded individuals would get together to talk about the issue. They were hoping for an opportunity to contribute to Chinese companies’ global ventures, and Xie shared this enthusiasm. Besides, he thought, this platform and this opportunity were very attractive to him. Although the company he was working for previously had been large, the scope of his work had been quite narrow. Xie had experienced a glass ceiling on that corporate ladder. CGI, as the only overseas-listed platform of CNG, had been an alluring opportunity for him. He nodded to himself as he remembered his eagerness to work with the company; it had nothing to do with salary but was more about accomplishing greater goals. Personally, he liked to challenge himself and wanted to showcase his skills and capabilities on this larger platform.

Xie had formally started at CGI in March 2009. His job was composed of five parts. His first and most fundamental responsibility was managing the local team. Second, as vice-president and board secretary he was also responsible for legal compliance in both the Chinese and Canadian markets. For any abnormal stock price and trading volume fluctuations, he was the first person to be contacted and was the only channel to communicate with external lawyers. His third responsibility was business development. Fourth was scouting for resources of various types and locations—CGI had its own database and also worked with external experts in a continuous search for resources. His fifth area of responsibility was public relations and government relations, including charity activities, and he and his colleagues worked with professional PR partners.

The first thing Xie did after joining CGI was to put together the top management team and the board with the help of CNG. For example, he brought in two independent directors: John King Burns and Gregory Hall. Xin Song served as the CEO of CGI from 2009 to 2014 and later became the chairman of the board of both CNG and CGI. Bing Liu, who subsequently served as CEO of CGI, stayed in Beijing. Xie and his team were responsible for disclosure of stock market information as well as the associated financial and daily operations at the Canadian head office. More importantly, they engaged in active and constant two-way communication with the parent firm to explain the differences in business practices and the laws, rules, and regulations between the two countries; they also proposed solutions to address these differences. The Canadian management team and the board membership gradually stabilized after January 2010, and they brought their professional knowledge and profound understanding of the Canadian and world mining markets to CGI and CNG. For example, Derrick Zhang, chief financial officer of CGI, with over 20 years of experience in financial reporting for public companies in both North America and Asia, substantially improved the accounting standards of the two mines that CGI had in China. Songlin Zhang, chief engineer and vice-president of CGI, with over 20 years of experience in the mining industry in both North America and China, helped ensure the quality of mine project evaluation, reserve and resource estimation, and mine economic analysis for both CGI and CNG.

Before Xie turned back to his laptop in his office that November evening, he nodded to himself in satisfaction. The trusting and productive relationship between CNG and CGI was the result of efforts made by both sides. The trust Song and Liu had put into him and his team played a key role in their business. Xie still felt touched whenever he recalled Song’s highly positive comments acknowledging Xie and his team’s work during a board meeting in 2009. Xie admitted that he could not have survived the tremendous pressure he faced at that time without the strong support of Song and his team. It was a rare practice among Chinese SEOs to use local professionals and not send expatriates to monitor all the work. Of course, such trust had to be built gradually and had become stronger over time as the company became more and more confident in the capabilities of Xie and his team.

CGI’s Financial and environmental, social, and Governance Performance

CNG played a key role in turning CGI’s performance around after the acquisition. Ian He recalled:

As a large shareholder, CNG provided a guarantee and helped us secure ¥600 million in loans from Chinese banks to set our construction in motion. We were grateful for the strong support of CNG. They also sent several expert teams to monitor and guide production operations onsite. To cut costs, all the original contracts regarding site selection, procurement, and mining services had to be renegotiated. Despite our disadvantageous position as a foreign-listed company in these negotiations, with the assistance of CNG we were able to reduce costs from raw materials procurement to mining services. In addition, CNG also improved our production process, which contributed to greater productivity and efficiency. Thanks to these improvements, our company achieved turnaround from significant losses to profits in 2010.

Since 2008, CGI had won over 100 awards, honours, and recognitions issued by many Chinese and Canadian government and non-government organizations. Although losses had occurred during the preceding two years, due largely to depreciation of the yuan, the overall revenues had been increasing since 2012 because of the good performance of the two mines (see Exhibit 4). CGI could not be this successful without the strong support from CNG. This support enabled CGI to gain further government support from China, participate in group procurement, enjoy preferential rights to acquisition targets, and gain access to technical and operating expertise in China.

Xie was proud of CGI’s high environmental, social, and governance (ESG) standards. Committed to safe, clean, conservation-oriented, and harmonious development, CGI insisted on pursuing company growth that contributed to environmental protection. For example, CGI had played an active leadership role since 2012 by founding and organizing fundraising gala events in the Chinese business community in Canada for the Canadian Cancer Society; Xie recalled reading about that in the Vancouver Sun.[[6]](#footnote-6) In 2017, CGI continued this initiative by sponsoring Vancouver General Hospital and the University of British Columbia (UBC) Hospital Foundation. CGI also extended the scope of its initiatives to include environmental protection during mining operations by supporting two ongoing UBC research projects that shared a common focus on minimizing the negative impacts of mining. Xie read through CGI’s 2016 ESG report to refresh his memory about what Song had written:

The company places significant emphasis on its environmental protection, employment and human rights practices. As a multi-cultural organization, our employees, including management, are from all over the world, including China, Canada, the United States, and Ghana . . . At present, approximately 21 per cent of the company’s employees are ethnic minorities. About 31.4 per cent of the company’s employees at its Jiama Mine Operation are local Tibetans. This represents approximately six times as much as the ratio of Canadian mining companies . . . About 19 per cent of our employees are women, a high proportion for a mining company. Although facing the pressure of reducing costs sharply this year, we continue to participate in public welfare and charity activities organized in Chang Shan Hao Gold Mine, Jiama Mine, and Canada.[[7]](#footnote-7)

CGI’s board consisted of four independent directors and five non-independent directors. The four independent directors formed four committees focusing on the following: audit; nominating and corporate governance; compensation and benefits; and health, safety, and environment. As the chairman of these committees, Ian He commented:

Our audit committee is more involved in the company’s supervision than its counterparts in China. The whistleblower mechanism is maintained and expanded. Each quarter, the audit committee would ask [the] CFO [chief financial officer] if there are any cases of whistleblowing. This mechanism and the related employee training are emphasized at every board meeting, something that doesn’t happen in China. Other subsidiaries of CNG now also follow this mechanism. The monthly and quarterly safety and environment reports also follow the Western model and are adopted by our two mining companies. Back in China, oftentimes safety and environmental issues remain merely as slogans, but in our two mining companies they are summarized using texts and graphs on paper, which takes time and effort to formulate. The independent directors would compile a list of issues brought up by the audit committee or other committees and report at the board meeting. At the following board meeting, the CGI management team would provide updates on these issues and discuss follow-up and implementation measures. Gradually, this process has become an interactive mechanism and a virtual cycle.

Song also commented on the role of independent directors:

I greatly respect and rely on the judgment of independent directors. Their opinions and suggestions often end up as things that I ask the CGI management team to implement. Each meeting is used as an opportunity to follow up on these matters and get updates on the implementation progress. Thus, the independent directors are respected, and their voices are heard. What’s more, their opinions are usually very professional. As a result, a high level of trust is gradually built in the process.

China’s SEOs: Reform and Globalization

SOEs were enterprises under significant state control through full, majority, or significant minority ownership.[[8]](#footnote-8) In China, SOEs (controlled by the central or local governments) were important drivers for economic growth and accounted for 61.7 per cent of gross domestic product in 2016. Although there were only 98 central SOEs in 2017, 50 were on the Fortune Global 500 list, and their assets nearly doubled from 2011 to 2016, reaching ¥53,000 billion (about US$7,982.9 billion) in 2016 (see Exhibit 6). Central SOEs were concentrated in a few industries considered to be strategically critical, including national security, natural resources, and infrastructure. They received most support from the government and were called “the eldest son [of the country].”[[9]](#footnote-9) Chinese SOEs had evolved through three phases of reform led by the three generations of leaders from 1992 to 2017, with the goal of improving SOEs’ governance, transparency, efficiency, and profitability (see Exhibit 7).[[10]](#footnote-10)

China proposed its “go global” policy in 2001 to encourage Chinese firms to invest overseas. The United Nations Conference on Trade and Development data showed that China’s outward foreign direct investment (OFDI) flows increased from US$2.1 billion in 1996 to US$183.1 billion in 2016, and China became the second-largest OFDI source country in 2016. By 2016, a total of 9,112 Chinese SOEs had invested US$731.5 billion in 185 countries and regions.[[11]](#footnote-11) This “go global” trend was slightly hindered by the 25 per cent decline in China’s foreign exchange reserves in 2016. To stabilize the value of the yuan and avoid systemic financial risks, China’s finance ministry issued new regulatory rules in January 2017. These rules required SOEs to provide more comprehensive appraisal and risk analysis for overseas investments.[[12]](#footnote-12) The dismal track records of large SOEs in the global market, especially in the natural resources sector, also worried the Chinese government, leading to new rules set by the SASAC that required strong risk control over cross-border acquisitions and holding individuals in SOEs responsible for major decisions for a lifetime. SASAC set the ceiling for SOE top executives to be compensated at six to eight times an average SOE employee’s compensation. This ceiling applied to expatriates but not to professionals hired overseas.

CGI’s Future Challenges

CNG’s globalization initiative had never stopped, but its global expansion had been cautious and slow. In fact, overseas revenue accounted for only a very small percentage of CNG’s total revenues and profits. Maintaining a subsidiary listed in both Canada and Hong Kong was costly because of non-trivial fees related to issues such as filings and investor relations. After nine years of operations, CGI’s businesses were still concentrated in China. With the more stringent scrutiny by the Chinese government over SOEs’ international investments, the very existence of CGI as an international platform for CNG’s globalization had become questionable to stakeholders in the global capital market.

In North America, CGI faced substantial challenges. As a subsidiary of a state-owned Chinese company, CGI constantly faced inquiries and challenges from its stakeholders. CGI was not alone in this kind of situation. The fact that the Chinese government was the shareholder of SOEs triggered suspicions and concerns in host countries when SOEs conducted outbound investment.[[13]](#footnote-13) The strong negative reactions of the public and many politicians were well illustrated when China’s state-owned oil company China National Offshore Oil Corporation acquired Canada’s energy company Nexen in 2012. Resistance and opposition arose mainly from the concerns that foreign SOEs might have non-commercial purposes in their acquisitions and might threaten national security of the host country, and the SOEs typically lacked transparency and efficiency.[[14]](#footnote-14)

Xie recalled voicing the frustration he encountered at a company party in Vancouver. The reception that CGI hosted had been very successful and had attracted many people. When someone said that the reception was sponsored by the Chinese government, Xie quipped, “I only wish I were a Chinese government representative. That would be awesome!” Everyone at the party laughed, but Xie had actually wondered how the CGI reception could be perceived as a Chinese government reception. Even now it puzzled him. It was one example of the many different kinds of pressure from the market faced by the company and was an important reason, in Xie’s estimation, for CGI being undervalued.

Xie also sympathized with the concerns of North American stakeholders and emphasized the different nature of Chinese SOEs. That is, CNG—though an SEO—would not infringe upon the interests of its shareholders. North American companies were sometimes a bit nervous, based on their prior experiences in dealing with companies in Mongolia, South America, and Central Asia that might ask for a sharp share increase from 25 per cent to 40 per cent overnight. Xie knew that North American companies feared this kind of uncertainty, so it took substantial explanation on his part to successfully alleviate their concerns.

John King Burns, one of the independent directors Xie had brought on board, also acknowledged this kind of challenge in his reflection on the development of CGI. Burns was aware of the issues commonly faced by SOEs in their global investments, but he also saw that SOEs could become more effective—and become more progressive and globally competitive—because they were very powerful. If they would focus their strengths in the right direction, they could become good global citizens in their industries. Burns’s vision was to influence others so that CGI would become a leading company in the world, which was his purpose for joining the board in the first place. He agreed with Xie that SOEs being accepted by the local stakeholders was pivotal in China’s international relationships and that the company’s behaviour as an ambassador to the world was important on both geopolitical and economic levels.

Besides addressing questions and challenges around CGI, CNG also faced tremendous challenges in its future globalization efforts. As Song indicated:

One challenge in developing overseas is to comply with the laws and rules and regulations of the host country. Certain behaviors or actions can’t be replicated in the host country. One must adapt to local laws and requirements. Another challenge is the integration of the Chinese management model and global management model. The way of doing business internationally sometimes differs from the way of doing business domestically. Above all, the foremost important issue is the attraction and retention of global talent . . . Cross-cultural management talent is a rare find. So is multidisciplinary talent. Some have strong technical expertise but lack foreign language proficiency. Some are proficient in foreign languages but lack technical knowledge. Some are familiar with the business dealings in China but know little about how it works overseas. Some are well versed in foreign businesses but are not good at communicating with the home base in China . . . CGI did help in this regard. We hired a couple of excellent top executives through CGI.

On this foggy November night, with time ticking away, Xie was well aware of all the issues and challenges his colleagues and he had discussed. This would be the focal subject at the upcoming meeting with Song. He also knew that the top management team at CNG relied heavily on him for information and advice regarding the best strategy for moving forward. Whatever Xie was going to suggest in his report, he had to take into consideration the long-term best interests and strategic goals of both CNG and CGI. Although CNG must comply with and was greatly affected by government policies, rules, and regulations in China, CGI must address concerns of local stakeholders in North America while striving for maximum shareholder value. Xie turned back to his laptop with renewed resolve.

Exhibit 1: Major Shareholders of China Gold International Resources Corp. Ltd. (%)

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| --- | --- |
| China National Gold Group Corporation | 39.33 |
| Van Eck Associates Corporation | 3.85 |
| Dimensional Fund Advisors | 1.86 |
| Vanguard Group Inc. | 1.15 |
| BlackRock Inc. | 0.93 |

Source: Company files.

Exhibit 2: Financial Summary of China National Gold Group, 2012–2016 (US$1,000)

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| --- | --- | --- | --- | --- | --- |
|  | **2016** | **2015** | **2014** | **2013** | **2012** |
| Income statement |  |  |  |  |  |
| Revenues | 16,138,223 | 17,540,186 | 19,602,845 | 18,033,752 | 15,871,347 |
| (Loss) Profit attributable to owners of the company | −67,669 | −26,366 | −88,691 | 105,670 | 218,180 |
| Balance sheet |  |  |  |  |  |
| Total assets | 14,859,776 | 14,848,671 | 14,297,300 | 12,348,036 | 10,462,124 |
| Total liabilities | 10,424,093 | 10,231,009 | 9,867,405 | 7,883,926 | 6,337,531 |
| Total net assets | 4,435,683 | 4,617,662 | 4,429,895 | 4,464,110 | 4,124,593 |
| Equity attributable to owners of the company | 2,112,118 | 2,371,040 | 2,049,306 | 2,102,654 | 1,981,081 |
| Non-controlling interests | 2,323,565 | 2,246,622 | 2,380,589 | 2,361,456 | 2,143,512 |
| Total owner’s equity | 4,435,683 | 4,617,662 | 4,429,895 | 4,464,110 | 4,124,593 |

Source: Company files.

Exhibit 3: Mining Industry—Canada and the World

Mining was one of Canada’s most important economic sectors and a major job provider. In 2017, the minerals sector contributed $97 billion, or 5 per cent, to Canada’s total nominal gross domestic product. Canada had one of the largest mining supply sectors globally, with over 3,700 companies offering engineering, geotechnical, environmental, financial, and other services to the mining business. Canada was one of the largest mining nations in the world, producing more than 60 minerals and metals. Canada ranked in the top five countries in the global production of 16 major minerals and metals. The Toronto Stock Exchange (TSE) and TSE Venture Exchange were the world’s number one mining and exploration listing venues.

Meanwhile, Canada’s political leadership intended to maintain its favourable tax and regulatory policies for the sector. Canada’s technological, infrastructure, and governance advantages made it an attractive investment destination. Its mining executives also took advantage of the Canada Revenue Agency’s Scientific Research and Experimental Development program, leading to significant cost savings.

The worldwide gold and silver ore mining industry was expected to expand slowly from 2017 to 2022. The price of gold had been volatile, and thus the industry’s profitability had been severely affected. Large players had started to pursue economies of scale in value chain activities. Mergers and acquisitions activities would likely continue. The timeline of project development and the mine life cycle were relatively long, as it often took decades for gold miners to move from discovery and exploration to production.

Gold mining had operated on every continent except Antarctica. The top 10 countries in terms of gold production in 2018 were China, Australia, Russia, the United States, Canada, Peru, Indonesia, Ghana, South Africa, and Mexico.

Source: “Facts and Figures 2018,” The Mining Association of Canada, March 25, 2019, accessed May 31, 2019, https://mining.ca/documents/facts-and-figures-2018/; “Gold Mine Production,” Goldhub, April 4, 2019, accessed May 31, 2019, www.gold.org/goldhub/data/historical-mine-production.

Exhibit 4: Financial Summary of CGI, 2008–2016 (US$1,000)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** |
| **Income statement** |  | | | | | | | | |
| Revenues | 338,601 | 338,949 | 277,783 | 2,218,501 | 1,806,264 | 311,312 | 133,198 | 81,047 | 29,371 |
| (Loss) Profit attributable to owners of the company | −13,304 | −8,188 | 39,729 | 55,032 | 70,938 | 79,408 | 26,226 | −9,347 | 14,876 |
| **Balance sheet** |  | | | | | | | | |
| Total assets | 2,966,610 | 2,780,593 | 3,013,494 | 2,218,501 | 1,806,264 | 1,744,544 | 1,655,623 | 174,577 | 119,311 |
| Total liabilities | 1,546,430 | 1,333,339 | 1,548,336 | 786,976 | 438,470 | 454,012 | 452,193 | 136,466 | 80,828 |
| Total net assets | 1,420,189 | 1,447,254 | 1,465,158 | 1,431,525 | 1,367,794 | 1,290,532 | 1,203,429 | 38,111 | 84,554 |
| Equity contributable to owners of the company | 1,406,457 | 1,434,227 | 1,452,993 | 1,421,431 | 1,359,658 | 1,284,797 | 1,200,249 | 36,839 | 84,248 |
| Non-controlling interests | 13,732 | 13,027 | 12,165 | 10,094 | 8,136 | 5,735 | 3,181 | 1,272 | 295 |
| Total owner’s equity | 1,420,189 | 1,447,254 | 1,465,158 | 1,431,525 | 1,367,794 | 1,290,532 | 1,203,429 | 38,111 | 84,554 |

Source: Company files.

Exhibit 5: Jerry Xie’s Cirriculum Vitae

Education

Master of Engineering (2007), Mechanical Department, University of Calgary, Canada.

Master of Engineering (1989), Mechanical and Mining Department, Beijing University of Science and Technology, China.

College Diploma in Mechanical and Chemical Engineering Department (1981), Shanghai Institute of Technology, China.

Work Experience

Mar. 2009–Present, Executive Vice President and Corporate Secretary, China Gold International Resources Corp. Ltd., Vancouver, BC, Canada

Sep. 2005–Mar. 2009, Lead of Asset Service Piping Engineering, Worley Parsons, Calgary, AB, Canada.

Sep. 2003–Sep. 2005, Project Engineer and Piping Engineer, Tri-Ocean Engineering Ltd, Calgary, AB, Canada

Jan. 2001–Sep. 2003, Piping Engineer, Flour Daniel Canada, Calgary, AB, Canada

Mar. 1981–Nov. 2000, Sinopec, P.R. China

* Manager of Piping Engineering / Project Manager, LPEC, 1995–2000
* Lead of Piping Engineering Technical Group, 1991–1995
* Piping Engineer, 1989–1991
* Assistant Engineer 1982–1986
* Technician, 1981–1982

Source: Company files.

Exhibit 6: Major Financial Indicators of Chinese Central SOEs, 2003–2016 (Billions CNY)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Total Assets** | **Total Revenues** | **Total Profits** | **Total Tax Paid** | **Number of Central SOEs** | **Number of Central SOEs listed in Fortune Global 500** |
| 2003 | 8,323.2 | 4,474.8 | 300.6 | 356.3 | 186 | 6 |
| 2004 | 9,149.4 | 5,599.7 | 488.0 | 465.5 | 178 | 8 |
| 2005 | 19,514.8 | 6,794.5 | 637.7 | 578 | 169 | 15 |
| 2006 | 12,191.5 | 8,294.0 | 768.2 | 682.3 | 159 | 19 |
| 2007 | 14,923.1 | 10,028.2 | 1,005.6 | 879.2 | 151 | 16 |
| 2008 | 17,628.8 | 11,870.5 | 696.2 | 1,042.6 | 142 | 19 |
| 2009 | 21,058.1 | 12,403.6 | 765.3 | 1,048.0 | 130 | 24 |
| 2010 | 24,300.0 | 19,198.1 | 1,341.5 | 1,924.1 | 124 | 30 |
| 2011 | 28,000.0 | 20,139.7 | 1502.3 | 2,269.5 | 118 | 38 |
| 2012 | 43,295.5 | 26,055.9 | 1,504.5 | 1,760.8 | 117 | 43 |
| 2013 | 48,317.8 | 28,440.7 | 1,665.3 | 2,803.0 | 113 | 44 |
| 2014 | 53,706.8 | 29,379.0 | 1,728.0 | 2,917.0 | 112 | 47 |
| 2015 | 64,249.2 | 27,169.4 | 1,614.9 | 2,973.1 | 106 | 47 |
| 2016 | 69,478.9 | 27,678.0 | 1,525.9 | 2,915.3 | 98 | 50 |

Note: SOEs = state-owned enterprises.

Source: Xin Li and Kjeld Erik Brødsgaard, “SOE Reform in China: Past, Present and Future,” *Copenhagen Journal of Asian Studies* 31, no. 2 (2013): 54–79; Ministry of Finance of China.

Exhibit 7: Major Reforms of Chinese SOEs, 1992–2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Phases** | **Goals of Reform** | **Key Strategies** | **Main Actions** | **Progress** |
| 1992 to 2002 | To transform SOEs into modern corporations and introduce market competition | “Grasp the big, let go the small” and “pull large SOEs out of difficulties in three years” | 1) Strategically prioritized 1,000 SOEs to support their growth | 1) 84.8 per cent of SOEs were turned into modern corporations |
| 2) Allowed non-strategically focused SOEs to collaborate with private investors | 2) Local SOEs proactively involved private capital through selling shares, merging, leasing, and management buyout |
| 3) Issued company law to help transform SOEs into modern corporations | 3) Shut down over 5,000 unprofitable SOEs |
| 4) Established stock exchange markets to reform SOEs | 4) Listed best performing subsidiaries and evolved into a group structure, consisting of both listed and unlisted subsidiaries |
| 2003 to 2012 | To increase the efficiency of SOEs and preserve the state-owned assets | Keeping SOEs in strategically important industries and exiting from sectors where SOEs lacked competitiveness | 1) Established SASAC to supervise all SOEs, with responsibilities including assigning representatives to the executive board, advising development strategy, hiring the top managers, auditing major expenditures, and approving significant investments | 1) SOEs dominated in strategic industries |
| 2) Improved the corporate governance (e.g., introducing executive board to SOEs) | 2) Asset and profitability significantly increased over this phase |
| 3) Identified seven strategically important industries and guided the concentration of SOEs in these industries | 3) SOEs exited from non-strategic sectors (e.g., real estate) |
| 2013 to 2017 | To improve the economic performance and support the nation's economic growth strategy | Mixed ownership reform | 1) Further classified the types of SOEs to guide their development | 1) SASAC classified SOEs into three types: security and strategic, competitive, and public goods |
| 2) Pushed for merging central SOEs in the same industry to establish bigger and stronger enterprises | 2) Conducted merger of large SOEs including the merger of Baosteel and Wuhan Steel, and that of China CNR and CSR corporations. The number of central SOEs were streamlined to 98 |
| 3) Advocated the mixed-ownership structure for both central and local SOEs. To ensure the state’s control, SASAC set limits that the state-owned share needed to exceed 50 per cent in non-listed SOEs and 30 per cent in listed SOEs | 3) The Reform and Development Commission of China planned to “more or less complete” the mixed-ownership structure for all SOEs by 2020 |

Note: SOEs = state-owned enterprises; SASAC = State-Owned Assets Supervision and Administration Commission.

Source: Dong T. Zou and Ri H. Ouyang, eds., Blue Book of Development and Reform: China 30 Years of Reform and Opening-Up (1978-2008) (Beijing: Social Sciences Academic Press, 2008); Xin Li and Kjeld Erik Brødsgaard, “SOE Reform in China: Past, Present and Future,” *Copenhagen Journal of Asian Studies,* 31, no.2 (2013): 54-79; SASAC.

1. According to Standard & Poor’s ratings definition, an obligor rated “BBB” exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation. Mining companies are typically rated as investment grade (BBB). [↑](#footnote-ref-1)
2. “China National Gold Corporation Purchases CDN$218 Million of Jinshan Securities with a Mandate to Create a Leading Global Gold Producer,” Jinshan Gold Mines Inc., accessed September 25, 2017, www.chinagoldintl.com/investors/news\_releases/2008/*.* [↑](#footnote-ref-2)
3. “Facts and Figures of the Canadian Mining Industry: F&F 2016,” The Mining Association of Canada, accessed September 25, 2017, http://mining.ca/sites/default/files/documents/Facts-and-Figures-2016.pdf. [↑](#footnote-ref-3)
4. Eric Ng, “Foreign Investors Will Need More Clarity on Role of Communist Party Organizations in Listed Firms,” *South China Morning Post*, July 25, 2018, accessed July 16, 2019, www.scmp.com/business/article/2156698/foreign-investors-will-need-more-clarity-role-communist-party-organisations. [↑](#footnote-ref-4)
5. ¥ = CNY = Chinese yuan renminbi; ¥1 = US$0.146 as of December 31, 2008. [↑](#footnote-ref-5)
6. Chuck Chiang, “Chinese Groups in Vancouver Step Up Charitable Efforts,” *Vancouver Sun*, August 9, 2016, accessed April 23, 2019, http://vancouversun.com/business/local-business/chinese-groups-in-vancouver-step-up-charitable-efforts. [↑](#footnote-ref-6)
7. China Gold International Resources Corp. Ltd., *Environmental, Social, and Governance Report*, 5, accessed April 29, 2019, www.chinagoldintl.com/\_resources/E\_2016-ESG-Report.pdf. [↑](#footnote-ref-7)
8. Organisation for Economic Co-operation and Development (OECD), “Chapter 5: SOEs in China's Economic Development,” in *State-Owned Enterprises in the Development Process* (Paris: OECD Publishing, 2015), 1270-81. [↑](#footnote-ref-8)
9. Juan Shu, Yang Ju, and Yang Yu, “SASAC Chief Called Central SOEs the Eldest Son of the Republic,” *Guangzhou Daily*, August 5, 2009, accessed April 29, 2019, http://news.ifeng.com/mainland/200908/0805\_17\_1285088.shtml. [↑](#footnote-ref-9)
10. Xin Li and Kjeld Erik Brødsgaard, “SOE Reform in China : Past, Present and Future," *Copenhagen Journal of Asian Studies* 31, no. 2 (2013): 54–79; Dong T. Zou and Ri H. Ouyang, eds., *Blue Book of Development and Reform: China 30 Years of Reform and Opening-Up* (1978-2008) (Beijing: Social Sciences Academic Press, 2008). [↑](#footnote-ref-10)
11. Nan Zhong and Xiaojin Ren, “China to Tighten Control on SOEs’ Investment Overseas,” *China Daily*, March 9, 2017, accessed April 29, 2019, www.chinadaily.com.cn/business/2017-03/09/content\_28496676.htm. [↑](#footnote-ref-11)
12. Emily Feng, “China Tightens Rules on State Groups’ Foreign Investments,” *Financial Times,* August 3, 2017, accessed April 24, 2019, www.ft.com/content/3251987c-7806-11e7-90c0-90a9d1bc9691; “China Issues Rules to Curb State Firms’ Overseas Investment Risks,” Reuters, August 2, 2017, accessed April 24, 2019, www.reuters.com/article/us-china-economy-soe/china-issues-rules-to-curb-state-firms-overseas-investment-risks-idUSKBN1AI1BO?il=0. [↑](#footnote-ref-12)
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14. Louise Egan and Randall Palmer, “Canada Opposition MP: Treason to Approve Nexen Takeover,” Reuters, October 2, 2012, accessed April 29, 2019, www.reuters.com/article/us-nexen-cnooc/canada-opposition-mp-treason-to-approve-nexen-takeover-idUSBRE8910U220121002. [↑](#footnote-ref-14)