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CHINESE LENDING TO COUNTER- HEGEMONIC STATES: DOES OIL DEPENDENCY MATTER?

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ABSTRACT

China's rise as an attractive financial partner to the developing world, displacing traditional Western creditors, is a phenomenon that has gained relevance in recent years. Several countries in the developing world that have adopted counter-hegemony politics to move away from the influence of the U.S. and international financial institutions, have actively engaged in the lending practices promoted by China. Some of these counter-hegemonic states, considered important targets of Chinese diplomacy, are also oil-rich, and therefore dependent to the revenues obtained from their oil exports. Thus, the purpose of this thesis is to analyze how oil-dependency of counter-hegemonic states affects the inflows of loan provided by China. A comparison between an oil-dependent and a non-oil dependent country, both counter-hegemonic, suggests that the approach of China's diplomacy differs across cases in spite of the countries' similarities. Ecuador and Uruguay are the cases analyzed. The counter-hegemonic state with oil dependency seems to be a major recipient of Chinese lending, showing that oil dependency matters. In addition, the vulnerability to the unstable fluctuation of global oil prices caused by oil dependency of counter-hegemonic states has an important effect on the inflows that these countries receive from China.

Keywords: *Chinese oil diplomacy, Chinese lending, oil-backed loans, counter-hegemony, oil dependency*

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LIST OF ABBREVIATIONS

BCE	– Banco Central del Ecuador
CDB	– China Development Bank
CELEC	– Corporación Eléctrica del Ecuador
CNOCs	– China’s National Oil Companies
CNPC	– China National Petroleum Corporation
DNA	– National Directorate of Customs of Uruguay
EBLs	– Energy-backed loans
EIA	– United States’ Energy Information Association
EMBI	– Emerging Markets Bonds Index
EPMMOP	– Metropolitan Public Company of Mobility and Public Works of Ecuador
FDI	– Foreign direct investment
FTA	– Free Trade Agreement
FTAA	– Free Trade Area of the Americas
IDB	– Inter-American Development Bank
IFIs	– International Financial Institutions
IMF	– International Monetary Fund
INEC	– National Institute of Statistics and Census of Ecuador
MEER	– Ministry of Electricity and Renewable Energy of Ecuador
MERCOSUR	– Common Southern Market
MTOP	– Ministry of Transportation and Public Works of Ecuador
OAS	– Organization of American States
ODA	– Official Development Aid
PBOC	– People’s Bank of China
SENAGUA	– National Secretariat for Water of Ecuador
SMEs	– Small and Medium-sized Enterprises
SRI	– Internal Revenue Service of Ecuador
UNASUR	– Union of South American Nations
U.S.	– United States
WTI	– West Texas Intermediate

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1. INTRODUCTION

International financial institutions (IFIs), mainly led by the U.S., played an indispensable role in the market liberalization that took over the developing world and the diffusion of the so-called Washington Consensus between the decades of the 80s and the 90s (Babb 2012, p.268). However, after the large-scale economic crises experienced in East Asia and Latin America in the late 1990s, several countries in the developing world urged for the revision of these neoliberal policies that were implemented in the previous years (Babb 2012; Birdsall and Fukuyama 2011). As a result, a large range of these countries has discredited this market-oriented model of development, claiming that it has failed to reach the expected outcomes. In addition, the ‘conditionality’ practiced by the IFIs (Babb 2012; Fine, Lapavitsas and Pincus 2001), the perceived ‘imperialist’ and ‘paternalistic’ North-South relations (Biel 2000), the marginalization of state intervention, privatization (Fernández-Jilberto and Hogenboom 2010), ‘forced’ democratization, the inattention of national particularities (Stiglitz 2008) and the encouragement of developing countries’ reliance on foreign capital (Birdsall and Fukuyama 2011) were, among others, the most criticized aspects by collapsed economies. Hence, multiple countries have reformed their views to economic development policy and have engaged in the adoption of counter-hegemony¹ politics. This approach encompasses the implementation of regional and national policies that attempt to separate developing countries from the influence of the U.S. neoliberal agenda and the IFIs. Many of these countries and traditional rivals of the U.S. have also engaged in the promotion of alliances to facilitate the transition to a multipolar world (Birdsall and Fukuyama 2011; Stiglitz 2008). Some developing countries have condemned the U.S. for provoking recurring ‘neoliberal’ crises and have delegitimized the capitalist system, contributing to the rise of counter-hegemonic movements all over the world (Birdsall and Fukuyama 2011, p.45).

At the same time, this exhaustion of developing countries towards the U.S.-dominated system has coincided with the outstanding rise of China (Fernández-Jilberto and Hogenboom 2010; Hogenboom 2014; Xiang 2008, p.51). The Asian country, considered an icon of economic growth and poverty reduction, has closely approached the developing world and notably several countries that were under the influence of U.S. In fact, Chinese diplomacy has offered these countries extremely appealing features, which are compatible to counter-hegemony politics and oppose to traditional Western practices. For instance, the principle of non-intervention, South-South cooperation, equally beneficial partnerships and provision of capital without conditions, are among the most welcomed insights of

¹ The concepts of ‘hegemony’ and ‘counter-hegemony’ were widespread in scholarly work by Antonio Gramsci. His approach has been further applied to international relations, including the insights of Neo-Gramscian scholars (Bieler and Morton 2001, 2004; Cox 1981, 1982, 1983; Gill 1993, 2003; Pratt 2004). Current literature articulates features of the U.S. supremacy in the world order with ‘counter-hegemony’ in the Gramscian sense (Knauff 2007), in the context of market-driven politics, ruling relations of capitalism and globalization (Carroll 2006). The concept of ‘counter-hegemony politics’ provided in this thesis was built upon these approaches and the ‘hegemony’ of neoliberalism reflected in the policies of the IFIs (Cohn 2005; Lee and McBride 2007), but it constitutes the author’s own definition.

China's foreign policy (Brautigam 2010; Burgos-Cáceres and Ear 2012; Correa and González 2008; Leiteritz 2012). This is why counter-hegemonic countries that have slowly moved away from the influence of the West and the IFIs, have also turned their attention to China as a new strategic partner (Leiteritz 2012). China's presence in multiple developing areas is not limited to commercial exchange, but rather it has become a "seemingly irresistible economic option" (Leiteritz 2012, p.52).

China's foreign policy has been significantly shaped by its rising quest for energy (Ziegler 2006). As a consequence, one of the most commented Chinese strategies to the developing world is its 'oil diplomacy'. It aims to gain exclusive access to oil reserves (Carmody 2011, p.118) while accomplishing geopolitical and profit-oriented goals (Gallagher and Myers 2014; Wolfe and Tessman 2012). Consequently, Chinese inflows of capital, including foreign direct investment and loans, to regions with important oil-producing countries have rapidly increased (Hogenboom 2014). Among Chinese lending practices, energy-backed-loans have become an increasingly accepted mechanism that has concentrated not only the interest of several oil-rich countries, but in particular counter-hegemonic states, their governments and their national oil companies (Leiteritz 2012).

Although counter-hegemonic countries are believed to have strengthened their relations with the Asian country, Chinese diplomacy seems to have implemented differentiated approaches among them. China is alleged to be an alternative source of funding to regimes that have dismissed the influence of the Washington-based financial institutions and whose access to international capital markets was, hence, constrained. At the same time, Chinese loans to resource-rich developing countries seem to have strengthened these counter-hegemonic tendencies in countries that, in fact, are also oil-wealthy (Downs 2011). Simultaneously, some counter-hegemonic states, particularly those oil-rich, seem to have requested China's inflows of loans more than others. The internal dynamics of these oil-wealthy economies show that these countries tend to be highly dependent on the revenues obtained from their oil exports, and therefore, they are more vulnerable to the instability of oil prices in international markets. Low investment capacity and budget deficits in oil-based economies reflect their unstable state income and their reliance on external capital. Therefore, these tendencies suggest that 'oil dependency' might be an important factor that influences Chinese lending to counter-hegemonic states. Thus, the aim of this research thesis is to analyze *how oil dependency of counter-hegemonic states affects the inflows of loans provided by China*.

'Oil dependency' can be analyzed from two viewpoints, the oil-importing countries that need to secure energy supplies abroad (demand), and the oil-exporting countries that are concerned about the internal management of their resource endowments and securing sales in international energy markets (supply). It is important to highlight that in this thesis, the term 'oil dependency' refers only to the suppliers'

perspective². Likewise, the study of counter-hegemony politics is fundamental in this analysis, in order to understand why these countries have moved away from the influence of the U.S and why Chinese diplomacy has been so warmly welcomed, as well as its lending practices. Although China has contributed to the strengthening of these counter-hegemonic sentiments, it is essential to understand where these tendencies come from in the first place. Additionally, current literature has focused on analyzing Chinese lending to oil-wealthy countries (Alves 2013; Brautigam 2010; Gallagher, Irwin and Koleski 2012; Hogenboom 2014) and China's contribution to the strengthening of counter-hegemonic tendencies in several regions as a way to contest the hegemony of the U.S. in the current world order (Roett and Paz 2008; Chestnut and Johnston 2009). This thesis attempts to explain Chinese lending by analyzing these factors together.

In order to examine how oil dependency of counter-hegemonic states affects Chinese lending, a mix of methods is employed. First, the adoption of counter-hegemony politics, relations with China and Chinese lending to an oil-dependent and a non-oil dependent country will be compared through qualitative methods. Following the logic of the method of difference, it will be shown that in spite of similarities, Chinese lending practices differ across similar cases. For this aim, Ecuador (oil-dependent) and Uruguay (non-oil-dependent), both being counter-hegemonic states, have been selected. Secondly, the vulnerability of the oil dependent country (Ecuador) to the fluctuation of global oil prices is likely to be an important factor affecting Chinese inflows of loans. In order to analyze this assumption, a statistical model is specified, in which Chinese loans are regressed on monthly fluctuations of global oil price.

This study contains a review of current literature on the topic and addresses how 'counter-hegemony politics' in the developing world, China's foreign policy (above all Chinese oil diplomacy and lending practices), and 'oil-dependency' of oil-exporting countries are related. Then, the hypotheses that follow from the theory section are tested through the above-mentioned quantitative and qualitative methods. Finally, the outcomes and discussions about this topic are presented in the concluding section.

² In order to avoid confusion in the terminology, Chinese quest for energy is acknowledged in this study, but not referred to as oil dependency.

2. LITERATURE REVIEW

2.1. COUNTER-HEGEMONY POLITICS IN THE DEVELOPING WORLD: THE DETRIMENTAL IMPACT OF THE WASHINGTON CONSENSUS AND THE EFFECTS OF THE RECURRING 'NEOLIBERAL' CRISES

For much of the decades of the 80s and 90s, the so-called Washington Consensus, a transnational policy paradigm based on neoliberal doctrine, was globally widespread as the dominant framework for development scholarship and policy (Fine, Lapavitsas and Pincus 2001; Babb 2012). This insight grounded on economic freedom was not only legitimized through theory, but was also entrenched in the practices of the governments that embraced neoliberal reforms and the international financial institutions (IFIs) that encouraged their implementation (Babb 2012, p. 269). Thus, the International Monetary Fund (IMF), the World Bank, regional development banks and several agencies of the U.S. government were placed at the very center of the diffusion of this policy agenda (Babb 2012; Fernández-Jilberto and Hogenboom 2010, p.185; Fine, Lapavitsas and Pincus 2001; Marangos 2009, p.197; Williamson 1990, p.7). The Washington Consensus was prescribed to the developing world by developed economies, mainly the U.S.; it was regarded as desirable reforms to increase economic prosperity and stimulate development for low income countries (Babb 2012; Fine 2001, p. 2; Marangos 2009; Stiglitz 1998, p.25).

According to its supporters, this set of measures was necessary and best suited for developing countries, in order to improve their economic performance (Williamson 1993). This greater wealth was expected to be attained by 'harnessing the power of markets' (Birdsall, de la Torre and Valencia-Caicedo 2011, p. 82), marginalizing the role of the state (Fine 2001, p.3), and achieving macroeconomic stability and price competitiveness (Cedrini 2008; Stiglitz 1998, p.1). Conversely, its detractors have affirmed that these measures constitute an unfair collection of neoliberal prescriptions imposed on 'unfortunate' countries (Williamson 2002). After the implementation of the Washington Consensus in a large range of countries, it was both, widely criticized and celebrated (Babb 2012, p. 268) for its participation in the market liberalization that took over the developing world. This group of neoliberal measures gathered key policy elements that Williamson (1990) summarized in a 'Decalogue' as follows: (1) fiscal austerity, (2) restructuring of public expenditure priorities and elimination of state subsidies, (3) tax reform, (4) liberalization of interest rates (positive real rates and market-regulated), (5) lowering of exchange rates ('competitive' rates), (6) liberalization of foreign trade, (7) deregulation of foreign direct investment, (8) privatization of state-owned companies, (9) elimination of barriers that constrained firms' competition (deregulation), and (10) protection of property rights (*cf.* Fine, Lapavitsas and Pincus 2001; Birdsall, de la Torre and Caicedo 2011).

Between the late 1990s and the early 2000s, the financial collapses experienced by transition economies in several regions of the world, drove a large number of countries to distance themselves from the influence of the Washington-based institutions. The terms ‘Washington Consensus’ and ‘neoliberalism’ were continuously used interchangeably (Ocampo 2004, p.293) and gradually acquired a pejorative connotation “associated in the public mind with quasi-imperialism and cynical orthodoxy” (Krogstad 2007, p.68). Numerous devastated East Asian and Latin American economies discredited several of these neoliberal-inspired prescriptions, particularly the measures associated to the reliance on foreign capital (Birdsall and Fukuyama 2011, p.46). In addition, this set of policies seemed to have failed in producing the predicted outcomes. The expected social effects, economic growth and sustained modernization did not materialize and the World Bank’s calculations proved that its aim of reducing poverty had made incipient progress (Fernández Jilberto and Hogenboom 2010; Fine, Lapavitsas and Pincus 2001).

In this regard, several scholars have attempted to explain the detrimental influence of the Washington Consensus in the developing world. Among them, there is a strong agreement that ‘conditionality’, placed at the core of the IFIs, is one of the main causes that triggered developing countries exhaustion toward neoliberal policies (Babb 2012; Fine, Lapavitsas and Pincus 2001; Marangos 2009). Economic freedom insights were taken for granted in development policy circles, and opposing ideas to this ‘neoliberal manifesto’ were immediately discarded (Birdsall and Fukuyama 2011, p. 47; Fine, Lapavitsas and Pincus 2001). In intellectual spheres, the political implications of the consensus, mainly financed with U.S. capital, were neglected (Babb 2012, p.270). However, the spread of Western scholarship (mainly by U.S.-trained economists) to the developing world was believed to be insufficient to convince governments to institutionalize the neoliberal development model. In fact, ‘conditionality’ was the fundamental force to put pressure on them to do so (Fine, Lapavitsas and Pincus 2001). IFIs’ loans were granted or renewed to developing countries in exchange of policy adjustments stipulated in the consensus. During periods of crisis, the IMF would supply the liquidity necessary for developing countries to stimulate their demand (Krogstad 2007, p.71). Thus, the Washington-based institutions were fundamental in the diffusion of this paradigm at national and international level. In addition, economic interventions were evidenced in the successive and repeated adjustment programs prescribed to individual countries (Fine 2001, p.10). Entities with transnational power played an essential role shaping governments’ behavior and influencing domestic political processes that favored neoliberal practices (Babb 2012, p.294). IFIs contributed to change the domestic architecture of several economies (Babb 2012, p. 280). Developing countries facing severe debt crises had extremely limited space for negotiation with international organizations and claimed that they were subject to intensive pressure in order to adopt economic reforms (Fine, Lapavitsas and Pincus 2001).

Furthermore, the promotion of reduced state intervention and democratization policies are, among others, some of the most criticized aspects of the ‘conditionality’ behind multilateral loans. The IFIs urged privatization, economic deregulation and further liberalization reforms, in order to convert the private sector into the principal catalyst of development in national economies (Fernández-Jilberto and Hogenboom 2010, p.185). The economic power was transferred from the public sector to private ownership and this transformation facilitated the concentration of wealth in transnational firms (Fernández-Jilberto and Hogenboom 2010). The expected increase on the volume and efficiency of productive investment was not successfully achieved through the elimination of barriers to domestic finances and inflows of international capital, as promoted in the policy adjustments (Fine, Lapavistas and Pincus 2001). Additionally, these policies overemphasized the ‘virtuous combination’ of democracy and market liberalization (Birdsall, de la Torre and Valencia-Caicedo 2011, p. 80). According to neoliberal approaches, economic freedom and market-oriented values are inevitably connected to democracy (Elgin 2010). Democratic values and human rights adoption were among the most widespread political conditions of the neoliberal agenda. These ideas were, however, contested by, for instance, the so-called ‘Asian Values’ perspective emerged in the 1990s (Acharya and Buzan 2010; Thompson 2004). It argued that special features of the Asian culture allow countries in the region to adopt neoliberal economic policies without having democratic regimes (Elgin 2010) and collective principles were superior to the ‘individualistic’ views promoted by the Western human rights system.

Moreover, “the heavy-handedness of Western and especially United States foreign policy” (Leiteritz 2012, p. 67) understood as ‘hegemonic’ hard power, and the perceived North-South ‘imperialist’ traditional relationship (Biel 2000) have further diminished the credibility of neoliberal policies. The Washington Consensus was blamed for the excessive restriction of policy freedom available to developing countries (Cedrini 2008). In the case of Latin America, the Washington Consensus was criticized for serving as a tool to achieve the aims of the U.S. ‘integrationist agenda’ of the 1990s and the Bretton Woods institutions as instruments of its systematic interventionism in domestic affairs (Cedrini 2008; Fernández-Jilberto and Hogenboom 2010, p.188). From this perspective, ‘North-South’ relations have also been labeled as ‘paternalistic’. Alexander (2010, p. 119) describes the role of the IFIs as the protectors of the most ‘marginal’ and ‘vulnerable’, and especially mentions that the World Bank carries out the mission of being “the guardian of the poor”. Mostly in Sub-Saharan Africa, countries deepened their reliance on foreign aid for financing (Kahn 2004, p.217). One of the central perspectives encouraged by the consensus was the presumption that developing countries could benefit considerably from greater amounts of external capital (Birdsall and Fukuyama 2011, p. 46). However, Birdsall and Fukuyama (2011, p. 47) argue that the advantages of the deregulation of foreign capital are not completely visible in less developed countries. Besides, Stiglitz (2008) argued that the failure of the Washington Consensus was due, as well, to its ‘boilerplate’ approach to economic development

that applied universalistic recipes, disregarding national particularities. This group of policies ignored the perspectives that “certain preconditions should be in place to increase the likelihood of success of subsequent reforms” (Birdsall, de la Torre and Valencia-Caicedo 2011, p. 98). Stiglitz (2008) also asserted that the Washington-inspired measures failed to approach the broader context in developing states by taking an exclusive focus on economics.

The detrimental impact of the Washington Consensus and the subsequent contemporary global crises have driven a large range of developing countries not only to modify their approach to economic development policy, but to adopt or strengthen counter-hegemony politics. For the purpose of this thesis, counter-hegemonic states are those countries that (1) have implemented national and international policies to move away from the influence of Washington-based institutions, and/or (2) have promoted mechanisms and initiatives to contribute to the transition to a multipolar world. Developing countries have questioned the influence of the West, and especially the U.S., in their domestic affairs. Some others, traditional rivals of the West, have seen the failure of the neoliberal doctrine as an opportunity to promote alliances to contest the hegemon’s supremacy and empower developing countries (Babb 2012, p.268). Instead of the exclusive encouragement of free capital and trade, less developed economies became more aware of social aspects and reactivated the participation of state in their internal economies (Birdsall and Fukuyama 2011). Many of them blame the U.S. for provoking the recurring ‘neoliberal’ crises, which have delegitimized capitalism and have shaped the conditions for the emergence of anti-liberal movements worldwide (Birdsall and Fukuyama 2011, p.45). The adoption of counter-hegemonic politics has been moderate in some cases and more radical in several countries; however, the neoliberal paradigm remains as the dominant economic model.

The decline of the influence of the West in the developing world has converged with the rise of China’s role in the current international order (Fernández-Jilberto and Hogenboom 2010; Hogenboom 2014; Xiang 2008). The world is recognizing a more assertive China and a declining U.S. power since the financial crisis originated in 2008 (Christensen 2011). This situation has contributed to China’s close approach to developing countries that traditionally were under the influence of U.S. foreign policy. Simultaneously, counter-hegemonic states, slowly distancing themselves from the West, have seen this transitional period as a realignment opportunity and have turned their attention to a new strategic partner: China (Leiteritz 2012).

2.2. CHINA’S FOREIGN POLICY TOWARDS THE DEVELOPING WORLD: THE RISE OF AN ATTRACTIVE PARTNER

In the last three decades, China not only has experienced major internal reforms, but it has also modified the focus of its relations with the outside world (Leiteritz 2012). In 1978, Deng Xiaoping

headed this process, within the ‘second generation’ of communist leaders in China after the Second World War (Leiteritz 2012, p.54). A new Chinese perspective on socialism, state role and market economy took over the traditional centralized Soviet economic model, implemented during Mao’s rule (Leiteritz 2012; Wang 2009, p.93). Moreover, with the introduction of the ‘opening-up’ policy and the reform of its overarching diplomatic strategy, China has increased the global spaces for it to become a greater actor in the international system (Zhao 2009, p.26) and created suitable external conditions for domestic modernization (Zhang 2010, p.10). Consequently, China’s attitude and practices towards its neighbors and peripheral states, other countries in the developing world, and major powers have experienced different dynamics since then (Wang 2009).

China’s diplomatic strategy has placed as a priority its relationship with the developing world. In fact, China’s ‘self-identification’ as a developing country represents the foundation of its strategy towards other developing states (Zhao 2009, p.26), in spite of its current status of emerging power. China became a member of the ‘Third World’ with its new identity and understanding of the international system (Chen 2010, p.30), sharing ‘identical’ interests with other developing countries (Zhao 2009, p.34). In its foreign affairs, China has also placed itself at the same level of other developing countries (Zhao 2009) and the Chinese leadership has encouraged the practice of equal treatment to them (Kurlantzick 2007, p. 57). China has described its engagement with the global South as a ‘win-win partnership’, based on mutually beneficial relationships (Kimenyi and Lewis 2011; Leiteritz 2012, p.67). In order to establish strategic relationships with developing countries, China has actively engaged in participating in global and regional issues, increasing membership in international organizations and multilateral forums, strengthening bilateral diplomatic, trade and investment relations, and stimulating its involvement in peacekeeping missions (Chen 2010; Leiteritz 2012). In consequence, this concept of ‘equality’ seems to have slowly displaced, to some extent, the past Western economic ‘paternalistic’ perceived relation with developing countries, making China a particularly attractive partner.

Another fundamental strategy that has positioned China as an appealing alternative to the West is the doctrine of the ‘peaceful rise’, adopted in its foreign policy in the late 1990s. This approach seeks the internal development and modernization of China to become a great power, however, through peaceful means (Leiteritz 2012; Zheng 2005). According to this insight, the purpose of China is not to directly challenge or act against traditional powers, but to accommodate its interest to the existing circumstances (Leiteritz 2012, p. 77). Zheng (2005, p.20) asserts that while some economic powers “‘have plundered other countries' resources through invasion, colonization, expansion, or even large-scale wars of aggression”, China's rise has been produced by capital, technology, and resources acquired without confrontations. In addition, the ‘Chinese miracle’, based on its achievements on economic growth and poverty reduction, has risen as a blueprint that other developing countries wanted to emulate. In the first years of this century, China’s rise gained the attention of the developing

world as a possible alternative to neoliberal policies (Fernández Jilberto and Hogenboom 2010, p.185). Part of Chinese diplomacy advocates the country's assistance and guidance to create similar growth opportunities in developing countries (Kurlantzick 2007, p. 57). An important feature to achieve this is 'South-South cooperation' (Guo 2010, p.19). Chinese investments and financial aid provided to developing countries, based on the principles stipulated in the 'peaceful rise' strategy, has intensified during the last ten years (Leiteritz 2012). This insight seems to have acquired more relevance recently in the developing world, especially for counter-hegemonic states, as an alternative development model to the Washington Consensus. Likewise, it seems that China has found in counter-hegemonic states important channels and partners to 'accommodate' its interests and achieve its goals, without actually contesting Western powers.

Additionally, China supports in its foreign policy the principle of 'non-interference', grounded on the respect to sovereignty and independence of other states for peaceful coexistence (Leiteritz 2012, p.56; Zhang 2010, p.6). In the same way that 'democracy' was advocated through U.S. foreign policy, the notion of 'non-interference' emerged as an essential element of China's contemporary political discourse (González-Vicente 2014). Soon after 1949, the Chinese leadership concerned with 'interventionism' in its domestic affairs and the protection of its territorial integrity, embraced this concept in its foreign policy (González-Vicente 2014, p.207). In its contemporary economic diplomacy, China's "non-interference framework constitute a form of depoliticized (...) intervention" (González-Vicente 2014, p.210), which offers to developing countries trade, investment and aid without conditions attached. This approach constitutes a fundamental element of China's relations with the developing world and a major appealing factor, at least for many state leaders (Leiteritz 2012, p.67). In principle, China took action to safeguard its own national sovereignty by adopting this doctrine (Chen 2010, 79); however, it simultaneously offered a suitable alternative to developing countries exhausted of foreign 'interventionism'. This Chinese strategy has been contrasted with the opposing policies implemented by great powers, such as the United States, or the Washington-based organizations that demand from developing countries the accomplishment of political and economic requirements in exchange of financial assistance (Leiteritz 2012). China has notably emphasized the concept of 'self-determination' placed at the very core of development and an international order that differs from Western perspectives. According to China's official position, the notion of 'non-intervention' refers to an international community consisting of different cultural, political and economic systems, and rooted in the respect of diversity (van der Putten 2013, p. 55-56). Several experts affirm, however, that international expectations on China becoming a responsible great power have driven the Chinese state to balance this notion in its foreign policy (Carlson 2004; Li and Zheng 2009; Liu 2012; Pang 2009). Also, this approach has been criticized by the West for supporting the survival of authoritarian and unaccountable regimes (Kimenyi and Lewis 2011).

Besides China's prioritization of its relations with developing countries in its neighborhood (good-neighborly policy) (Zhao 2009), it has also placed particular attention in natural resource-rich countries as strategic to its interests (Leiteritz 2012). The developing world has traditionally supplied commodities and raw material to increase the economic and industrial development of existing powers. In the same way, in order to sustain its outstanding pace of economic growth, China has engaged in a race to secure its energy supplies abroad. Resource-wealthy regions in the developing world such as Africa, Latin America and Middle East, which have countries with big markets, large territories and populations, are major targets of Chinese diplomacy (Gallagher, Irwin and Koleski 2012; Leiteritz 2012; Salameh 2010; Vissers 2013), and its most valued resources are minerals like oil and gas (Leiteritz 2012; Vissers 2013). Resource-rich countries have also greatly benefited from China's enormous demand for energy, and other primary products (Hogenboom 2014). Consequently, China's oil diplomacy has become a fundamental strategy to attract oil-based economies, in particular those "shunned by Western democracies" (Vissers 2013, p.1) or distanced from the influence of neoliberal policies (Leiteritz 2012). The interest of several counter-hegemonic states, mainly those oil-rich, their regimes and state-owned oil companies have concentrated on energy-backed loans offered by China, which are not attached to political conditions. Chinese oil diplomacy towards the developing world gathers the most attractive principles of its foreign policy: 'non-interference', 'win-win partnership' and its 'peaceful rise', opposing exactly to the most criticized features that have pushed counter-hegemonic states away from the influence of the West.

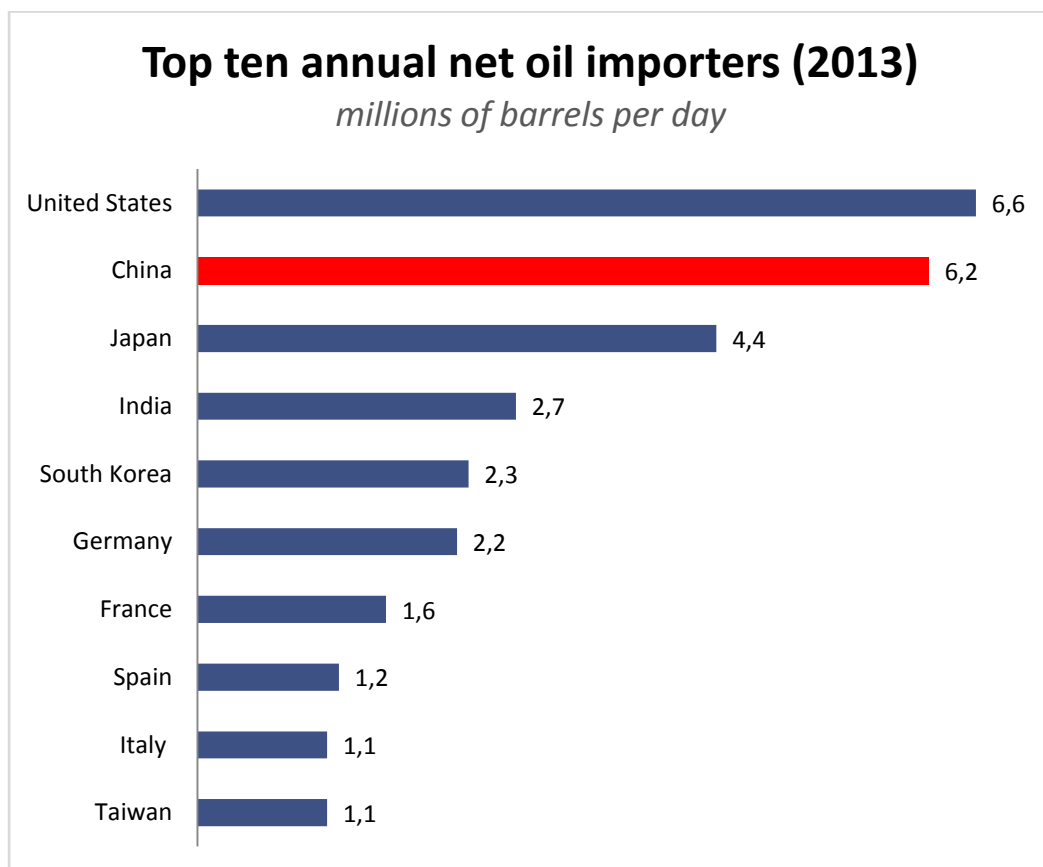
2.2.1. Chinese Oil Diplomacy

A fundamental concern among major economic powers is the security of their supplies of strategic non-renewable resources, which are essential to sustain their economic performance (Lee 2005). In this regard, China is progressively evolving into a global power (Ziegler 2006). Moreover, without a democratic system as conceived by Western countries, the Chinese regime's source of legitimacy and popular support is the improvement of its people's living conditions (Chen 2008, p.81). Therefore, its demand for natural resources, in particular fossil fuels (Lanteigne 2007), has rapidly increased, not only because the Chinese population is the largest in the world, but due to China's aim of maintaining its outstanding pace of economic growth and modernization. Its subsequent large-scale quest for energy resources has significantly changed geopolitics and has increased China's role in international energy markets (Burgos-Cáceres and Ear 2012, p.47; EIA 2014; Salameh 2010; Vissers 2013). In fact, China has experienced a process of accelerated urbanization, improvement of living standards, increase of vehicle ownership, petrochemical production and industrial development (Salameh 2010; Vissers 2014). This is why, oil constitutes one of the 'vital materials' for powering economies, and its strategic value goes beyond other commodities (Klare 2001). Thus, of all the energy resources that

China needs to uphold its economic boom and energy security, none is particularly significant as oil (Ziegler 2006; Chen 2008).

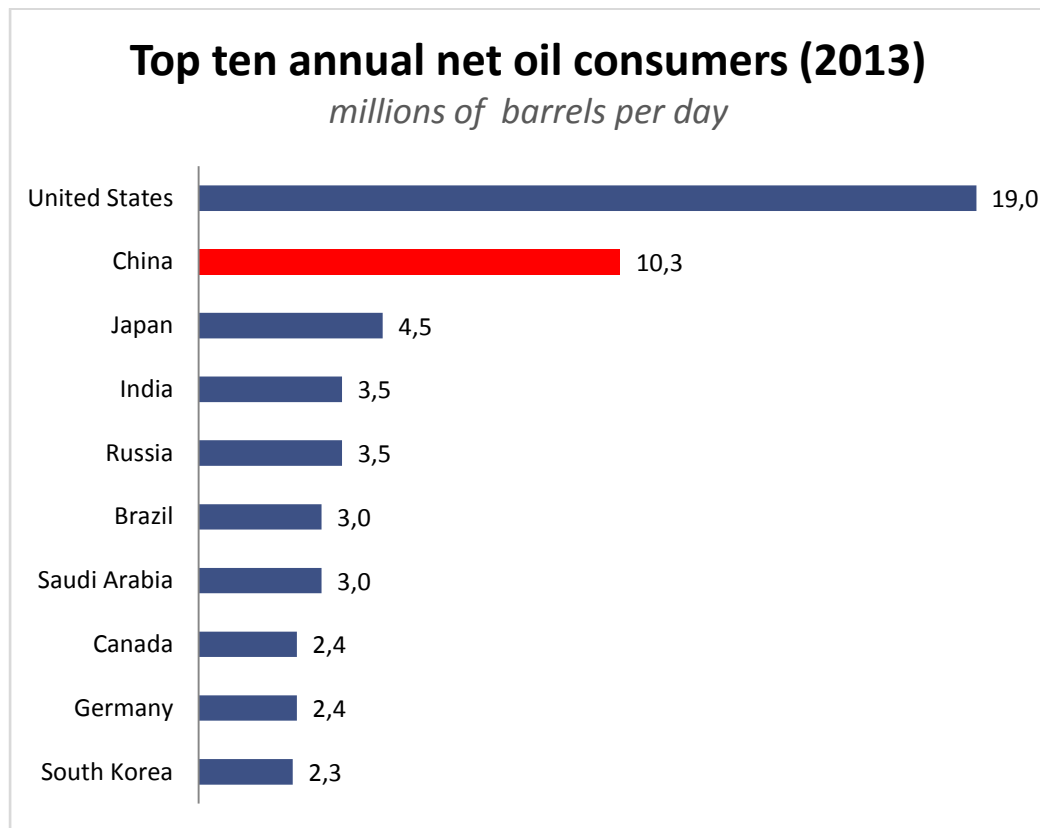
In 1993, China became a net oil importer (Zweig and Bi 2005). This situation meant for the country a transition from a “three-decade experiment in self-sufficiency to open the possibility that China could, someday, be as vulnerable as other industrial nations to unexpected events affecting global oil markets” (Jaffe and Lewis 2002, p.115). From this period to 2005, China became dependent on oil imports for over one-third of its total consumption (Ziegler 2006, p.1). In this way, China shifted from being the 7th largest oil importer in 2000 to the 4th in 2010 (Burgos-Cáceres and Ear 2012, p.47). According to the most recent data (See figure 1 and 2), China currently appears as the world's second-largest oil importer and consumer, only after the United States (EIA 2014). Chinese oil imports are projected to continue growing fast (Ziegler 2006).

Figure 1. *World's largest oil importers (2013)*



Source: EIA 2015

Figure 2. *World's largest oil consumers (2013)*



Source: EIA 2015

As a consequence, China's foreign policy has been substantially shaped by its rising energy dependency (Ziegler 2006). Its growing reliance on foreign oil supplies has driven China to increase its efforts to gain further control over deposits abroad (Chen 2008). Therefore, through its 'oil diplomacy', China has tackled its energy deficiencies by strengthening relations with resource-wealthy states (Ziegler 2006; Leiteritz 2012), especially those oil-rich. Chen (2008, p.80) defines 'oil diplomacy' as "the foreign activities with explicit involvement of the central government aiming to secure foreign oil (...) resources or promote interstate oil (...) business cooperation". 'Oil diplomacy' involves intergovernmental negotiations and agreements secured by states' credibility. Furthermore, Chen differentiates it from common 'oil trade', highlighting that the latter is merely profit-oriented, results in company-to-company deals, and rarely implies direct state intervention. Nevertheless, within China's oil diplomacy, not only the Chinese government and its financial institutions play a fundamental role, but also China's national oil companies (CNOCs) (Chen 2008; Wolfe and Tessman 2012). Beijing has worked together with its CNOCs, encouraging them to secure oil supply deals with

resource-wealthy states (Vissers 2013). Therefore, some scholars have affirmed that Chinese inflows of capital, i.e. foreign direct investment (FDI) and loans, to oil-rich countries are both, geopolitically and profit-driven (Gallagher and Myers 2014; Wolfe and Tessman 2012).

Chinese ‘oil diplomacy’ to the developing world, in particular, reflects this urgent necessity to secure resources supplies (Burgos-Cáceres and Ear 2012, p.47). Due to China’s status of emerging power, its national interests have moved far beyond East Asia (Ziegler 2006). Hence, China has defined in its foreign policy, three strategic zones for oil exploration and production: (1) Russia-Central Asia, (2) Middle East-North Africa, and (3) South America (Chen 2008). For the purpose of attracting major oil producers from these areas, China has opted for a bilateral approach to energy security (Jaffe and Lewis 2002). For decades the doctrine of the ‘peaceful rise’ has meant for China the prevention of competition and confrontation with the U.S. and Western countries for energy suppliers. Thus, China’s has decided to maintain long-standing relations with states that the West judged as ‘pariahs’, which has largely contributed to secure its supplies of energy commodities and raw materials (Salameh 2010, p. 22). Current literature suggests, however, that this strategy has been balanced in Chinese foreign policy, due to the activity of CNOCs in territories that used to be under the influence of the U.S. and its traditional partners (Jaffe and Lewis 2002; Salameh 2010). Nevertheless, in the case of multiple counter-hegemonic countries that have explicitly dismissed the influence of the U.S. and the West, Chinese companies succeeded on taking over several markets that “Western companies either abandoned or were forced out of for political reasons” (Leiteritz 2012, p. 67). In addition, counter-hegemonic regimes have welcomed China as a beneficial partner and as a landmark of economic development alternative to the Washington Consensus. Therefore, these factors suggest that *oil-rich counter-hegemonic states* are not only suitable targets of China’s oil diplomacy to avoid confrontation with the West, but important destinations of Chinese capital (FDI and loans) for oil activities.

China’s need to guarantee its oil supplies, its extensive financial reserves and the ‘go-global’ strategy implemented by CNOCs have converged with the resource abundance and need for foreign capital of multiple oil-rich countries (Hogenboom 2014), many of them counter-hegemonic. Therefore, Chinese policy banks have come to grant large loans to oil-rich countries, using energy-backed loan packages, as one of the main tools of Chinese ‘oil diplomacy’ (Hogenboom 2014, p.627).

2.2.1.1. Energy-backed loans (EBLs)

Over the past decade, China has provided large inflows of credits to oil-rich developing countries as an essential economic statecraft instrument (Alves 2012; Mastanduno 2008). China’s loans have not only aimed to secure long-term supply contracts and preferential access to energy resources, but have contributed to the opening of markets for the country’s companies and materials (Alves 2012, p.28-30).

Therefore, this type of Chinese lending brings together three main actors: the Chinese government, its state policy banks and its CNOCs (Alves 2012; Chen 2008; Downs 2011; Vissers 2013). China's three policy banks, the China Development Bank (CDB), China Export-Import Bank (China Exim Bank) and the Agricultural Development Bank of China, were created with the mandate of supporting the government's policy goals internally and abroad. In these days, major national interests include the Chinese 'going out' strategy and the improvement of the country's access to energy supplies (Downs 2011). EBLs have reached oil-rich countries mainly through the CDB and China Exim Bank (Alves 2013). However, the CDB is the only Chinese financial institution from its three policy banks that, together with the People's Bank of China (PBOC), has full ministerial status. This position demonstrates the prominence of this bank to "China's overall economic development strategy, the provision of large-scale, long-term funding for the construction of infrastructure and industrial projects aimed at breaking the strategic bottlenecks in energy, natural resources and transportation created by China's rapid economic growth" (Downs 2011, p.6).

The financial packages provided by the CDB and China Exim Bank seem to be very attractive to the developing world when compared with Western creditors (Alves 2013). First, Chinese lending is known worldwide for not imposing policy conditions to receiving countries, and therefore, for *not interfering* in domestic affairs (Alves 2013; Leiteritz 2012). Opposing the 'conditionality' of the Washington-based IFIs, recipients of Chinese loans are believed not to be bound or forced to engage with China's interests (Leiteritz 2012). Additionally, EBLs are characterized by large inflows of funds (up to \$20,6 billion) quickly disbursed to finance infrastructure, energy or mining production and exploration (Alves 2013, p.100; Downs 2011). The credit lines include the construction of roads, railways, bridges, refineries and ports that contribute to the transportation of goods from and to China, as well as to the exploration of resource deposits (Leiteritz 2012, p. 58; Zweig and Bi 2005, p. 26). For instance, in several countries of Africa, China Exim Bank is known for the implementation of a designed pattern of infrastructure-for-oil (Alves 2013). In Central Asia, CDB's funds have been allocated in the development of large-scale infrastructure to transport energy supplies and minerals to China (Clarke 2008; Downs 2011). In this way, loans are secured by the revenues obtained from the sale of oil at market prices to CNOCs, generally the China National Petroleum Corporation (CNPC), Sinopec or its subsidiaries (Alves 2013; Downs 2011; Gallagher, Irwin and Koleski 2012; Sanderson and Forsythe 2013) and China assures the exclusive access to oil reserves securing supplies at source (Carmody 2011, p.118). This exchange is assessed by China as a *win-win partnership* towards its borrowers. Furthermore, Chinese funds are recognized for their long-term repayment periods, lower interest rates, quicker disbursements and the relatively short time they occurred (over a period of less than two years) compared with Western financial institutions and governments (Alves 2013; Downs 2011).

The CDB and China Exim Bank carry out different mandates and undertake their own strategies, even if their financial arrangements highly resemble. China Exim Bank is responsible for extending concessional loans, which are renowned for their low interest rates under the sponsorship of China's Ministry of Commerce (Alves 2013). These credit arrangements are categorized as official development aid (ODA). In this respect, most of these oil-backed loans are extended with commercial purposes (Brautigam 2011). Conversely, the CDB's lending is based entirely on market interest rates (Alves 2013). These Chinese financial institutions, in particular the CDB, constitute a strong connection between the strategic policy goals of the Chinese government and the profit-driven interests of CNOCs. The CDB's inflows of funds to resource-rich countries contribute to international deals that bring together state policy and trade operations. Moreover, this bank finances both CNOCs and institutions in oil-rich states (Downs 2011). In this way, with the arrangements of state policy banks, including oil-backed loans, China has persuaded 'petrostates' into closing agreements with its state-owned oil firms, rather than only relying on global energy markets (Vissers 2013, p.1).

The rise of China as a funding source for developing countries has provoked distress to the U.S. and other Western states, due to its practices diverge from those of IFIs and other traditional international donors (Brautigam 2008), as mentioned above. Indeed, the World Bank and other IFIs' denial to grant loans to developing countries for financing the oil sector and the construction of refineries were perceived as a strategy of Western oil companies to maintain their positions in the developing world (Odell 1986, p.175). Consequently, Chinese loans to resource-wealthy developing countries are believed to have empowered *counter-hegemonic regimes* that, in fact, are also *oil-rich*. According to Downs (2011, p.92-97) China has served as a 'last resort' source of funding to regimes that have moved away from the influence of the Washington-based financial institutions and whose access to international financial markets was, therefore, reduced. Among others, several Latin American countries have been obligated to find new funding alternatives, due to their hostility towards IFIs (Downs 2011). Thus, besides the attractive features of Chinese oil diplomacy and the doctrine of China's 'peaceful rise', the limited access to external financing seems to have positioned oil-backed loans as the most appealing, available and simple sources of capital for *oil-rich counter-hegemonic states*. In order to understand how Chinese loans are related to oil dependency in these oil-rich counter-hegemonic states, it is fundamental to understand their internal dynamics.

2.3. DYNAMICS IN OIL-RICH DEVELOPING COUNTRIES

2.3.1. From Oil Wealth to Oil Dependency

Morgenthau (1961) argued that one of the most important elements of national power is the possession of natural resources. Without a doubt, oil is, among several fossil fuels, a highly strategic resource

valued worldwide for economic development of producing and consuming countries (Klare 2001). Increasing attention of governments has concentrated in petropolitics, whether to secure oil supplies abroad or manage internal resource wealth for sale in international energy markets (Kissane 2007). However, several economists and scholars (Boschini et al. 2007; Friedman 2006; Karl 1997; Ross 2013) that have studied the effects of oil in economy, argue that natural resource wealth might cause far-reaching counterproductive effects in resource-rich countries (the so-called 'resource curse' or 'paradoxical resource wealth'). Oil wealth is seen as a remarkable problem for the developing world (Cantore, Antimiani and Anciaes 2012; Ross 2012), due to oil abundance in the territory of a developing country has been associated with oil dependency. Kissane (2007, p.204) asserts that countries endowed with large reserves of oil tend to depend on revenue coming from buyer states and corporations that demand this resource. Moreover, Cantore, Antimiani and Anciaes (2012) emphasize this approach by claiming that, in fact, oil-producing developing economies tend to depend on their oil exports.

At the same time, scholarship in natural resource reliance has attempted to define and measure 'oil dependency' from different perspectives. For instance, Friedman (2006; p.31) defines an oil dependent state, i.e. petrolist, as the country that is "dependent on oil production for the bulk of their exports or gross domestic product [GDP]". Alternatively, Ross (2001, p.327) considers oil reliance the measure obtained from the value of fuel-based exports divided by GDP. For Basedeau and Richter (2011, p. 7), oil dependency means that the rents obtained from oil activities are the major "source of income relative to other value-adding activities". Ardani and Jaques (2010, p.34) define an oil reliant country to the state whose "fuel exports comprise at least 30 percent of total merchandise exports". As there is no academic agreement and clarity on the concept of oil dependency, for the purposes of this thesis oil dependent countries are defined as those states whose oil-based activities represent at least 50 percent of its total exports per year. These countries tend to rely on the exports of this single commodity (Odell 1986).

2.3.2. The effects of oil dependency

Oil constitutes a powerful force in shaping a country's international and domestic politics, as well as framing its governments' behavior (Friedman 2006; Kissane 2007; Ross 2012). The so-called 'oil curse' argues that oil-based economies seem to experience political and economic challenges, due to the 'unusual properties' of the revenues on which they rely (Ross 2012, p.5). The reliance on natural resources exports in the developing world is linked to the decline of its economic performance (Ardani and Jaques 2010), because this type of revenues is unusually large, easily hidden, unstable and unpredictable (Ross 2012).

Moreover, the proponents of this theory claim that as revenue from oil exports represents the most important state income, it *displaces tax revenue* (Ardani and Jaques 2010; Ross 2012). Rather than collecting taxes and royalties from foreign firms, governments' income is obtained from the oil sales of their national oil companies (Ross 2012, p.8). Additionally, oil-funded governments are not financed by citizens' taxation, therefore they depend on the sale of their national assets (i.e. the country's oil wealth) (Ross 2012, p.5). In this way, a large fraction of state income becomes *dependent on external capital and funds* coming from the demand of its oil, and thus undermining the expansion of other sources of state revenue. Additionally, the development of oil industry undermines the growth of other productive sectors, such as manufacturing and agriculture (Ross 2012), which makes oil exports even more critical to fund a developing state. Conversely, the detractors of the 'oil curse' approach affirm that important empirical and theoretical approaches have contested the argument of resource wealth causing economic difficulties in the developing world (Morrison 2013, p.1122). Oil is no longer seen as 'a universal acid', but instead as a powerful driver that can produce either positive or negative effects, depending on other circumstances. However, strong fiscal policy is considered a major factor in causing or preventing a 'resource curse' (Devlin and Lewin, 2004).

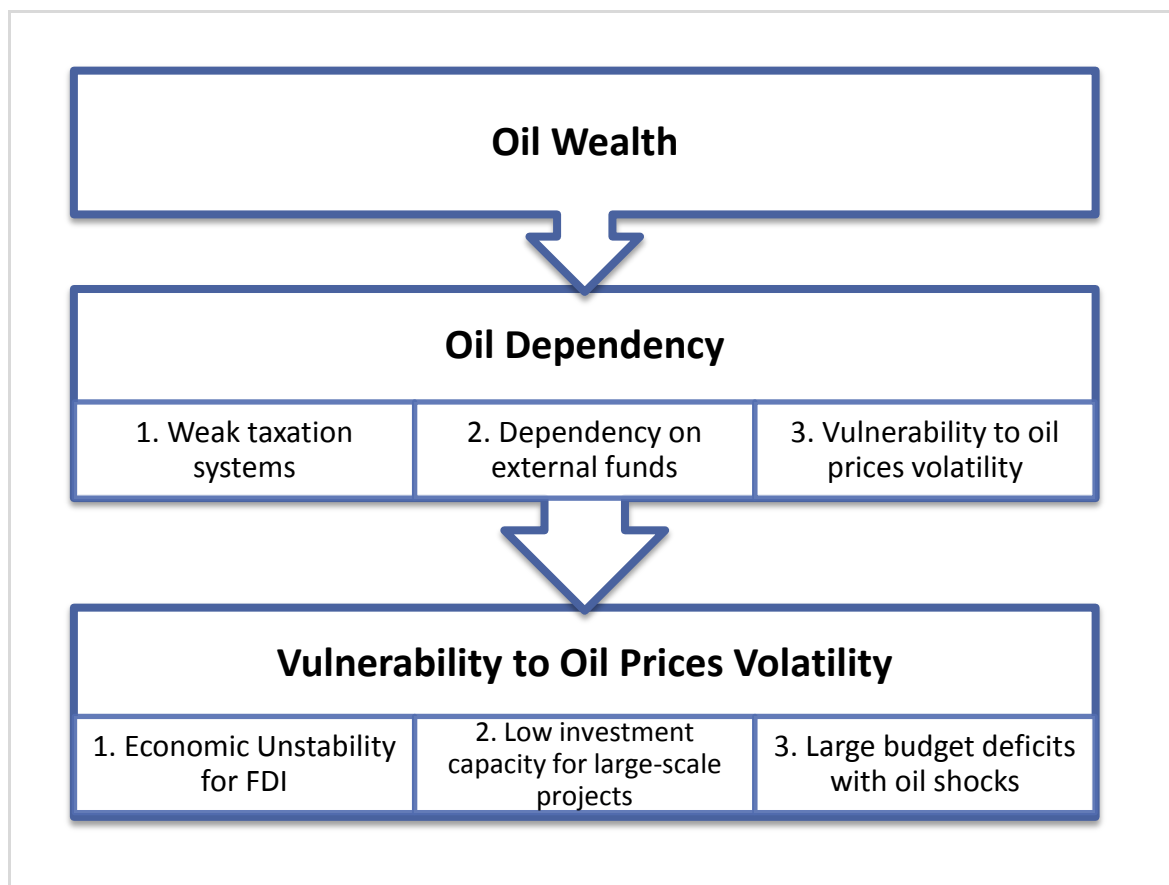
Apart from *weakening taxation systems* and causing *dependency on external funds* in oil-based economies, oil dependency is associated with high *vulnerability to the volatility of oil prices* in global energy markets. International oil prices are highly variable and more volatile than other commodities (Mehrara and Oskoui, 2007). The volatility of oil prices affects most oil-producing countries of the developing world, due to their reliance on oil exports (Cantore, Antimiani and Anciaes 2012, p.8). Large fluctuations in the finances of oil dependent governments are seen as an outcome of the volatility of global oil prices. Therefore, oil-dependent economies are considered more financially unstable than non-oil, but resource rich states (Ross 2012).

2.3.3. Volatility of global oil prices and foreign loans

Collier and Goderis (2008) argue that oil, as other non-agricultural commodities that produce high revenues, seem to have positive short-term effects, but unfavorable consequences in the long run. This is why high increases in the global oil prices create perceived economic prosperity and development, while they actually deteriorate state capacity (Karl 1997). Due to the volatility of international oil prices, oil investments are scarce and highly unreliable. Consequently, oil dependent developing states are thought to have a few investable capitals, which summed to the lack of fiscal funds, do not provide a *long-term domestic investment capacity* for large-scale projects. The macro-economic uncertainty and high risk levels for investment capital are more likely to *decrease FDI inflows* to oil states (Ross 2012).

Furthermore, governments are the main recipients of oil revenues in most oil-exporting countries, which place them at the center of national energy resource management. As a result, regimes constitute the channel through which oil revenues are injected into the economy (Mehrara and Oskoui 2007). Oil states are believed to have governments remarkably interventionist in domestic economy (Mazaheri 2014). In this way, the large fluctuation in governments' revenue and expenditure is transmitted from these changes in global oil prices to oil-based economies (Cantore, Antimiani and Anciaes 2012, p.8). Windfall oil revenues are believed to lead to unsustainable budgetary policies (van der Ploeg and Poelhekke 2009). Thus, when oil shocks occur, it can be suggested that governments with incipient oil revenue, high dependency of external funds, weak taxation system and unstable inflows of FDI may require other financial sources to restore their *large budget deficits*. Other sources of financing are less likely to reach the levels of oil revenues. It can be inferred, hence, that as oil dependent countries have limited sources of financing to hold their expenditure levels and, indeed, balance their budget deficits, they might resort to foreign loans when the prices of oil, and therefore their revenues, experience a sudden collapse.

Figure 3. *Dynamics in oil-rich countries in the developing world*



Source: Author's own elaboration

The abrupt fall of the global price oil from US\$147 per barrel in July 2008 to less than US\$40 in December 2008, and the reduction of international credit lines in international financial markets “left major oil (...) producers around the world struggling to raise funds to sustain investment programs, refinance short-term debts, and maintain robust social spending” (Downs 2011, p.38). In this situation, China was ready to ‘lend a helping hand’ (Downs 2011, p.38). From this argument, this thesis argues that *oil dependent counter-hegemonic states*, (1) limited to access credit, due to tense relations and loss of credibility of Western traditional creditors; (2) inspired by China’s development and representing important targets of Chinese oil diplomacy; and (3) affected by severe difficulties in their finances due to unexpected oil shocks, are the most suitable candidates to resort to Chinese loans when the prices of oil decrease. Therefore, the hypotheses that this research aims to test are:

Hypothesis 1: Oil dependent counter-hegemonic states are more likely to receive inflows of China’s loans than non-oil dependent counter-hegemonic states.

Hypothesis 2: The lower the global price of oil is, the more likely China’s loans to oil-dependent counter-hegemonic countries are to increase.

3. RESEARCH DESIGN AND METHODOLOGY

This thesis attempts to test the above-formulated hypotheses regarding to the effects of oil dependency on the inflows of Chinese lending to counter-hegemonic states, through a comparative case study, specifically *Mill’s Method of Difference* (Bennett 2011). Countries that have adopted or strengthened counter-hegemonic politics are the population to be studied. In order to isolate the analysis of the variable ‘oil dependency’, the first case study is an oil dependent country, while the second state is non-oil dependent. For this purpose, this research focuses on two counter-hegemonic countries of South America, which is one of the three strategic areas of Chinese oil diplomacy. This region has experienced a proliferation of left-wing or leftist regimes actively promoting counter-hegemonic politics³ in recent years and constitutes a traditional supplier of commodities to the world. Additionally, the presence of China in the area has increased without precedents in the past decade and a range of South American countries seem to be major recipients of Chinese lending (Downs 2011).

By the end of the 1990, the recurring crises experienced in South American economies gave way to the gradual emergence of anti-neoliberal movements, “culminating in a surprising political shift” of the region to the left and centre-left (Fernández and Hogenboom 2010, p.185). The election of Hugo Chávez as president of Venezuela in 1998 represented the rupture of the region’s loyalty to the

³ The rise of China and its growing interests in the region are seen as coinciding events with the upsurge of ‘homegrown’ counter-hegemony politics in South America (Xiang 2008).

Washington Consensus (Fernández and Hogenboom 2010, p.186). Since then, South America has evidenced the electoral successes of Lula da Silva and Dilma Rousseff in Brazil, Néstor Kirchner and Christina Fernández de Kirchner in Argentina, Tabaré Vázquez and José Mujica in Uruguay, Fernando Lugo in Paraguay, Ricardo Lagos and Michele Bachelet in Chile, Evo Morales in Bolivia, Rafael Correa in Ecuador, and Chávez's successor in Venezuela, Nicolás Maduro. Hence, this drastic political turn is considered the breakpoint of the decadence of the neoliberal supremacy in the region (Fernández and Hogenboom 2010, p.185-188). Financial and development institutions are increasingly aware of the rise of this new left, which has taken over the region in the form of social movements, political parties and regimes (Bédécarrats, Bastiaensen and Doligez 2012). In contrast, Colombia has maintained conservative leaders: Álvaro Uribe and Juan Manuel Santos. Peru has embraced an ambiguous position with Alan García and Ollanta Humala, and seems to be less distanced from U.S. foreign policy. Furthermore, in spite of its leftist politics, Chile holds a less concerted position with the rest of regimes in the region and has not clearly supported counter-hegemonic politics.

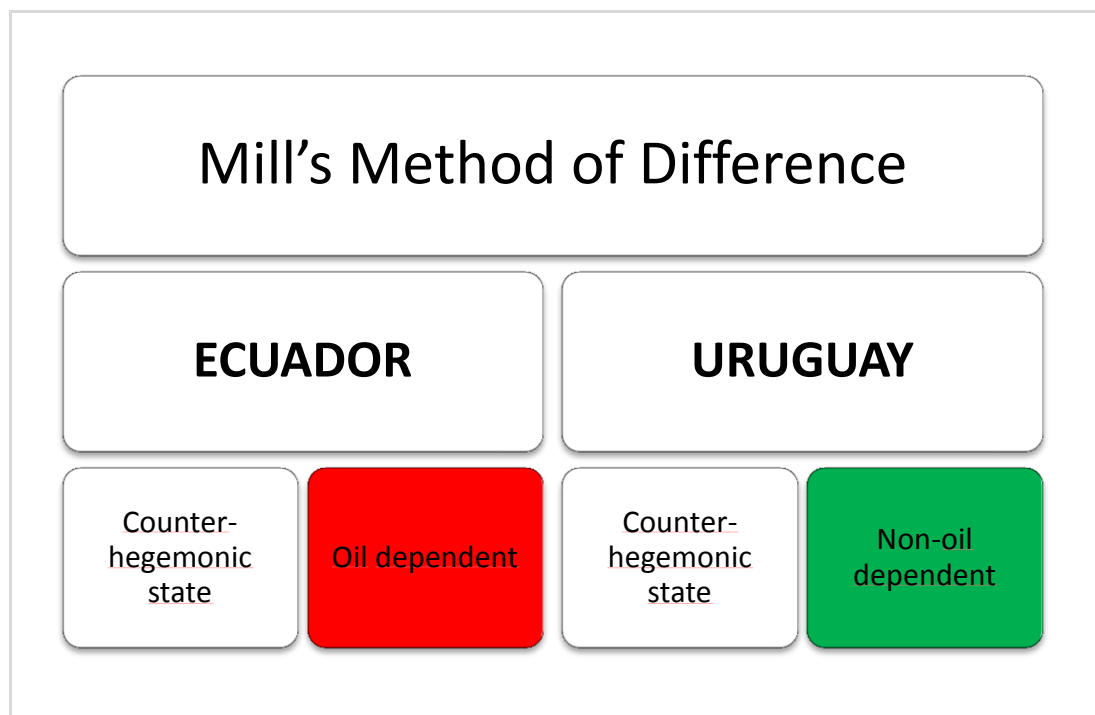
Some of these left-wing regimes have exacerbated profound anti-U.S. sentiments, while others have shown a greater political moderation and a less belligerent attitude toward the West. However, even the least radical counter-hegemonic regimes have contested the neoliberal orthodoxy that took over the region (Fernández and Hogenboom 2010) and modified their relations with IFIs. In fact, counter-hegemonic regimes in South America have rejected the U.S. initiative of the Free Trade Area of the Americas (FTAA) and most negotiations in the region failed. In addition, the strengthening of national sovereignty principles and the reluctance towards interventionist policies were embodied in the consolidation of a 'new regionalism' (Acosta and Gudynas 2004; Alzugaray Treto 2002; Carranza; 2004; Rojas Aravena 2012; Serbín 2014). This approach that encourages the separation of the region from neoliberal priorities contributed to the creation of alternative integration mechanisms, challenging the influence of the U.S. through the Inter-American system (Borda 2012; Laats 2009; Rojas Aravena 2012). In 2007⁴, the emergence of the Union of South American Nations (UNASUR⁵), constituted by twelve South American countries, aimed to undertake the activities carried out by the Organization of American States (OAS) in the southern part of the continent. Moreover, UNASUR's creation was intended to tackle policy priorities of the region, emphasizing political agreements over commercial ones (Diamint 2013), and support the region's aspirations to become a more prominent global player favoring the transition to a multipolar world (Serbín 2014). Even if the institutional development within the organization has slowly progressed, UNASUR has acquired a discourse and narrative-oriented identity that confronts U.S. policies and overtly excludes the hegemon from South American issues (Diamint 2013).

⁴ On April 2007, the Heads of State present at the South American Energy Summit (*Cumbre Energética Suramericana*) decided that the South American Community of Nations (*Comunidad Suramericana de Naciones*) would become the Union of South American Nations (UNASUR, *Unión de Naciones Suramericanas*).

⁵ According to its acronyms in Spanish

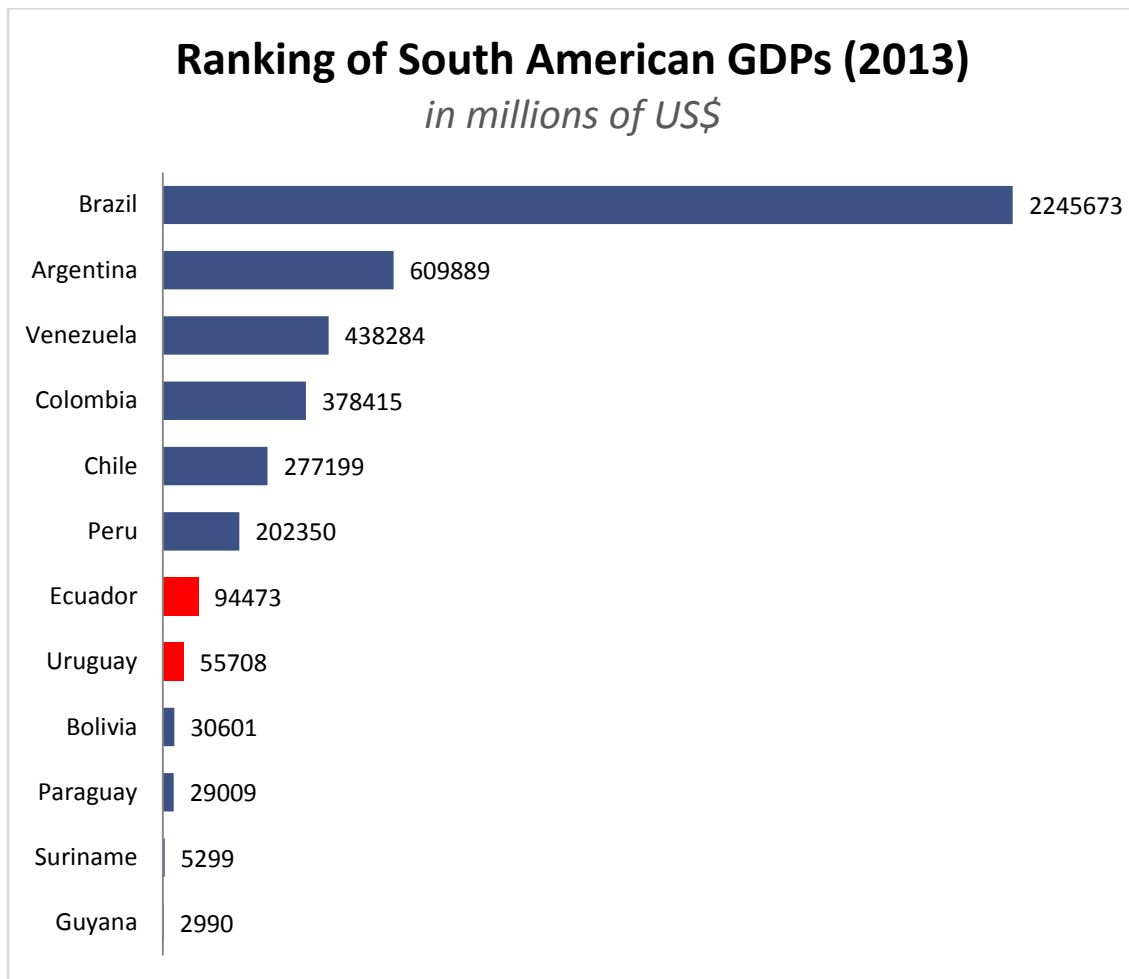
Based on this background, for the objectives of this thesis, Ecuador and Uruguay were selected as the cases to be analyzed. The period of study encompasses their adoption of counter-hegemonic politics since 2007 to 2014. Since then, two major oil price shocks have been experienced and until 2007, Chinese lending to the region was scarce. As mentioned, this thesis follows the criteria of the ‘most similar case’ (See Figure 4). These countries were selected, due to the characteristics that they share, i.e. they have a common colonial past, language and religion. These countries also constitute two small economies of South America (7th and 8th respectively) (See Figure 5). Politically, they have deployed active campaigns for the creation and implementation of regional mechanisms as alternatives to the OAS and its financial institution, the Inter-American Development Bank (IDB). Moreover, their counter-hegemonic regimes have condemned the effects that neoliberal policies promoted by the IFIs in the region. Ecuador and Uruguay faced severe economic crises in 1999 and 2002 respectively, and their exports are highly dependent on commodities.

Figure 4. *Research Design*



Source: Author's own elaboration

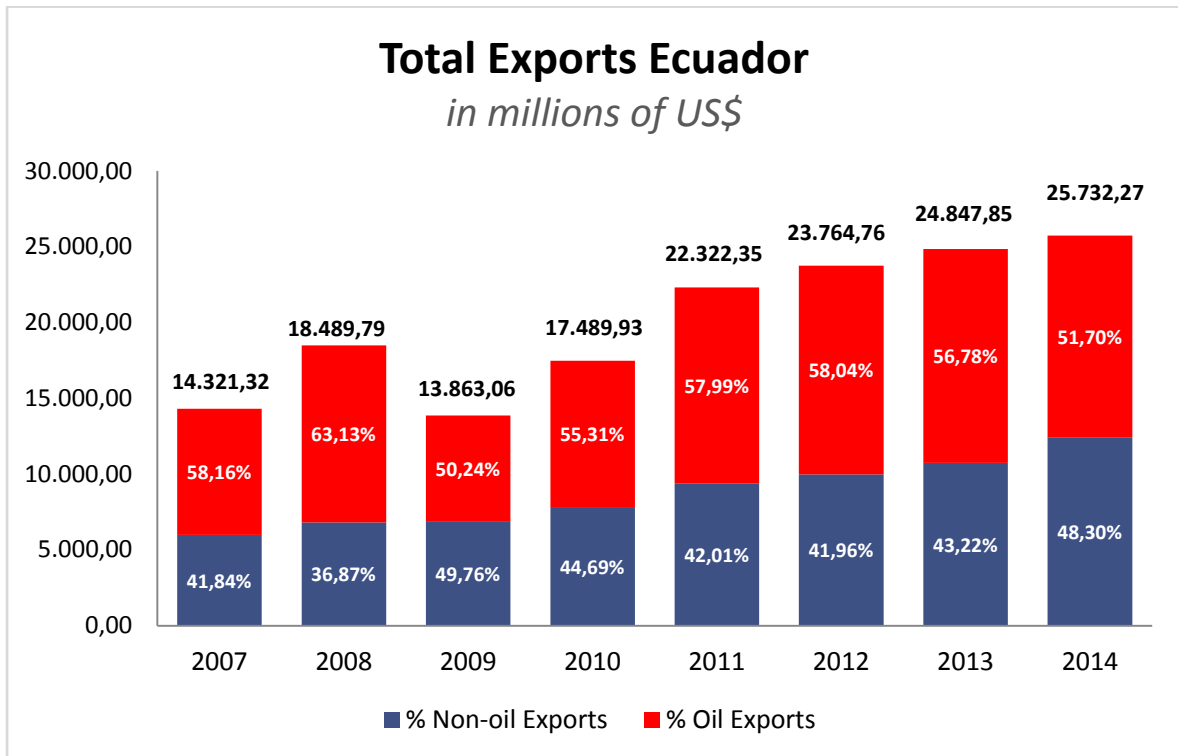
Figure 5. *Ranking of South American Economies (Members of UNASUR)*



Source: World Bank 2013

In 2006, Rafael Correa was elected as president of Ecuador by popular vote. Since 2007, when he assumed his presidential functions, Ecuador turned to the left and has maintained this political orientation and discourse until the present under Correa's leadership. As a result, the President has implemented several policies and executed actions to separate Ecuador from the influence of the U.S. and the Washington Consensus, which have been worldwide commented. In addition, Ecuador is an oil-dependent country. According to the definition given in the previous chapter of this thesis, this country has relied on oil-based activities on at least 50 percent of its total exports per year. Ecuador remains dependent on oil exports during the period to be analyzed (See Figure 6).

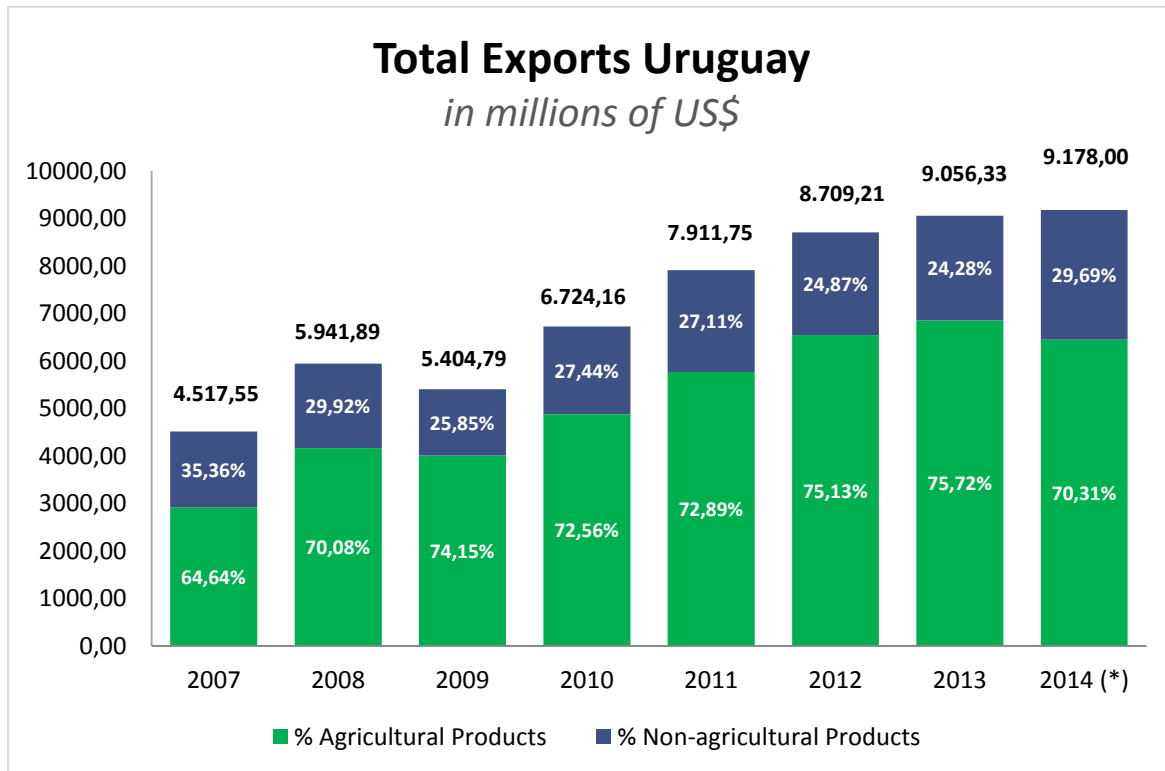
Figure 6. Ecuadorian Oil Dependency



Source: Central Bank of Ecuador (BCE), Monthly Statistical Information,(Boletines 1883 y 1995), 2015.

In the same way, Uruguay has experienced a long period of left-wing regimes. First, in 2005, Tabaré Vázquez started his first presidential term with the party *Frente Amplio*. After five years, in 2010, José Mujica became the president of this country, intensifying the leftist politics initiated by Vázquez with the same party. In 2015, Vázquez has started his second term of presidency. Particularly, Mujica is recognized globally as a detractor of neoliberalism. At the same time, Uruguay’s economy heavily depends of commodity exports. In contrast with Ecuador, these products have agricultural origin. Agricultural-related goods represent at least 50 percent of its total exports from 2007 to 2014 (See Figure 7).

Figure 7. Uruguayan Dependency on Agricultural Products



Source: Central Bank of Uruguay 2014; Uruguay's National Institute of Statistics, 2014; World Trade Organization (WTO) 2013.

(*)As the data for 2014 was not available at the main sources, information was gathered from further official sources: Uruguay XXI Investment and Exports Promotion and Uruguay's Chamber of Commerce, based on data of the National Directorate of Customs (DNA) 2014.

According to **hypothesis 1**, it is expected that Ecuador has received more inflows of China's loans than Uruguay, from 2007 to 2014. In addition, to test **hypothesis 2**, an oil shock (such as the experienced in 2009 and recently since June 2014) is expected to increase Chinese loans to the oil-dependent country. In this way, the global price of oil is expected to cause different effects in China's loans to Ecuador and to Uruguay. Moreover, a negative correlation between the oil price and China's loans in Ecuador is expected to be found.

On one hand, Ecuador is a particularly relevant case because unlike other counter-hegemonic oil states such as Venezuela, Russia and Iran, its macro-economic dynamics are not affected by other factors like sanctions and embargos established by external actors. Therefore, Ecuador constitutes an important country to study, in which oil dependency can be analyzed without running the risk of

measuring spurious effects caused by other strong factors that could explain the changes on the inflows of Chinese lending to counter-hegemonic states. These complementary variables won't be subject of analysis in this thesis, because its aim is to focus exclusively on the effects of oil dependency. This issue makes Ecuador an exceptionally appealing country to study this phenomenon. On the other hand, Uruguay presents the most similar characteristics to be compared with Ecuador to effectively analyze the effects of the variable 'oil dependency'. Furthermore, the presence of China in Uruguay has not been extensively studied in current scholarship.

This research is carried out with the use of mixed methods. First, counter-hegemonic politics adopted by Ecuador and Uruguay in the period from 2007 to 2014 are analyzed through *process tracing*, as well as their engagement with China's diplomacy. **Hypothesis 1** also is addressed with this method, and to test it, Chinese lending to these countries in this period is recounted. This study does not include exclusively loans-for-oil, but incorporates Chinese lending in other modalities and allocated in different sectors, besides oil-related projects. It is important to highlight that not all the loans granted by Chinese banks oil-backed. Nonetheless, those inflows provided to energy-wealthy countries usually are, and they constitute the majority of the portfolios of the CDB and China Exim Bank in South America (Alves 2013, p.101). The number, size and frequency of Chinese loans received are compared between the oil dependent country and the non-oil dependent. Furthermore, in order to provide evidence on the relation between oil dependency on counter-hegemonic states and the loans granted to them by China, a statistical analysis is carried out. As **Hypothesis 2** suggests, the relation between the independent variable (*oil dependency*) and the dependent variable (*inflows of China's loans*) is conditional upon the *global oil price* (identified as the moderator variable). The effect of the fluctuation of oil global prices on the inflows of China's loans to the oil dependent country is analyzed in a *multivariate OLS regression* model in which the moderator variable (*global oil price*) is used as the *independent variable*. West Texas Intermediate (WTI) oil price is the indicator for the global oil prices, measured in US\$, and in order to reflect significant fluctuation, the prices are collected on a monthly basis. WTI is widely available online and it is gathered from the monthly database of the U.S. Energy Information Administration (EIA). The inflows of China's loans are calculated in US\$, according to the dates they were granted. Official governmental documents are used as a primary source for data collection on the inflows of China's loans to Ecuador and complemented by statistical information available in financial reports, such as China-Latin America Finance Database⁶. Additionally, with the aim of enhancing the robustness of this regression model, it contains control variables, which include macroeconomic and other indicators that might influence the inflows of China's loans. GDP, FDI, trade with China (imports and exports), contracted loans from other providers, total state and tax revenues are measured in millions of US\$. Unemployment rates and the

⁶ This database is the outcome of a joint effort of the Inter-American Dialogue and the Global Economic Governance Initiative at Boston University and it is updated to 2014.

access to international capital markets, measured with the scores of the Emerging Market Bond Index (EMBI -JPMorgan), are also integrated to the model as control variables. Exchange rate is not included, since Ecuador does not have its own currency. Its economy officially adopted U.S. dollars in 2000. As with WTI, observations of these control variables are collected on a monthly basis⁷. This data is mainly obtained from Ecuadorian governmental sources, such as databases of the Central Bank (BCE), Ministry of Finance, National Statistics Institute (INEC), Internal Revenue Service (SRI) and statistical records of international organizations (such as the IMF) that contain data reported by Ecuador itself. Both the independent and control variables include a one-month lag (i.e. each monthly observation reflects a value of the previous month) to account for the (short) period of arrangements that precede a loan agreement. Finally, the independent and all control variables are standardized to make the coefficients (and thereby the size of the effects) in the regression model comparable.

4. ANALYSIS

As soon as South America politically shifted to the left, most countries in the region have reduced their dependency on the IFIs' capital, by developing a regional and national approach to 'financial sovereignty'. In order to achieve it, Argentina and Brazil in 2005, Uruguay in 2006, and Venezuela and Ecuador in 2007 paid off entirely their debt to the IMF, due to their favorable economic performance and high global prices of commodities (Ojea-Quintana 2008; Racovschik 2010). By 2007, only Peru and Paraguay were bounded to new commitments with the IFIs. In 2008, Latin America's debt represented only 1 percent of the loans portfolio managed by the IMF. The region represented 80 percent of its 81 billion dollar portfolio in 2005 (Ojea-Quintana 2008, p.739). Simultaneously, the creation of UNASUR and its remarkable counter-hegemonic rhetoric have been accompanied by the emergence of a regional monetary and financial institution, the Bank of the South. It represents one of the main efforts to break the region's dependency to the funds provided by the IMF, World Bank and IDB. In 2007, the former president of Venezuela, Hugo Chávez, presented this initiative and together with the presidents of other South American republics, signed the Bank of the South's Foundational Act. When proposed, Argentina, Bolivia, and Ecuador immediately joined the initiative. In a later stage, Brazil, Paraguay, and Uruguay expressly showed their support. In 2008, Chile, Colombia and Peru decided not to join the project (Ojea-Quintana 2008). The bank has not gained major significance yet.

At the same time, besides prioritizing South American integration, the region started to diversify its economic and political relations with rising powers and other developing countries. The commercial relations between South America and China started to intensify during the early 2000s. However,

⁷ In case that monthly measures are not available, quarterly data is collected and repeated over the course of three months.

Chinese investments and lending to the region only gained momentum in the last years of the decade (Gallagher, Irwin and Koleski 2012). Chinese lending to South America was incipient until 2007 (Sanderson and Forsythe 2013, p.139). Between 2002 and 2007, besides trade, China's engagement with the region was mainly related to economic assistance and \$1950 millions in concessional loans were granted in total to Latin America (far behind from Africa and South East Asia) (Lum 2009). China's increasing interest in the region has been connected, until the present, to the production and exploitation of natural resources and agricultural commodities (Lum 2009). Since the separation of South American regimes from the influence of U.S. foreign policy priorities, Chinese capital has been welcomed, promoted and perceived as a sort of 'non-imperialist' South-South relation (Hogenboom 2014)⁸. In 2010, China's loans to Latin America reached \$37 billion, a larger amount than the commitments with the World Bank, IDB, and U.S. Export-Import Bank combined (Gallagher, Irwin and Koleski 2012, p.1; Sanderson and Forsythe 2013, p.139). Currently, China constitutes an important source of funding to South American countries that have limited access to global capital markets. As Chinese loans are not subject to policy conditionalities like the capital of IFIs and Western banks (Gallagher, Irwin and Koleski 2012), this practice has converged with the regional approach to 'financial sovereignty' already mentioned. Moreover, Chinese lending is oriented to long-run large-scale projects related to infrastructure and industrial development, rather than Western development neoliberal formulas that were allegedly needed in the region and that supposedly caused the economic collapse of the region.

In this way, current Chinese lending practices, and in particular the modality of loans-for-oil, have displaced the approach to economic assistance held by China in previous years. These loans provided to oil-wealthy states in the region are secured by the revenues originated from of the oil sales of national producers to CNOCs throughout the repayment period and negotiated at international market prices (Alves 2013; Gallagher, Irwin and Koleski 2012; Sanderson and Forsythe 2013). Most of the negotiating firms are subsidiaries of the CNPC or Sinopec. It is commonly assumed, nevertheless, that the commitments on providing determined quantities of oil to China are a mere exchange for financing, and South American states lose revenues when the global oil prices increase. Hence, it is important to clarify that most Chinese loans-for-oil to South America are based on market prices, which determine the quantities of oil to be delivered (Gallagher, Irwin and Koleski 2012, p.3). This is why the global oil price is a relevant factor to analyze this phenomenon. A particular characteristic of Chinese oil-secured loans is that the involved financial institution (i.e. CDB, China Exim Bank and others) does not have a direct claim on the resource itself, but instead on the revenue gained from the sales of oil and other energy materials delivered to Chinese firms. CNOCs transfer the payments for the supplies of energy resources to the borrower's account at the lending institution, as a way to guarantee the

⁸ According to Xiang (2008, p.51) South American leftist regimes have seen 'China's model' as "a successful model of defiance against the U.S. power and as a useful vehicle in their efforts to break the yoke of the Monroe Doctrine".

repayment of the debt. Then, the creditor, for instance the CDB, is entitled to withdraw from it the fees, interest and capital that the recipient of the loan owes to the bank (Alves 2013, p. 101; Downs 2011, p.39). Oil-based loans are backed by long-term contracts (up to 30 years) for the delivery of oil supplies (Hogenboom 2014, p.633). The income for oil producing countries generated from the sales of oil to China is believed to be considerably larger than the amount necessary to cover the service of the loan (Sanderson and Forsythe 2013, p.133). At the same time, the oil-related cooperation between China and its borrowers is seen as “smartly institutionalized” and the loans as efficiently designed and regulated, so that the lending institution minimizes its risks and the profits are largely guaranteed (Hogenboom 2014, p.635). With this overview on the regional situation on counter-hegemonic politics, and Chinese involvement and lending, the following sections address these issues for the case studies: Ecuador and Uruguay.

4.1. ECUADOR

4.1.1. Ecuador adopts counter-hegemonic politics

In the late 90s, Ecuador, heavily indebted as most South American countries, adopted the Structural Adjustment Programs (SAPs) designed by the IMF. Austerity, privatization and economic liberalization were implemented through policy and normative means (Saadatmand and Toma 2008). However, the collapse of the Ecuadorian economy in 1999 and its subsequent dollarization, brought back the debate about the effectiveness of these neoliberal policy reforms, the reduction of state involvement and the changes in the national economic architecture. A strong opposition to the IMF-induced restructuring gained force in the post-dollarization years. In 2005, the perceived economic hardship imposed to Ecuador by the IFIs was widely condemned within the government of that time. Rafael Correa, current president of Ecuador, occupied the position of Minister of Economy and urged for ‘financial sovereignty’ of the country towards IFIs. Thus, Correa’s electoral victory in 2006 brought a new approach of Ecuadorian relations with these multilateral financial organizations and U.S. foreign policy. Due to the perceived North-South relations ruled by imperialism, Correa engaged since 2007 in a radical process to separate the country from the conditioned loans and core orthodox policies (Ajl 2007; Rosales 2013). Ecuador started diversifying its sources of financing, placing its attention in China, Russia and Brazil⁹. Furthermore, the representative of the World Bank in Ecuador, Eduardo Somensatto was declared ‘*persona non grata*’ and Ecuador paid off its US\$9 billion-debt with the IMF to move away from its traditional creditors (Zicolillo 2013). Some authors, including Ajl (2007, p.20),

⁹ More details about this new approach brought by Correa’s government can be found in the interview carried out by the journalist Jorge Gestoso in 2012, in program De Frente de Global TV. Fander Falconí, close collaborator of the regime and former Minister of Planning and Development and Francisco Carrión, former Minister of Foreign Affairs also contribute to the interview with further insights about the relations between Ecuador and the IFIs, web: <http://bit.ly/1GG07KI>

interpreted Correa's decision as a retaliation against the World Bank's suspension of a US\$100 million- credit line to Ecuador in 2005.

Further measures to reverse a long period of neoliberalism include the revitalization of the state participation in the country's economy and the state control of strategic resources and sectors (i.e. water, electric energy, natural resource extraction, and telecommunications) (Rosales 2013; Zicolillo 2013, p. 102). Moreover, the termination of the lease of Manta's airport as a U.S. military base meant for the country the recovery of its national sovereignty, which was lost with the hegemon's intervention (Benassi 2009). In a state trip to China, Correa explored the possibility of converting Manta into a major international airfield to intensify the commercial exchange with the Asian country (Ellis 2009, p.123). Additionally, the increasing role of the military in the country is believed to be a consequence of the tensions towards the OAS, and "the failure of neoliberal and globalist policy coalitions to establish and maintain a hegemonic consensus over political power and national policy" (Avilés 2009, p.1550).

After the hesitant position of previous governments (Ponce 2003), the negotiations for the creation of the FTAA finally failed, simultaneously with the decision of other countries in the region not to join the initiative. Stronger alliances with the governments of Venezuela, Bolivia, Cuba and Nicaragua were promoted. As a result, the prioritization of South American integration was framed in the active participation of Ecuador in a regional process of 'decolonization' from the influence of the U.S. by its engagement in UNASUR and the Bank of the South (Ajl 2007). Restructuring the financial architecture of the region towards 'sovereign financing and lending' was a pillar deeply supported by Correa's leadership (Ajl 2007; Ojea-Quintana 2008). Together with Venezuela and Bolivia, Ecuador has engaged in a socialist project with counter-imperialist and post-liberal characteristics, extremely critical to the modern concepts of development imposed to the developing world (Rosales 2013, p.1445).

4.1.2. China's presence in Ecuador

The escalated tensions in the relations between Ecuador and the IFIs, as well as the distress towards Western transnational corporations, converged with the increasing involvement of China in the region. Ecuador and China, engaged with the promotion of South-South cooperation, the principle of non-intervention and the multipolarity of the world order (Hirst 2008), have strengthened their political and economic ties. Before 2007, the interest of China was already concentrated in Ecuadorian energy resources (Ellis 2009, p.122). With the purchase of Ecuadorian assets of the Canadian oil company, EnCana, by a Chinese oil consortium, in 2005 Ecuador became the largest recipient of Chinese capital in the region (Hogenboom 2014). China kept its involvement in the energy sector of the South

American country by financing refinery and oil transportation projects. State visits to China from Ecuadorian leaders are regular since recently, although no Chinese leader has planned an official trip to Ecuador (Ellis 2009, p.123-124).

China's interest in the oil sector of the South American country is not only due to Ecuador's vital necessity to sell its oil abroad to sustain its economy, but for its political environment favorable to the operations of the Asian country. Since 2007, the reforms implemented in the Ecuadorian oil sector have opened up opportunities for Chinese banks and oil companies to become essential partners of the country. These policy measures consisted of, in the first place, an official rise in the state's share of windfall oil profits from 50 to 99 percent. Subsequently, the National Assembly resolved to allow exclusively oil servicing contracts, rather than profit-sharing agreements. Consequently, the ongoing deals, from that time, with transnational oil firms were subject of renegotiation. As several companies decided to terminate their operations, Ecuadorian state companies came to control a large share of the oil sector, opening multiple areas for oil concessions (Hogenboom 2014, p.639-640). In this way, CNOCs have taken over the spaces left by Western companies (Leiteritz 2009) and have rapidly become essential providers of capital inflows. CNOCs consider Ecuador a strategic insertion point to other South American countries (Báez 2013; Hogenboom 2014). The country's low domestic consumption to secure steady supplies of energy to China, its ports and its pipelines directed to the Pacific coast, among others characteristics, facilitate China's involvement in Ecuador (Ellis 2009). Moreover, China's lending has emerged as the main financing source for Ecuador, in a time when its debt default closed its access to international capital markets and the volatility of prices in global energy markets kept its economic performance uncertain and unstable. In sum, this evidence suggests that Ecuador constitutes an important target of Chinese oil diplomacy and critical point of expansion for China's financial and commercial ambitions to the rest of the region. The counter-hegemonic politics adopted by Ecuador have not only brought together politically to both countries, but has also facilitated the financial involvement of China in the country.

4.2. URUGUAY

4.2.1. Uruguay turns to the left

After a long period of neoliberal governments and the collapse of Uruguay's economy in 2002, the elections of 2004 evidenced the success of the left-wing government under the leadership of Tabaré Vázquez (member of the party *Frente Amplio*). The main challenge of Vázquez's government, as for all regimes in the region that promoted counter-hegemonic politics, was the social, economic and political pressure from traditional elites, IFIs, U.S. government agencies, transnational corporations and other conservative forces, which attempted to limit the 'emancipatory profile' of the new regime

(Chávez 2008, p.149). The leading party presented a strong criticism to neoliberal policies governing Uruguay, the prioritization of state reforms and its increasing participation in the country's economy, the rejection of privatization (Lanzaro 2004, p.5) and the strengthening of South American integration (Chávez 2008, p.164).

The conservative political branch of Uruguay was exploring the possibility to negotiate a bilateral free trade agreement (FTA) with the U.S., after the regional negotiations for the creation of a FTAA failed. The discussions on this matter only evidenced the fragmentation and polarized opinions within the Uruguayan left. The membership of Uruguay to MERCOSUR and the regulations of its external common tariff did not allow this country to continue with such negotiations. Thus, the possibility of Uruguay leaving the economic bloc was debated. The negotiations expanded to 2005, and with Vázquez as president, in spite of the divisions within the party, a large majority was inclined to prioritize South American 'leftist' integration over strengthening the influence of U.S. in the country. The president tried to maintain a conciliatory position holding an ambiguous discourse; nevertheless, in 2006, Vázquez finally announced the withdrawal from the negotiations (Chávez 2008, p. 179-180). This decision signified for Uruguay the further support to the creation of South American entities such as UNASUR and the Bank of the South to displace the U.S.-dominated Inter-American system and its influence in the region. Vázquez strengthened its alliances with the governments of Venezuela, Brazil and Argentina that held similar political agendas (Vilas 2005, p.96). Moreover, after several years of cutting diplomatic ties with Cuba (Fernández-Luzuriaga 2003), Vázquez reestablished them. This government faced several difficulties, as others in the region, during the transition period of moving away from the dominant neoliberal policies to a counter-hegemonic agenda, due to the few and slow changes in the orthodox management of the economy (Schmal 2011).

In March 2010, José Mujica, a former militant of the rebel group *Tupamaros*, became the new president of Uruguay and accentuated the implementation of counter-hegemonic politics in Uruguay. Mujica held a stronger anti-neoliberal discourse¹⁰ than the previous government and revived Uruguayan interest in MERCOSUR (Clemente-Batalla 2013). Mujica has also defended the principle of non-intervention in domestic affairs and respect to sovereignty since he was member of the Uruguayan Senate (Fernández-Luzuriaga 2003). South American integration and the newly created institutions have been once again highlighted in his years of government¹¹ and the strengthening of ties with other leftist regimes of the region. An important case is Mujica's support to the regime of Nicolás Maduro, when Venezuela experienced a political turmoil during its government change and his

¹⁰ Remarkable examples of Mujica's anti-neoliberal rhetoric are his speech addressed to the United Nations General Assembly in 2013 and UN Conference for Sustainable Development Río +20 in 2012. See Russia Today, "Pepe Mujica: el hombre que cambió la forma de hacer política", web: <http://actualidad.rt.com/Mujica-hombre-cambio-forma-politica>; and UN Webcast, web: <https://www.youtube.com/watch?t=540&v=wl2nMudbSm8>

¹¹ Mujica's speech addressed to the state members' representatives in the Summit of the Community of Latin American States (CELAC) in 2014. See Cuba Debate, "El discurso de José Mujica en CELAC: Tenemos que integrarnos", web: <http://bit.ly/1BIGr5P>

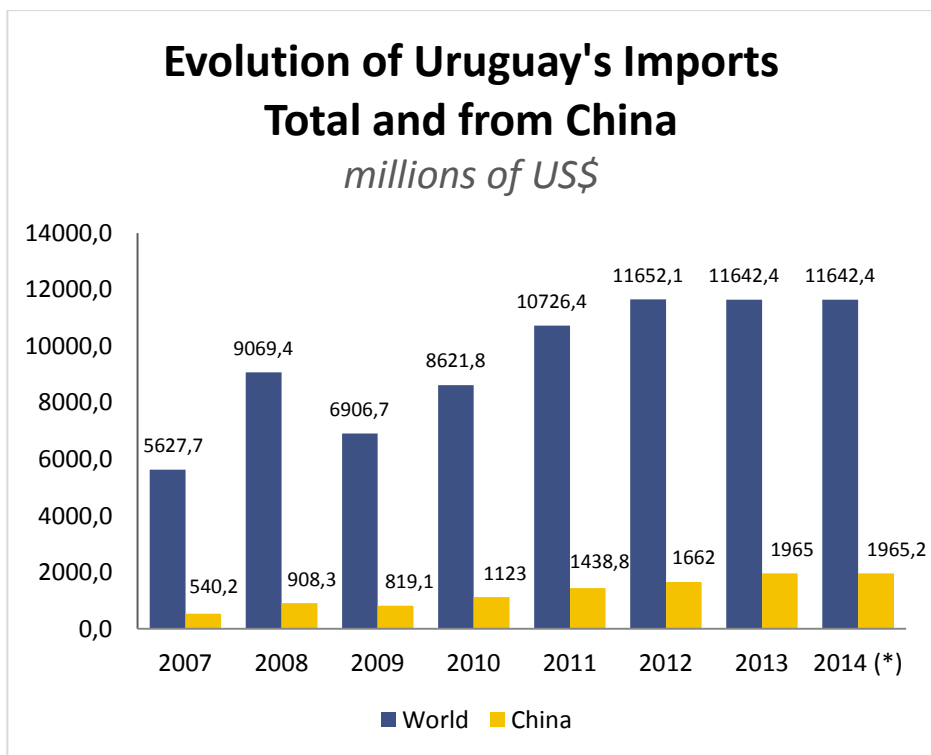
rejection of U.S. intervention (Telesur 2014). UNASUR also presented a concerted support in this case and rejected the sanctions of the U.S. against Venezuela¹².

4.2.2. Uruguay and China

China and Uruguay established diplomatic relations in 1988, but only until 2001, the former President of China, Jiang Zemin, visited Uruguay for the first time (Mrozinski et al. 2010). Since then, all democratic regimes of Uruguay have planned state visits to China (Bartesaghi and Mangana 2013). One of the main pillars for the relations between both countries is commercial exchange. Trade between Uruguay and China has increased considerably during the last decade (Mrozinski et al. 2010, p.200) (See Figure 8 and 9). China has become a vital commercial partner to Uruguay, and together with Brazil, leads the list of suppliers and buyers of products to and from Uruguay, displacing traditional partners. The U.S. occupies currently a less relevant position among Uruguay's main trade partners. In 2014, the imports from China to Uruguay increased in 10 percent compared to the total imports of 2013. China became the main supplier of imported products to Uruguay, ahead of Brazil (Uruguay XXI 2014) (See Figure 10). The increase of Chinese imports has not been restricted, so far, with protectionist measures (Bartesaghi and Mangana 2013, p.324). Furthermore, in the case of exports, China has gained an increasingly importance in Uruguay's economy. China constitutes the main buyer of Uruguayan products of agricultural origin such as soya, bovine meat, wool and textiles, cellulose and to a lesser extent, of dairy products (Uruguay XXI 2014). Uruguay constitutes China's second provider of meat (Presidencia de la República Oriental de Uruguay 2014). The growth of several sectors such as the production of soya and cellulose paste has attracted FDI not only from China but from other investors (Bartesaghi and Mangana 2013). In 2014, it became the main destination of Uruguayan products, including the exports from the Free Trade Zones (excluding them Brazil occupies the first position) (See Figure 11). Compared to 2013, total exports to China increased in 16,7 percent.

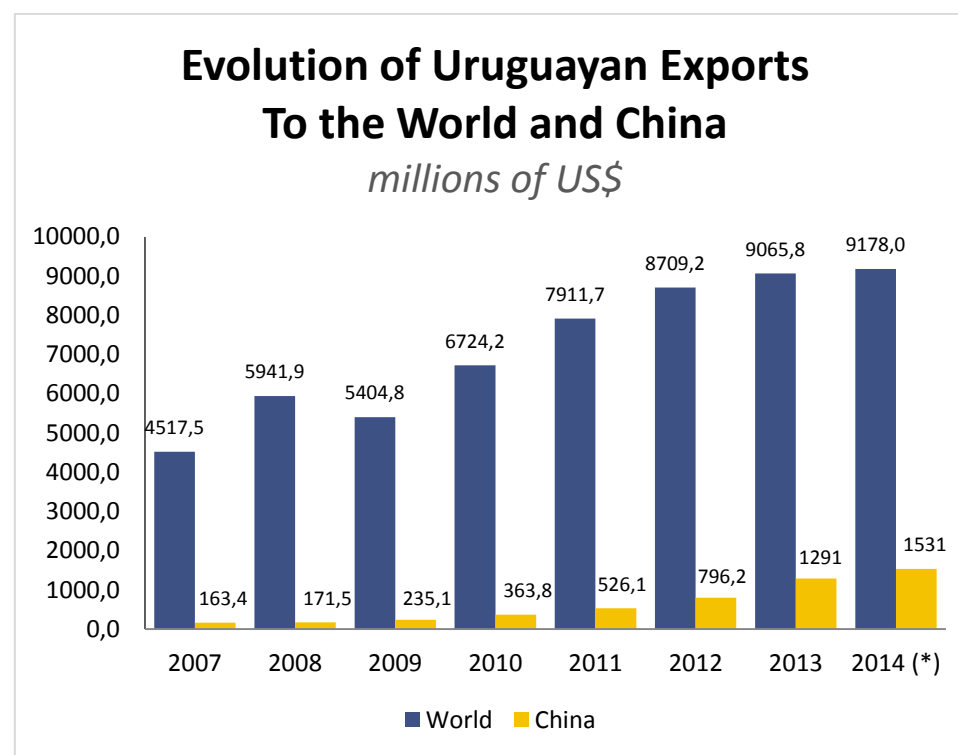
¹² Maduro's speech broadcasted by the public TV channel TELESUR in 2015, *See* TELESUR "Alba y Unasur respaldan a Venezuela: Maduro", web: <http://bit.ly/1LC59Vv>

Figure 8. *Evolution of Imports from China to Uruguay*



Source: UN COMTRADE 2013.

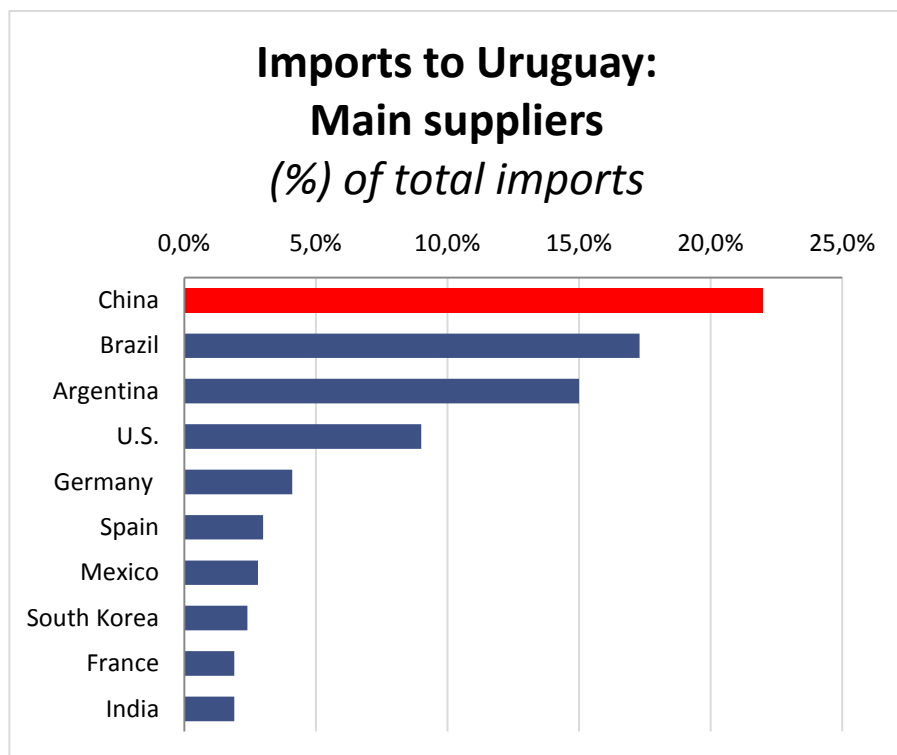
Figure 9. *Evolution of Exports from Uruguay to China*



Source: UN COMTRADE 2013.

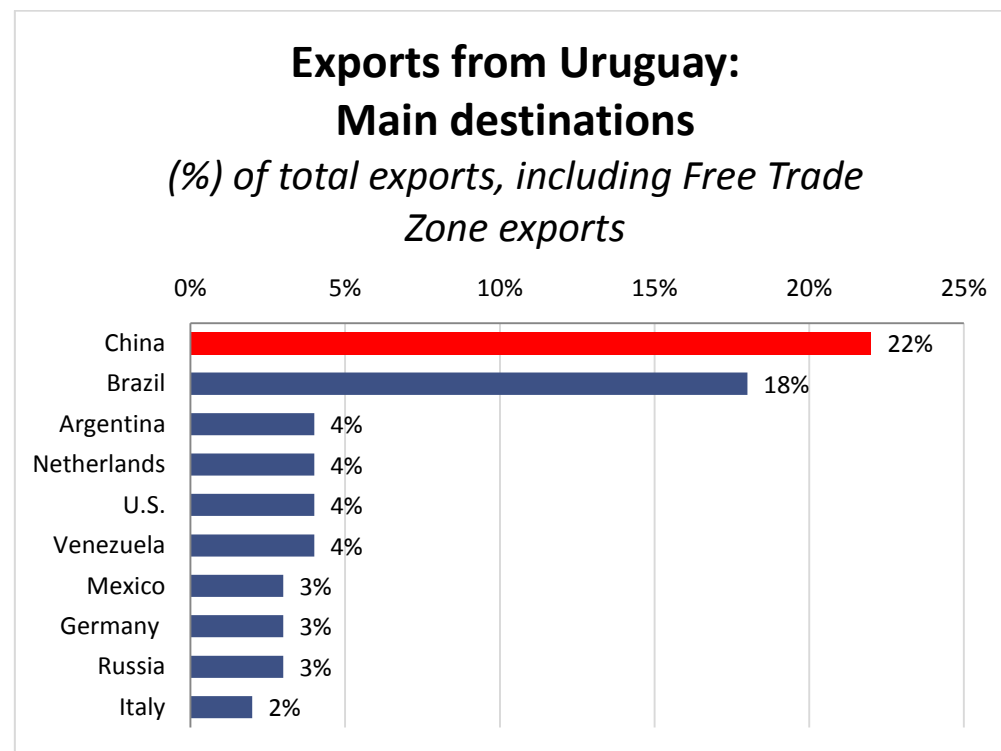
(*)As the data for 2014 was not available at the main source, information was gathered from the official source: Uruguay XXI Investment and Exports Promotion, based on data of the National Directorate of Customs (DNA) 2014.

Figure 10. Imports to Uruguay: Main Suppliers



Source: Uruguay XXI 2014.

Figure 11. Evolution of Exports from Uruguay to China



Source: Uruguay XXI 2014.

An important obstacle for Chinese-Uruguayan trade is the geographic location of Uruguayan ports in the Atlantic coast, which makes transportation of merchandise less efficient. Nonetheless, during Vázquez's regime, expanding trade with China and attracting more investment to the country were major priorities. In fact, Uruguay opened up the possibility of negotiating favorable terms for a free-trade accord with the Asian country, outside its commitments with MERCOSUR (Ellis 2009, p.77). Additionally, Mujica as president *pro tempore* of MERCOSUR encouraged the members of the bloc to prioritize commercial relations with China, besides Latin America. Uruguay presented the proposal to sign a joint declaration with the Chinese Prime Minister Wen Jiabao, in order to advance with the negotiations to establish a free trade zone between China and MERCOSUR (Clemente-Batallas 2013). Mujica has showed through his political discourse the importance of privileging relations with China over those with traditional Western powers (Presidencia de Uruguay 2014). At the same time, Uruguay has approached the challenge of keeping mutually beneficial relations with the Asian giant, acknowledging that the South American country is one of the smallest economies in the region and its relations with China imply a large asymmetry (Bartesaghi and Mangana 2013). Uruguayan manufacturing sector has to compete with Chinese merchandise and its very competitive market prices (Ellis 2009). In spite of these differences, both countries have also encouraged institutional cooperation in agricultural production, quality certification and technology. Commercial and political favorable relations between Uruguay and China have also boosted entrepreneurial and corporative relations, mainly related with the exchange of goods and services (Bartesaghi and Mangana 2013; Uruguay XXI 2014).

This evidence suggests that Uruguay merely constitutes a market for Chinese products in South America and a minor provider of agricultural products to China to address its food security issues, rather than a main target of Chinese diplomacy. Furthermore, the slow separation of Uruguay from U.S. and Western policy has brought more interest to and openness towards China. Political relations seem to share several common principles such as non-intervention and sovereignty protection, characteristic of most leftist regimes of the region. However, Uruguayan-Chinese diplomatic relations have not significantly transcended commercial exchange. Additionally, China's FDI to Uruguay has been concentrated in the automotive and textile industries; nonetheless, it does not lead the main sources of FDI inflows to Uruguay (Uruguay XXI 2014a). In 2014, the Chinese Railway Corporation presented a project to Uruguay to restore 145km of its rail network, in order to transport merchandise (paper and cellulose) by 2017 (Morales, Fonseca and Gómez 2014, p.32). This proposal opens up the prospects of increasing Chinese investments in the country.

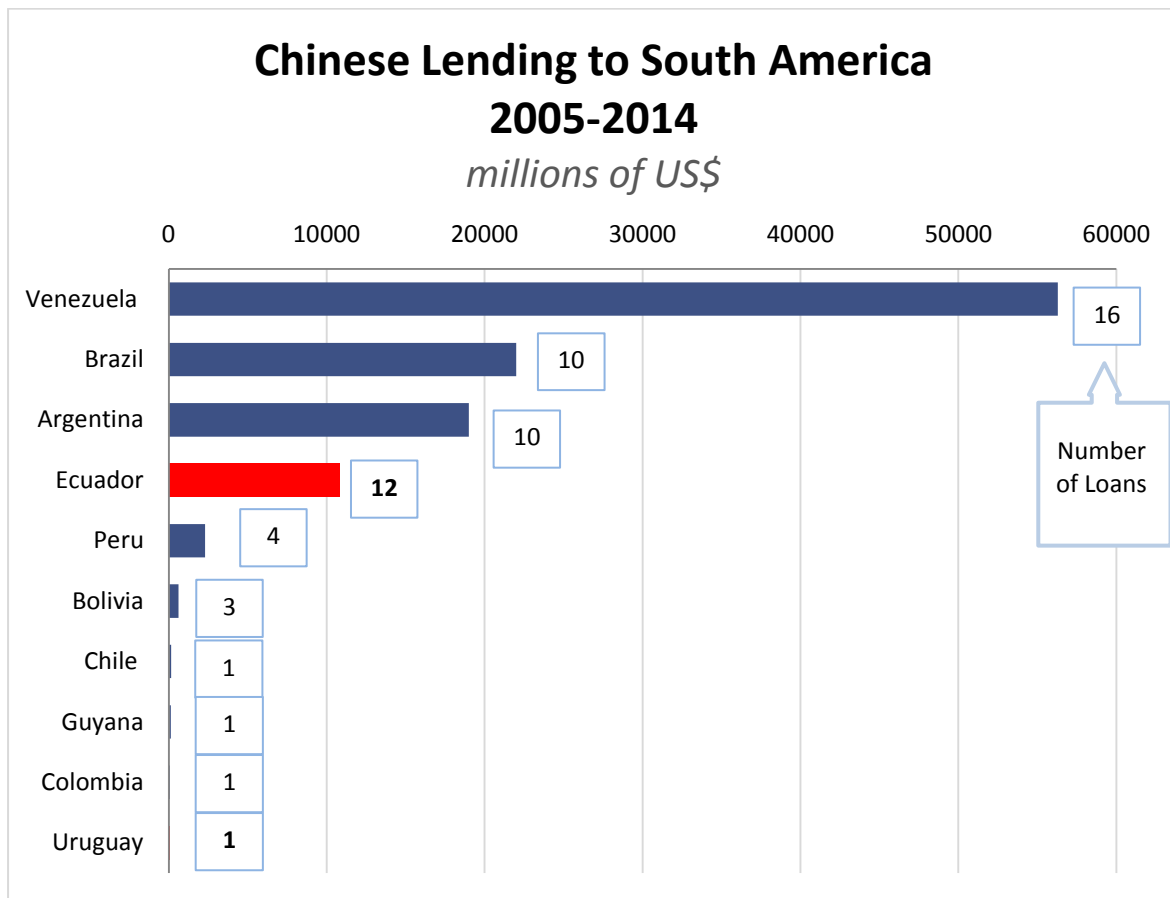
4.3. TESTING HYPOTHESES

4.3.1. Hypothesis 1

According to the previous sections of this chapter, the leaders of Ecuador and Uruguay have deployed several actions (more radical in the case of Ecuador) and adopted similar principles to separate their countries from the influence of the Washington Consensus and the U.S. agenda. They have advocated for multipolarity in the international system, in order to position South America as a more relevant player. Both countries have also strengthened their political ties and economic relations with China. At the same time, it seems that the Asian country is interested on guaranteeing its steady supplies of natural resources from both countries. Nevertheless, the Chinese diplomatic approach to these South American countries is significantly different. In this regard, Chinese lending to Uruguay and Ecuador registers no similar patterns and it seems that oil dependency actually affects these dynamics.

At regional level, Ecuador and Uruguay constitute the 7th and 8th economies respectively, as mentioned in the previous chapter. However, as destinations of Chinese lending, the quantity, size and frequency of the inflows of loans received from 2007 to 2014 differ considerably. On one hand, Ecuador, the oil dependent country, occupies the 4th position in the regional ranking, with a total amount of US\$10,8 billion on Chinese loans (Banco Central del Ecuador 2015), after noticeably bigger economies such as Venezuela (US\$56,3 billion), Brazil (US\$22 billion), and Argentina (US\$19 billion). On the other hand, Uruguay (the non-oil dependent country) has received only one loan, in the same way as Chile, Guyana and Colombia. Uruguay is the regional borrower with the lowest amount of Chinese funds, which reach US\$10 million (See Figure 12) (Gallagher and Myers 2014). Chinese lending to Uruguay constitutes approximately 10 percent of the total amount granted to Ecuador. Additionally, Ecuador has received 15 inflows of loans in total (See Table 1). In figure 12, however, the loans agreed on the same dates have been grouped as one (i.e. two loans registered on June 2011, and three loans agreed on December 2015), reducing the number of observations to 12 loans. China introduced this contemporary lending practice mainly targeting oil-producing countries in 2005, when it offered to Brazil an inflow of US\$201 million. After 2007, Chinese funds to the region increased drastically, consolidating the loan-for-oil modality and engaging several regimes of the region. Venezuela and Brazil are the main oil-producing and oil-wealthy countries of the region, and lead the destinations of Chinese lending to South America. Some of the most remarkable cases that illustrate this lending practice include the loans provided by the CDB to Petrobras (Brazilian oil company) of US\$10 billion in 2009 in exchange of the production of 200.000 barrels of oil per day, and in 2010 to Venezuela for the quantity of 200.000 to 300.000 barrels per day (Jenkins 2012, p.1345). Until 2012, it is estimated that 91 percent of the total of China's loans to Latin America were concentrated in four destinations: Venezuela, Brazil, Argentina and Ecuador, and two thirds (from the total in the region) are believed to be oil-backed (Gallagher, Irwin and Koleski 2012, p.5).

Figure 12. *China's loans to South America*



Source: Gallagher, Kevin P. and Margaret Myers 2014, "China-Latin America Finance Database," Inter-American Dialogue; Ministry of Finance of Ecuador 2015.

At national level, the inflows of Chinese loans to Ecuador include the so-called contracts of ‘advance payments for oil sales’, between the state companies PetroEcuador and PetroChina. Since mid-2009 (when a big shock on the global oil prices was experienced) Ecuador started receiving large inflows of Chinese financing. Besides the dates when the official agreements between China and Ecuador are signed, most official documents (agreements and contracts) of the Ecuadorian Ministry of Finance stipulate the exact times when the loans have been authorized at domestic instances. These operations, normally, precede the official agreement. Thus, this chronology suggests that before the loans were officially granted, only a short period of arrangements was needed (i.e. from two or three days to a maximum of two months). Moreover, China Exim Bank and the CDB appear as the main lenders. PetroChina and the Bank of China are other relevant creditors to Ecuador. Furthermore, the allocation of the funds varies from the construction of infrastructure and energy projects to financing budgetary

deficits, mainly caused by Ecuador's oil dependency and the volatility of global oil prices. The repayment periods fluctuate between 4 up to 20 years. Interest rates negotiated do not follow a consistent pattern, neither among lenders nor loans granted by the same financial institution. Finally, those interests are paid either quarterly or biannually, depending on the lender. It seems that CDB mainly negotiates quarterly interest payments, while China Exim Bank agrees on biannual payments (See Table 1).

As mentioned in the previous chapter, this analysis does not exclusively contain oil-backed loans. In the monthly reports of the Ministry of Finance of Ecuador, it is not stipulated which loans are actually oil-backed. Several sources (Downs 2011; El Comercio 2012; Gallagher, Irwin and Koleski 2012; Garzón 2014; Vela 2013), nevertheless, affirm that the loans registered in August 2009 and February 2011 (direct transactions between PetroChina and PetroEcuador) certainly are oil-secured. Additionally, some of these authors assert that the loan agreed in August 2010 for US\$1 billion, bounded Ecuador to daily oil commitments for four years (See Table 1). For this loan, according to Downs (2011, p.56-57), two disbursements were arranged by the CDB. In the first place, an inflow of US\$800 million (received in September 2010) was destined for discretionary use of the Ecuadorian government. Subsequently, the second inflow of US\$200 million was planned to be allocated in the Ecuadorian oil sector. The repayment of this loan was guaranteed by the delivery of the daily fixed amount of 36.000 barrels of Ecuadorian crudes (*Napo* and *Oriente*) or fuel oil. The prices per barrel were defined according to the WTI (minus a differential plus a premium) *on the loading date* (cf. Capuchino and Lee 2009). The agreed prices, hence, are stipulated in the supply contracts signed with CNOCs, taking into account different loading dates and types of oil. In this way, by 2013, CNOCs were recipients of 83 percent of Ecuadorian oil exports (Schneyer and Medina 2013, p.2).

Table 1. Inflows of China's loans to Ecuador

OFFICIAL AGREEMENT DATE	AUTHORIZATION DATE	LENDER	BENEFICIARY	EXECUTOR	ALLOCATION	AMOUNT (MILL US\$)	REPAYMENT PERIOD (YEARS)	INTEREST RATE	INTEREST PAYMENT
Aug 2009		PetroChina	PetroEcuador (*)		Advance payment for Petroecuador oil	1000,00			
03 Jun 2010	28 May 2010	China Exim Bank	Republic of Ecuador	Coca-Codo-Sinclair	Construction of the hydroelectric plant Coca-Codo-Sinclair	1.682,75	15	6,9%	Biannual
31 Aug 2010	27 Aug 2010	CDB	Republic of Ecuador	Ministry of Finance	Financing projects of the Annual Investment Plan (PAI) and national budget 2010-2011	1000,00	4	6%	Quarterly
Feb 2011		PetroChina	PetroEcuador (*)		Advance payment for Petroecuador oil	1000,00			
27 Jun 2011	17 Jun 2011	CDB	Republic of Ecuador	Ministry of Finance	Partial financing for projects of PAI (2011)	1400,00	8	7,159% AF	Quarterly
27 Jun 2011	17 Jun 2011	CDB	Republic of Ecuador	Ministry of Finance	Partial financing for projects of PAI (2011)	600,00	8	6,253% AF	Quarterly
13 Oct 2011	18 Oct 2011	China Exim Bank	Republic of Ecuador	E.P. CELEC	Hydroelectric project Paute-Sopladora	571,36	15	6,35% AF	Quarterly
20 Dec 2012	25 Oct 2012	CDB	Republic of Ecuador	Ministry of Finance	Infrastructure Projects	1400,00	8	7,191% AF	Quarterly
20 Dec 2012	25 Oct 2012	CDB	Republic of Ecuador	Ministry of Finance	Infrastructure Projects	300,00	8	7,191% AF	Quarterly
20 Dec 2012	25 Oct 2012	CDB	Republic of Ecuador	Ministry of Finance	Infrastructure Projects	300,00	8	6,871% AF	Quarterly
22 Feb 2013	21 Feb 2013	China Exim Bank	Republic of Ecuador	EPMMOP	Road construction	80,00	20	2,00% AF	Biannual
10 Apr 2013	5 Apr 2013	China Exim Bank	Republic of Ecuador	Ministry of Electricity and Renewable Energy (MEER) - CELEC	Hydroelectric project Minas - San Francisco	312,48	15	LIBOR 6 months +4,00%	Biannual
31 Jul 2013	22 Jul 2013	Bank of China and Deutsche Bank China	Republic of Ecuador	SENAGUA	Risk Management (floods) in Canar and Naranjal	298,88	14	LIBOR 6 months +3,50%	Biannual
29 Oct 2014	26 Oct 2014	China Exim Bank	Republic of Ecuador	MEER - CELEC	Transmission System, Coca-Codo-Sinclair	509,23	15	LIBOR 6 months +4,20%	Biannual
24 Nov 2014	22 Nov 2014	Bank of China and Deutsche Bank Hong Kong	Republic of Ecuador	Ministry of Transportation and Public Works (MTO)	Road construction	311,96	13	LIBOR 6 months +3,50%	Biannual
TOTAL						US\$ 10766,67			

Source: Author's own elaboration based on information of the Ministry of Finance of Ecuador: "Deuda Externa del Sector Público: Préstamos Contratados" 2007-2014

(*) Loans to PetroEcuador are not registered on documentation of the Ministry of Finance. This information was obtained from China-Latin America Finance Database and complemented with articles (Downs 2011, Vela 2013 and Garzón 2014) and media (El Comercio 2012) quoting the former Minister of Finance, Patricio Rivera.

In the case of Uruguay, ‘China-Latin America Finance Database’ reports that the US\$10 million loan was agreed on November 2010 with the CDB and was allocated in the development of small and medium-sized enterprises (SMEs) (Gallagher and Myers 2014). Neither the Central Bank of Uruguay nor the Ministry of Finance reports this loan. However, the Central Bank presents among its current debt commitments (report of June 2014), a Chinese loan granted in 1988, which is still in force until 2020. It was allocated in projects, equipments and technical assistance (Banco Central de Uruguay 2014). No further commitments with China were found.

Chinese sources that provide details on lending to other countries are scarce, in contrast to the vast available data published by IFIs and Western banks (Gallagher, Irwin and Koleski 2012, p.4). Thus, Chinese banks records cannot be compared with the lending figures presented by their South American partners. This issue limits the measurement of the actual levels of Chinese lending to South America and its impact in the region. In spite of this drawback, the interests of China in Ecuador are reflected on the records of turnover obtained from contracted projects in the South American country, classified in the Chinese Statistical Year Book under ‘Economic Cooperation with Foreign Countries or Regions’. This information seems to be consistent with higher amounts of funds that China is providing to Ecuador for large-scale infrastructure projects, in exchange of securing its oil supplies. Consequently, the turnover of contracted projects in Uruguay is very low compared with Ecuador (See Figure 13).

Figure 13. *China's Turnover from Contracted Project in Ecuador and Uruguay*



Source: China's Statistical Year Books from 2007 to 2014.

4.3.2. Hypothesis 2

Several academic works and media sources have speculated that the lower the prices of oil are, the higher the risk of defaulting is for oil states, and therefore, the lesser the inflows of China's loans to these countries are likely to be agreed (Kynge and Wildau 2015; Sanderson 2013, p.134; Xue and Xu 2015). However, empirical evidence suggests that after the last shock occurred on June 2014, several oil-based economies with large budgetary deficits requested to China a new bailout, and large loans have been granted in spite of their precarious economic situation. (Gallagher 2015; Gill 2015; Tiezzi 2015). In 2015, China has agreed on providing new credit lines: US\$5,3 billion to Ecuador (China Exim Bank) and US\$5 billion to Venezuela, after the unexpected slide in the global oil prices (Gill 2015; Tiezzi 2015). In addition, Liu Kegou, Advisor of the CDB has asserted that the most important factor for Chinese lending is the debt service capability of its partners, i.e. oil. Oil countries with large reserves, such as Venezuela (most commented economy with the possibility of defaulting), seem to have a very strong debt service capability (*cf.* Sanderson 2013, p.123). In addition, in 2009, when a major global oil price shock was registered, the oil agreements in the region started to proliferate

(Sanderson 2013, p. 133). In the case of Ecuador, after this oil shock, the country received a large loan to balance its national budget 2010-2011 (See Table 1, p.39).

Additionally, further evidence on the possible effects of decreasing oil prices on Chinese loans to oil-dependent counter-hegemonic states is presented in the following multivariate regression (See Table 2).

Table 2. Inflows of Chinese Loans

	Model 1		Model 2	
	Coefficient (SE)	p-value (sig.)	Coefficient (SE)	p-value (sig.)
Constant	1101.10 (877.40)	.213	652.70 (816.90)	.427
Oil Price	-1030.30 (511.80)	.047 (*)	-970.60 (504.20)	.058 (+)
GDP	-590.70 (1558.00)	.706	1215.40 (773.80)	.120
Loans from other providers	184.20 (290.20)	.527	113.80 (289.60)	.695
Exports to China	393.90 (242.60)	.108	371.90 (241.50)	.127
Imports from China	-694.10 (469.60)	.143	-786.30 (470.30)	.098 (+)
FDI	90.20 (147.10)	.541	164.30 (129.60)	.208
Unemployment	-346.60 (543.80)	.526	-372.90 (541.60)	.493
Total State Revenue	990.40 (1054.10)	.350	-	
Tax Revenue	-		-423.80 (429.90)	.327
Access to Capital	-511.60 (325.10)	.119	-523.40 (325.30)	.111
Adj. R²	.006		.007	
N	95		95	

Sig.: ***= $p < .001$, ** = $p < .01$, * = $p < .05$, + = $p < .10$

According to **model 1**, the global price of oil is the variable that affects the most the inflows of Chinese loans to Ecuador. Furthermore, it is the most and only significant variable (at the 95%

Confidence Interval level). The relation is negative, which shows that a lower price of oil might generate an increase in Chinese loans. However, the control variables ‘GDP’ and ‘total state revenue’ are multicollinear. As Ecuador is highly dependent on the revenues of oil exports, both control variables are composed to a large extent by total oil exports; therefore the ‘GDP’ includes much of the ‘total state revenue’. Moreover, the overall explained variance is low (adjusted $r^2 = 0.006$), which might be due to the short time that this modality of Chinese lending has been implemented in the region and the low number of loans (12) that Ecuador registers.

Due to the multicollinearity detected in **model 1**, the control variable ‘total state revenues’ was replaced by ‘tax revenue’ to exclude the quantification of oil exports already measured in the ‘GDP’ in **model 2**. The results show that besides GDP, the global price of oil remains as the strongest indicator. This means that the coefficient remains large and has the expected sign (i.e. negative relation). The probability value, nonetheless, crosses the 95% Confidence Interval cut-off point. The p -value is still very close to the 95% cut-off point, which still means that the relation between X and Y is unlikely to be caused by chance. The explained variance of the entire model remains still low (adjusted r^2 : 0.007).

4.4 FINDINGS

This analysis shows that the adoption of counter-hegemonic politics of both case studies has opened up the opportunity for China to increase its presence in the region. China has been warmly welcomed as an attractive partner, opposing the exhaustion of Ecuador and Uruguay towards the neoliberal era and U.S. control. Moreover, even if both countries have strengthened their relations with China, the Asian country’s diplomacy has approached them in different ways, showing that oil dependency actually has an impact. When comparing Chinese lending to the oil dependent and non-oil dependent countries (**hypothesis 1**), the active participation of Chinese banks and CNOCs is evident only in Ecuador, for whom China has become an indispensable creditor for long-term large scale projects and a ‘helping hand’ to balance its large deficits in its national budget, due to the volatility of global oil prices. The non-oil dependent country is a marginal recipient of the Chinese funds provided to the region. It only serves as a gateway to Chinese products, which corresponds to China’s commercial ambitions. Even if both countries have distanced themselves from the IFIs influence, only the oil dependent country has met the interests of China’s banks and national oil companies.

Furthermore, when analyzing Chinese lending only to the oil dependent country (**hypothesis 2**), in spite of the fact that the price of oil seems not to be strongly significant, oil dependency still affects the inflows of Chinese loans (which are negotiated at current oil prices). It means that when an alert of decreasing oil prices appears, the oil dependent country might require more Chinese loans. A lower GDP, composed in a large extent of oil exports, might be also a sign that the oil dependent country

might opt to request a bail out from China. Even if the regression model shows a low explained variance, due to the recent emergence of this phenomenon, it urges more attention of academic research. The oil wealth that has transformed Ecuador into an oil dependent country and its vulnerability to unstable global oil prices affect its relations with China and its relevance as a recipient of Chinese lending. In sum, this evidence shows that oil dependency matters.

5. DISCUSSION AND CONCLUSION

This thesis aimed to answer *how oil dependency of counter-hegemonic states affects the inflows of loans provided by China*. The analysis has demonstrated that oil dependency of counter-hegemonic states indeed affect Chinese lending. Oil dependency makes China an indispensable source of financing to sustain the economies of these countries. It can be argued that those counter-hegemonic states that are oil dependent have become (1) major targets of Chinese oil diplomacy, and thus important recipients of Chinese inflows of loans, including loans-for-oil (as shown by the analysis based on **hypothesis 1** for the case of Ecuador); and (2) more vulnerable to unexpected fluctuations of global oil prices, therefore requiring additional Chinese funding when oil shocks are experienced (as the analysis based on **hypothesis 2** suggests).

The further implications of China progressively displacing traditional financial institutions and becoming an increasingly relevant creditor to the developing world have led to new discussions. First, China's large inflows of loans have allegedly created a new dependency on external capital in developing countries (Jenkins 2012; Leiteritz 2012). Likewise, China's non-conditioned funding has been blamed for fueling authoritarian, unaccountable and corrupt regimes that tend to violate human rights (Kimenyi and Lewis 2011). Moreover, China's inflows of loans to resource-rich countries motivated by its insatiable quest for oil have increased the operations of CNOCs abroad. Thus, the extractive mechanisms used by Chinese firms have been compared to previous exploitative practices of Western countries (Carmody 2011; Jiang 2009).

In addition, studying China's involvement in the developing world is a fundamental approach to possibly assess and understand the magnitude of its influence as a rising global power. It is commonly thought that China is, nowadays, contesting the absolute hegemony of the U.S. (Christensen 2011; Schweller and Pu 2011). In fact, some views argue that the appealing features of Chinese foreign policy complement the general dissatisfaction of the developing world with the Washington Consensus and the U.S. (Chestnut and Johnston 2009). This is why the analysis of Chinese lending and the practice of ELBs, as important elements of the so-called 'China model', require more scholarly attention. They are fundamental to understand to what extent the diffusion of this new consensus, if

there is one, is succeeding. It is also important to keep in mind that as it is a recent phenomenon, more robust evidence can be obtained across different cases and in the upcoming years.

For a broader understanding of Chinese lending to counter-hegemonic states, such as Venezuela, Iran and Russia, it is essential to analyze further macroeconomic factors (i.e. monetary policy) and externalities (i.e. sanctions imposed by other actors) that are not present in the case of Ecuador. Apart from unexpected shocks in international oil prices, perhaps other variables present in different cases might explain why these countries have received frequent and large inflows of Chinese loans. Particularities in different national oil industries could be also included in a more comprehensive study of Chinese lending to counter-hegemonic countries.

In the same way, the study of dynamics of international energy markets and the unpredictable fluctuations of global energy prices have been always a major concern for energy exporters and importers, producers and consumers. In fact, these elements have acquired more relevance in current policy making for an efficient management of resources and for securing steady energy supplies or demand in global oil markets. Additionally, oil dependency, although relevant for exporters and importers, has been a big challenge in the formulation of development policy in the developing world. The resource abundance placed in their territories has triggered competition among world powers, and has inevitably shaped the behavior of several regimes and their relations with the rest of the world. Therefore, a responsible and efficient use of natural resource endowments through meaningful development policy is fundamental for achieving a ‘sovereign’ management of natural resources, which the developing world has constantly urged for.

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