

China's oil Grand Strategy

The impact of target state institutions on
the success or failure of Chinese economic
statecraft

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1. Introduction

The diminishing role of ideology and the increasing focus on economic growth after Deng Xiaoping came to power resulted in an increasing pressure on the Chinese government to maintain economic growth rates in order to keep its legitimacy. Ever since the shift of focus to the production of relatively low value added, low tech consumption articles destined for Western markets in the 1980 the demand for energy, especially oil, of the Chinese economy has continuously risen. (Daojiong, Z. 2005).

Resource seeking and in particular natural resource seeking, has been one of the key strategic considerations for China's outward foreign direct investment.(Hong and Sun 2006) State planners have identified oil as one of the most important strategic resources that must be secured. The government's efforts in this area involve the creation and the subsequent going out of the Chinese National Oil Corporations (NOC) as the earliest Chinese commercial actors to venture abroad. (Norris 2010) Because China lacks the military capability to provide Beijing with the assurance of continued access to resources and oil in particular, the nation's political leaders and strategic planners are navigating through a period where: *"Their ability to maintain domestic growth and social stability will be hostage to external events and, perhaps, to the forbearance of those they regard as potential foes."*(Friedberg 2006:7)

In international relations thinking on Chinese oil diplomacy, the dominant theory is the realist perspective that China's oil diplomacy exhibits mercantilism. Realists belong to the so-called Beijing as puppeteer camp, and claim that the state not only has prime interests in securing foreign raw materials but is also capable of using its enterprises to fulfill those interests, even in the face of domestic resistance. In this State focused perception of Chinese oil diplomacy the Chinese NOCs are an extension and integrate part of Chinese foreign policy. International actions of NOCs serve the

Chinese development goals established by the central state and can all be explained in the light of the Chinese grand strategy. (Holslag 2006; Lee 2010)

In contrast to the realist perspective, liberal and institutionalist approaches to China's oil diplomacy however do not consider the Chinese state to be an entirely independent autonomous actor in complete control over the international actions and investments of NOC's. Instead, foreign policy formation including oil diplomacy as well as the international actions and investments of oil corporations are viewed upon as relatively independent. (Shaofeng 2008; Downs 2004; Daojiong 2006)

The possible discrepancy between the interests of China's NOCs and those of the Chinese central state is the main focal point of this thesis. I will explore how the Chinese government attempts to use economic statecraft in the context of its strategic resource security goals. While the Chinese government in the light of its energy grand strategy uses economic statecraft to satisfy China's increasing thirst for oil (Goldstein A. 2005), some authors point out that a side effect of "going out strategy" for Chinese NOCs is that the Chinese state has had to compromise on its goal to maintain control over its internationally competitive corporations. (Houser 2008; Loui 2009; Jiang, J., & Sinton, J. 2011). Due to the company reforms and bureaucratic reorganization necessary to make NOCs internationally competitive, NOC's have acquired enough autonomy to run a company foreign investment policy that is different from, or maybe even conflicting with, the central governments Grand Strategy considering resource security. (Norris, W. 2010; Jiang, W. 2009; Chen, S. 2008; Horváth, A. 2011)

This thesis aims to shed light on China's efforts to utilize economic statecraft as part of its resource grand strategy and the conditions that determine its success or failure. A comparative research of Chinese economic statecraft in Brazil and Angola will be part of it.

The central question of this thesis is: Under what conditions does the Chinese state succeed or fail to control, direct or otherwise use national oil companies in pursuit of its strategic goals?

This thesis consists of three parts, the three chapters of the first part set out the topic. After the introduction of chapter one, the driving forces of Chinese oil grand strategy will be defined in chapter 2. I will go over the main goals it sets out to achieve and how the Chinese state resorts to economic statecraft in pursuit of these goals. Chapter three is a literature review, describing the two paradoxes China faces as a consequence of the “going out” of its oil companies. In the first paradox state centralism is set against market domination, the second paradox describes how China’s strict government control faces increasing levels of NOC autonomy.

The second, methodological part of the thesis consists of three chapters. In chapter four I will introduce the theoretical framework used to approach the problem. I will clarify the methodological choice to take domestic and international conditions into account explaining the success or failure of Chinese economic statecraft. Chapter five shall explain how the theoretical framework is applied and explains the concepts and measurements. Chapter six contains the case selection and hypotheses.

In the four chapters of the third part, there is a further subdivision to be made between the chapters with a domestic and an international focus. Chapter seven, the international dimension shall pass the review, by explaining the strategic goals of China’s economic statecraft and the pathway through which these goals are to be achieved. Chapter eight and nine also have a international dimension and focus on Angola’s and Brazil’s domestic level. Investigating the extent to which target state institutional conditions are explanatory variables for the success or failure of

economic statecraft. Chapter ten, has a sending state domestic focus. It investigates what influence state institutional conditions have on the relationship between the Chinese government and the NOCs and what impact this has on the government's ability to control, direct or otherwise use national oil companies in pursuit of its strategic goals. The concluding chapter, chapter eleven, will present the main findings.

2. Chinese economic statecraft and oil grand strategy

According to Friedberg China's turn to the market has resulted in the loss of Marxist ideology as a legitimization of Chinese Communist Party (CCP) power, instead China's leadership is now legitimized by the gradually but constantly improving living conditions of Chinese society. (Friedberg, A. L. 2006). This makes maintaining economic growth levels a primary target of the regime. The necessity to maintain economic growth levels, but more importantly because China's most powerful instruments to exert influence in the international arena are economic, economic statecraft plays an increasingly important role in Chinese grand strategy. Economic statecraft can be defined as: *"the use of economic instruments by a government to influence the behavior of another state."* (Alves, A. C. 2011; 28) (Blanchard 2011; Chen, J. 1995; Norris 2010; Friedberg, A. L. 2006)

As a typical developing country, the core of China's economic system is manufacturing and processing industry. China has emerged as the World's manufacturing center but the large scale production and transportation of these goods requires a lot of energy. Since 1993, China's domestic oil production is insufficient to meet the still growing demand of its industry resulting in China becoming one of the largest oil importing countries in the world. Of the natural resources and raw materials needed to sustain rapid economic growth in its manufacturing and industrial sectors, oil is by far the most important critical resource needed to fulfill its energy needs. (Sheng 2008(a); Daojiong, Z. 2006)

As an irreplaceable strategic resource oil has been in short supply, therefore obtaining energy security and especially access to oil resources plays an important part in China's foreign strategy. *"Energy security has become a big concern in China. In order to enhance its energy security, the government tries hard to bolster its*

national oil companies (NOCs) foreign energy quest".(2.Shaofeng pg600) (Burgos Caceres, S., & Ear, S. 2012; Yilin Jiang & Shihua Lui)

Like all forms of statecraft, economic statecraft applies to national instruments of power as means to influence political outcomes. Unlike other forms of statecraft, the means are economic. These means flow from the premise that asymmetric trade relationships have political consequences. Or as Hirshman says: "*a country trying to make the most of its strategic position of its own trade will try precisely to create the conditions that make the interruption of trade of much graver concern to its trading partners than to itself.*"(Hirschman, A. O. 1945; 16) It is the encouragement of certain types of economic interaction that creates externalities that are conducive to a States strategic interest, as such economic statecraft can be seen as the economic component of China's grand strategy. (Norris 2010 pg13)The concept of externalities captures the notion that a given transaction may also produce effects that are not fully internalized by the parties that are directly conducting the transaction. Economic statecraft is the state manipulation of economic interaction in order to capitalize on, or reduce the associated security externalities. States can pursue strategies that seek to manipulate these externalities by structuring the incentives of the commercial actors involved. (Norris 2010)

Pursuing these externalities involves the exercise of economic levers in pursuit of political objectives that do not necessarily have to be economic. Coercive levers are punitive measures like sanctions, embargos, tariffs and financial measures applied or threatened in the context of bilateral asymmetric interdependence. Non-coercive methods of economic statecraft strive to develop influence effects through application of levers that function as economic inducements, luring the target state towards the sending states desired political outcomes. (Kastner, S.L. 2010)

The primary policy goal of China's economic statecraft in oil producing countries is to achieve the acquisition of sufficient energy supplies to maintain economic growth and protect the leaders core interests. The Chinese government's main objective is to ensure adequate import of oil to maintain Chinese economic growth while simultaneously diversifying their sources of supply. This policy is based on the desire to circumvent an over-reliance on the global oil market through either actually acquiring major stakes in foreign oilfields or safeguarding access. Another reason to diversify their sources of supply is to decrease the strategic importance of the Malacca strait as the only alley through which oil flows to China. (Tailor, I 2006)

China thus defines energy security in terms of two issues: price volatility and security of delivery. This makes securing long term supply contracts and accessing exploration rights the two core objectives of Chinese oil grand strategy. China aims at achieving these goals through the exercise of economic levers. *"Its strategy is to acquire assets and exert political influence in the recipient markets. 'When the Chinese make a decision to start-up a strategic relationship, there are obviously going to be strategic implications."* (Alden,C. 2006:88)

Chinese NOC's and the energy bureaucracy

China's NOCs are a useful tool for Chinese leadership to exert economic leverage. There are three major Chinese NOC's: China Petroleum & Chemical Corporation (Sinopec), China's National Offshore Oil Corporation (CNOOC), and China's National Petroleum Corporation (CPNC). Born out China's economic system reforms in the 1980s, when the Chinese government decided to convert productive assets of ministries into state-owned enterprises, these three corporations share a common set of parents in the former Ministry of Petroleum Industry and the former Ministry of Chemical industry. (Jiang, J., & Sinton, J. 2011)

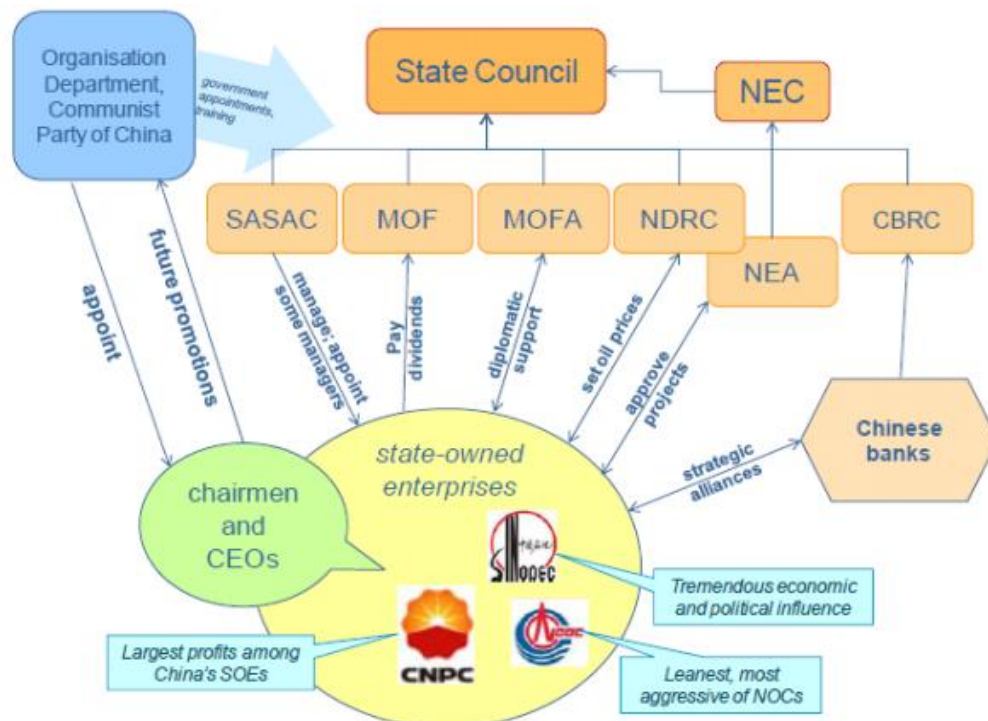
As a result of China's economic reforms the past three decades Chinese NOC's are a group of enterprises that are uniquely intertwined in China's bureaucracy. In the Chinese government's bureaucratic ranking system, both CNPC and Sinopec are at ministry level, the same as State Assets Supervision and Administration Commission (SASAC). The chairman and CEO's of NOCs, who also hold vice-ministerial ranks, are appointed by the Organization Department of the Communist party of China. The top executives of the NOCs are deeply connected to the top leadership of the government and the CCP; they must wear two hats, as leaders of major commercial enterprises and as top Party operatives. (Jiang, J., & Sinton, J. 2011)

The organizational department of the CCP also appoints and trains the top executives of the SASAC, Ministry of Foreign Affairs (MOFA), Ministry of Finance (MOF), the National Development and Reform Commission (NDRC), the National Energy Administration (NEA) and the China Regulatory Banking Commission (CRBC). The power of the agencies concerned with China's NOCs is distributed from the top but also flows the other way around, Ministers in the higher echelons in the Communist Party of China frequently originate from a top position of an NOC. (Jiang, J., & Sinton, J. 2011)

SASAC, is appointed by the Chinese state to supervise and manage the state-owned enterprises and enhance the management of the state-owned assets that fall under 123 large SOEs. As such it is formally the owner of China's national-level state-invested firms. However, the power of SASAC to control the behavior of SOEs and how much it actually exercises the rights of ownership are open to debate. (Jiang, J., & Sinton, J. 2011)

NOC's pay dividends to the Ministry of Finance and get diplomatic support from the Ministry of Foreign Affairs. The National Development and Reform

Commission has price setting power for petrol on the domestic market and the National Energy Administration has an advisory role. The NDRC and the NEA hold powers of approval over investment projects. Thus cultivating and maintaining good relations with them is beneficial to the NOC's. (Jiang, J., & Sinton, J. 2011)



Notes: NEC = National Energy Commission; SASAC = State Assets Supervision and Administration Commission; MOF = Ministry of Finance; MOFA = Ministry of Foreign Affairs; NDRC = National Development and Reform Commission; NEA = National Energy Administration; CBRC = China Banking Regulatory Commission; SOE = state-owned enterprise.

(Jiang, J., & Sinton, J. 2011: 25)

Banks as instruments of Chinese economic statecraft

As depicted above Chinese banks can form strategic alliances with NOCs, these alliances mainly occur when NOCs venture abroad. Via the CBRC China's banks are under direct control of the State Council as such banks are a second important instrument of Chinese leadership to exert economic influence, not only on target states but can also be used to steer China's own NOCs.

China does not have a record of making use of negative economic statecraft but does frequently make use of economic inducements in pursuing its foreign policy

goals. The EXIM bank's is most known for the oil for loans structure, loans are also provided by other state banks the CDB and the ICBC. The main difference is that only the EXIM bank can extend concessional loans with low interest rates due to the subsidy by China's ministry of commerce. CDB and ICBC offer exclusively market-based interest rates. However most of the EXIM banks oil-backed loans are also extended on a more commercial basis. Loans between the branches of the Chinese government, from the state-owned banks to state-owned companies rarely happen Credit is primarily extended to governments and companies abroad. (Gallagher, K. P., Koleski, K., & Irwin, A. 2012)

The Export Import bank

The Export-Import (EXIM) bank is responsible for the financial management of projects involving concessional loans. EXIM bank concessional loans are primarily embarked for infrastructure construction. The EXIM bank is fully owned by the Chinese government and controlled by the State Council It acts as a key channel of policy promoting foreign trade and economic cooperation. It finances the Chinese import and export and tin undertaking offshore construction contracts and overseas investment projects by Chinese companies. (<http://English.eximbank.gov.cn>)

The embassies and consulates are responsible for local coordination and management of projects in the receiving country. The whole process is monitored by the state council and the National Development and Reform Commission (NDRC) that play a strategic role in in policy making on Chinese foreign investments. In 2008 a so-called inter-agency coordinating mechanism was established for the consultation between the Ministry of Commerce (MOFCOM) the Ministry Of Finance and the Ministry of Foreign Affairs, on drafting and funding foreign aid programs. (news.xinhuanet website)

China Development Bank

A similar but slightly different type of loan is extended by the China Development Bank (CDB). The CDB is a bank created in 1994 aiming at the providing financial support for China's macro-economic development strategies. It is under the direct jurisdiction of the state council and provides long term financing for key projects in infrastructure as well as the financial support for the development of pillar industries vital to the development of the national economy. (CDB website)

What makes these loans different from the concessional loans is firstly, that the borrower is an NOC rather than a national government. And secondly, that the loans are extended in more commercial terms and do not necessarily have to be repaid in kind. Although the credit is calculated based on the amount of oil the borrower can provide. The loans of the CDB are just as the concessional loan, highly synchronized with the relevance to China's security strategy. (Gallagher, K. P., Koleski, K., & Irwin, A. 2012)

Industrial and Commercial bank of China

The Industrial and Commercial Bank of China (ICBC) was one of the four specialized state-owned banks that saw the light of day after the reformation of China's mono-bank system (Peoples Bank of China). (Lin, X., & Zhang, Y. 2009)

When in the wake of the global economic crisis and after EXIM Bank had already provided a substantial amount of credit, Angola found itself again in dire straits ICBC provided a US\$2.5bn dollar loan on the same terms as those extended by the EXIM bank, directed at infrastructure development and to be repaid in oil. (Alves, A. C. 2011) In Brazil in mid-2010, ICBC international, a wholly-owned investment banking

subsidiary of the Industrial and Commercial Bank of China Limited, had been appointed by the Brazilians as one of the book-runners for Brazil based Petrobras IPO. (Santiso, J. 2010)

China International Fund

A fourth large Chinese credit line that provides financial services to oil rich countries, primarily to Angola, is the China International Fund (CIF). Credits are channeled through a private Chinese fund based in Hong Kong which came into existence through personal connections linking Hong Kong-based tycoons (some allegedly former State Owned Enterprise (SOE) senior cadres and others with links to Chinese intelligence), and NOC cadres. CIF was set up to fund projects under the Angolan National Reconstruction Office (Gabinete de Reconstrução Nacional, GRN).

Despite the fact that CIF is privately owned. The loans it extends are contracted in the same terms as those of the EXIM bank, directed to infrastructure, tied to Chinese contractors and to be repaid in oil. However, because CIF is not a state organization and the Chinese its credit extension is to smaller extent steered by the Chinese government, I consider its loans not to be part of the golden triangle. (Alves, A. C. 2011)

“Golden triangle”

The executives of the state banks mentioned above work closely with Chinese oil corporates in putting together financial deals at preferable subsidized interest rates. As state driven institutions they have vast resources at their disposal and are able to provide discounted loans to Chinese corporations or foreign governments and NOCs, not necessarily subject to the same rigorous accountability and transparency constrains that govern western business ventures. The loans to foreign governments

and NOCs are provided on the condition that Chinese subcontractors are hired to execute the infrastructural work. (Lin, X., & Zhang, Y. 2009)

This “golden triangle” between Chinese companies, the state and quasi-commercial lending institutions provides Chinese oil companies with the cheap finance to undercut their Western competitors and the Chinese state with an effective instrument to pursue its resource security goals abroad. The China Development Bank, for example, is the largest quasi-commercial bank in the world. With assets of US\$350 billion, it is bigger than the World Bank and the Asia Bank. The China Exim-Bank is the world’s third largest export credit agency – its principal mandate being to *“implement state policies in industry, foreign trade and economy, finance and foreign affairs”*. (Executive research associates (Pty) Ltd 2009: 77)

3. Paradoxes of Chinese NOC foreign direct investment

In Chapter two, it was shown that various agencies are concerned with regulating different aspects of the NOCs activities often working at cross purposes. Both the government, the banks and the NOC's have an interest in successful NOC investments abroad. The governments oil for loans strategy however apparently does not always result in obtainment of China's strategic goals on energy security.

Concerning NOC investments there is tension between the government and the NOC on two levels. This tension is best described by two paradoxes, the state centralism versus market domination paradox on the one hand and the NOC autonomy versus government control paradox on the other. (Jiang, J., & Sinton, J. 2011) Having defined the Chinese governments energy security goals, the nature of the golden triangle and the structure of the Chinese energy bureaucracy, in this chapter the two paradoxes with different perceptions of the relations between the government and the NOC's, will pass the review.

In the Chinese perception, the combination of a general mistrust of global energy markets dominated by sophisticated global oil companies, Western industrial countries, unreliable and unstable-oil exporting countries dominated by the United states and China's lacking domestic energy sector capabilities combine to give a mercantilist character to China's energy security drive and to Beijing's rhetoric about its energy security concerns. Chinese oil grand strategy is characterized by a realist outlook on world politics. It operates from the core assumption that World politics unfolds in an international anarchy in which states are perceived as the most important actors on the World stage. Or as Lieberthal and Herberg claim: *"The mercantilist cast*

of the go-out strategy reflects China's sense of weakness and vulnerability regarding reliable access to energy supplies. This sense of weakness provides the rationale for direct state intervention and support." (Lieberthal and Herberg 2005-2006:15)(Blanchard, J. M. F. 2011; Burgos Caceres, S., & Ear, S. 2012; Jiang, Sun, Liu, 2010)

Hui-Chi Yeh and Chi-Wei Yu investigated the extent to which Chinese foreign policy considering oil security is formulated to suffice mercantilist goals. They examined the contracts made by the state owned China national petroleum corporation (CNPC), the China National Offshore Oil Corporation (CNOOC), and the China Petroleum & Chemical Corporation (CPCC) with energy rich nations from 1993 to 2008, and analyzed the relationships between both public and private sectors. Their findings were that the energy security policies of the government are key variables and the foundation of NOC's foreign investment decisions. China's energy diplomacy is mercantilist in nature because of the weakness of its NOC's on the international market. Their main conclusion is that: *"With the precondition of China's political system and its energy companies lagged development in the international market, mercantilism inevitably became the main approach of Chinese energy diplomacy."* (Yeh, H. C., & Yu, C. W. 2012: 314)

Dan Blumenthal goes a step further and as a true realist he predicts that: *"If China continues to tend toward the energy-mercantilist side of the energy policy spectrum, as compared to solely relying on the open market then the Public Liberation Army (PLA) will increase in importance to Beijing's energy strategy"* (Blumenthal, D. 2008: 431).

This vision on NOC investment falls within the broader school of thought on Chinese FDI also known as the "Beijing as puppeteer camp". It argues that the selection of FDI location and sector is not simply determined by enterprises according

to market considerations. They point out that the biggest sources of outward FDI were highly profitable listed SOE's, that NOC directors and executives are appointed by members of the Chinese Communist Party, and highlight the many instances where Beijing has overruled NOC corporate decision making. Chinese NOC's are seen as an extension of the Chinese government and just an instrument by which the Chinese government can realize its foreign policy goals. They stress the correlation between Beijing's priorities and the geographic and sectorial distribution of outward FDI. (Blanchard, J. M. F. 2011(b))

NOC goals

However there is also a large body of literature focusing on NOCs company investment policy, that emphasizes how its FDI is increasingly guided by a commercial logic and has market oriented focus instead. Also known as the business is business camp, Keefer Douglas, Nelson and Schwartz, assessed China's energy grand strategy and reject the view that China can successfully pursue a "neo-mercantilist" strategy of securing oil reserves. (Douglas, J. K., Nelson, M. B., & Schwartz, K. 2006)

Jang and Sinton claim that NOCs are business driven market actors that because of their profit motivation make energy related investments motivated by economic reasons, regional imbalances or technological transfers. Behavior of NOCs is seen as mainly commercially driven and relatively independent from government interests in energy security. The high degree of NOC autonomy results in a NOC company investment policy that can be seen as relatively independent from government foreign policy goals inspired by energy security. (Jiang, J., & Sinton, J. 2011)

China's outward FDI has changed in every important respect. In terms of objectives it has moved from being politically to being commercially motivated. In terms of key actors, central government has given way to local government and, now, to enterprise led activity. Finally, in terms of strategic orientations, natural resource seeking investment has broadened to a much wider range of objectives including market seeking, technology seeking, risk diversification and other objectives common to MNCs worldwide. (Hong, E., & Sun, L. 2006)

The Chinese government over the years has become increasingly more dependent on Chinese oil corporations and, as a result of their economic might, these firms are helping to intensify the diffusion of power in Chinese politics. NOCs have become business driven market actors that because of their profit motivation make energy related investments motivated by economic reasons, regional imbalances or technological transfers and not primarily to support state interests. (Jiang, J., & Sinton, J. 2011; Downs, E. 2006)

Government control versus NOC autonomy

A second paradox related to the first one, is the government control versus NOC autonomy paradox. In this paradox the extent to which the government is able to determine or influence the company policy of NOCs is set against the extent to which NOCs are able to make investment decisions autonomous from the government. In the Realist mercantilist perception of NOC's FDI, oil companies are puppets whose actions are completely controlled by Beijing's puppeteers.

Liberal and institutionalist explanations consider NOC investments to be the result of business driven more or less autonomous NOC company decision-making, not necessarily under direct government influence. According to the business is business camp, NOCs are market orientated and able to operate with a high degree of

autonomy from the central government. Since the 1970s the fragmentation of the energy bureaucracy caused by its reorganization enabled NOC managers to go for profit maximization, NOC's have a high leverage on the government due to China's energy import dependency and the top of the NOC management is to a high level integrated in the energy bureaucracy resulting in NOC influence on the formation of foreign energy policy. (Blanchard, J. M. F. 2011(b))

Downs uses the institutionalist argument that the unclear structure and weakening of the energy bureaucracy over the years, entailed a waning authority of the government over the energy sector. Through this infiltration of the bureaucracy NOC's were able to influence decision making to advance their own interests. Because of the small size of the energy bureau's staff, a bureau established in 1993 overseeing China's energy policy, it got so overwhelmed by the amount of projects running for approval that it had little time to devote to forging an energy strategy. Instead of formulating a clearly specified energy strategy according to which projects are approved or denied, the energy bureau works the other way around, in the sense that the projects tend to shape energy policies instead of depending on such policies to guide project approval. (Downs 2004)

Chih-Shian Liou shows that Chinese bureaucratic fragmentation has stimulated corporate autonomy of the NOCs. As agents of the Chinese central state the use of commercial logic by NOCs without worrying about not obeying the states directives is only possible because the NOC have gained substantial autonomy caused by the restructuring of the energy bureaucracy. (Liou, C. S. 2009)

“SOE managers have market incentives to pursue a profit-maximization strategy that does not always reflect state interests in venturing abroad. When an overseas project involves multiple Chinese SOEs, economic considerations and bureaucratic fragmentation often make them compete in ways that harm overriding

state interests. It is therefore analytically unsatisfying to assume that Chinese SOEs share the same interests as the Chinese central state.” (Liou, C. S. 2009: 673)

The definition of economic statecraft: a state’s ability to make commercial actors behave in a manner that is conducive to producing security externalities that are in line with the strategic interests of the state, covers both paradoxes. The first part “the ability to make commercial actors behave in a certain manner” is applicable to the government control-vs-NOC autonomy paradox and the second part “producing security externalities that are in line with the strategic interests of the state” with the state centralism versus market domination paradox. After investigating conditions that determine the success or failure of Chinese economic statecraft I will be able to place NOC involvement in Angola and Brazil somewhere on the lines of these paradoxes.

4. Theoretical Framework

According to Putnam: *“The politics of many international negotiations can usefully be conceived as a two level game at the national level, domestic groups pursue their interest by pressuring the government to adopt favorable policies and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments”* (Putnam, R. D. 1988: 434) Following Putnam’s logic this thesis aims unravel the entanglements of domestic and international aspects of Chinese oil diplomacy as such it takes both receiving country as well as sending country conditions into account.

In contrary to general IR theory which is primarily concerned with the patterns of outcomes of states interactions this thesis focusses on the dynamics behind states behavior in the international realm. Foreign Policy analysis (FPA), a subfield of international relations theory, will be used to conceptualize, explain and assess the role of agents and structure on the two levels of analysis (domestic and international) of this thesis. In the FPA’s theoretical model a state’s relative material power holds a key position and is the departure point for the analysis of a state’s international behavior. (Smith, S. 1986))

However while material power draws the basic contours of a state’s foreign policy it does not fully determine its foreign policy behavior. This depends on decision-makers perceptions of relative material power. *“Relative material power refers to a state’s capabilities and resources to influence each other, and the relative position in the international system that derives from this. States material power*

affects the way they perceive systemic forces and subsequently the way they behave.”

(Alves, A. C. 2011: 22)

Another important finding from the literature was that target states institutional environments play a key role explaining the success or failure of economic statecraft. Ivar Kolstad and Arne Wiig show that Chinese FDI in general is primarily targeted at countries with poor institutional conditions and large supplies of natural resources. The worse the institutional conditions the stronger Chinese FDI is attracted to the country. (Kolstad, I., & Wiig, A. 2012) Chinese companies have competitive advantages in countries with weak institutions. In contrast to companies from developed economies Chinese companies are experienced in navigating: *“complex patron client relationships and personal and institutional favors in relative opaque and difficult business environments”* and in *“dealing with burdensome regulations and navigating around Opaque political constraints’* (Morck, R., Yeung, B., & Zhao, M. 2008: 17)

Alves has done extensive research on the impact of economic signals in countries with different institutional environments. Her main finding was that the regional variation in the success of Chinese economic statecraft in the oil sector can be explained by: *“a structural difference in the institutional framework of each region.”* (Alves, A.C. 2011: 13) Although Chinese economic statecraft proved to be appropriate in the African context, it was unsuitable for the much more liberalized environment that characterizes South America. (Alves, A. C. 2011; Alves, A.C. 2012; Alves, A. C. 2013)

Blanchard and Ripsman provide a framework to analyze the impact of target state institutions on the effectiveness of economic statecraft. According to them, the success of economic statecraft is not dependent on the magnitude of its economic

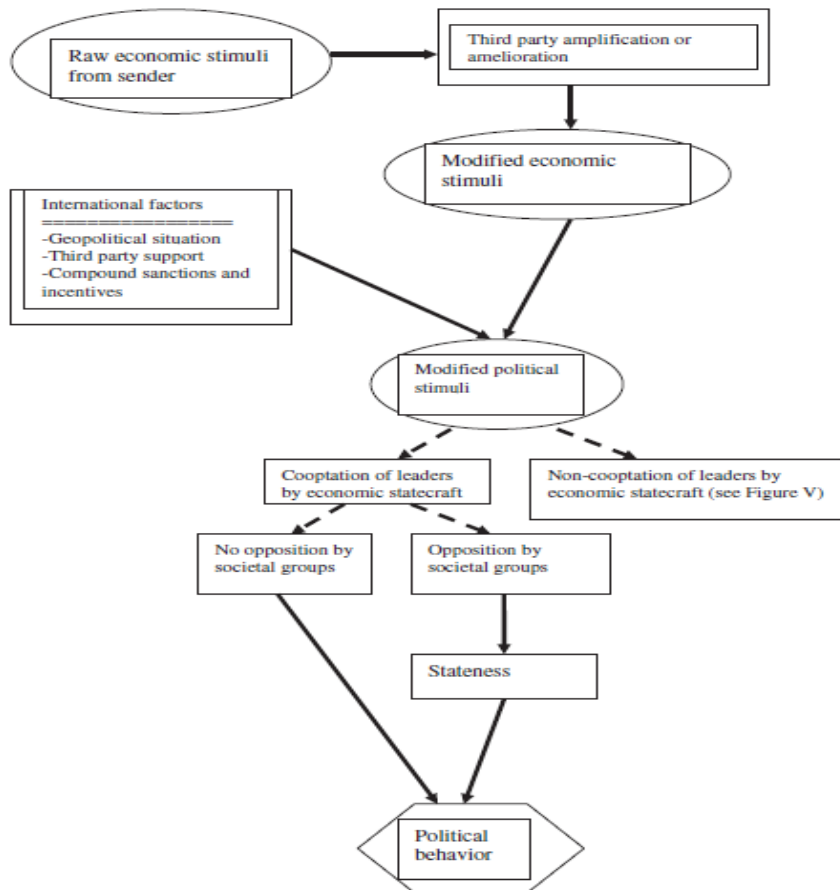
effect but on the level of pain or gain it engenders when these economic signals are translated into political costs or opportunities. There are two pathways of economic statecraft, a leaderships pathway and a key societal groups pathway. Regardless of the pathway it follows, the first three steps in the exercise of economic statecraft are the same. In the first step, raw economic stimuli are presented to the target state. The second step is the possible economic amplification or moderation of these stimuli because third parties add stimuli of their own. What remains are modified economic stimuli which are translated into political action after the calculation of the international and domestic political consequences by policy makers, before responding to the modified stimuli.

In the key societal groups scenario the key societal groups are co-opted in the economic benefits of economic statecraft and pressure for compliance. In this case leaderships non-compliance to the modified economic stimuli, denies the key societal groups access to the economic benefits which, when these groups have sufficient power might result in political risks. In the leaderships scenario modified economic stimuli persuade the target state's leader themselves that the costs of defying the modified economic stimuli are too high. In this case complying might result in resistance from key societal groups.

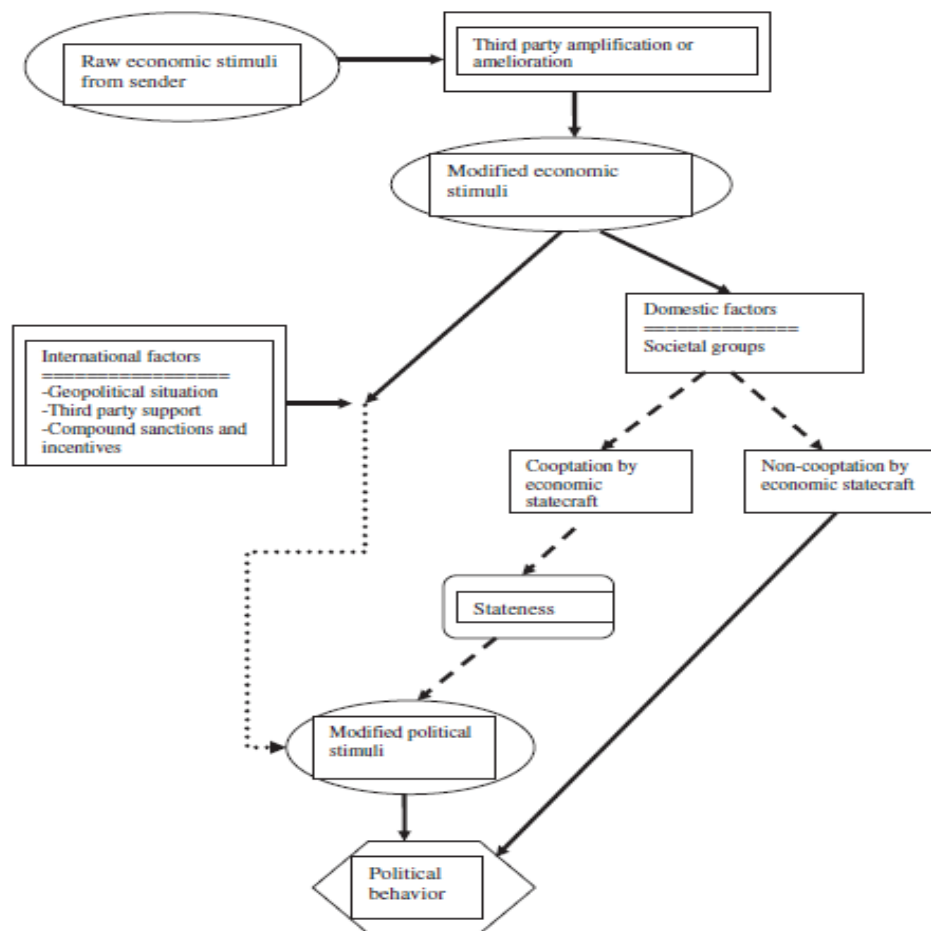
The political effect of economic signals is dependent on the co-option of key societal groups in the economic costs and benefits of the raw economic stimuli. This is where the target states institutional framework enters the equation. According to Blanchard and Ripsman there are three things that can help protect the target government from outside interference, or can alternatively amplify the effect of economic statecraft. Firstly, *Decision making autonomy*, refers to the structural ability of the foreign-policy executive to select and implement policies when faced with domestic political opposition. Secondly, *Capacity*, encompasses the policy resources

available to the state, which affect its ability to co-opt or coerce key societal groups in the face of economic statecraft. And thirdly *Legitimacy* refers to the degree to which domestic groups acknowledge the leaders right to rule, respect the authority of the state, and defer to it. These three concepts fall under the overarching term stateness.

A targets level of stateness determines the target states ability to defy the modified economic stimuli or to comply to the signals despite domestic opposition. In the first case stateness provides a buffer against domestic political fallout, from key societal groups experiencing economic opportunities from economic statecraft signals and in the second case high stateness enables policy change in concurrence with the senders demands even if key societal actors, experiencing economic costs, favor resistance. (Blanchard, J. M. F., & Ripsman, N. M. 2008)



(leaderships pathway Blanchard, J. M. F., & Ripsman, N. M. 2008:12)



(Key societal groups pathway Blanchard, J. M. F., & Ripsman, N. M. 2008: 11)

When investigating economic statecraft, the first thing to find out is the effect the sending state tries to achieve, in this case the security externality China aims for. Secondly, it has to made clear if the economic statecraft is targets the leadership or key domestic coalitions. The target states institutional framework influences the systemic forces at work and how those forces are perceived by the actors involved. It might not only be indicative for its relative material power but also on the relative power position of the actors engaged in China’s golden triangle and thereby on the sending states relative material power and perceptions thereof. Therefore, a third

focus is the impact, target state institutional conditions have on the Chinese domestic business government conditions determining the level of NOC autonomy and the power relations within China's golden triangle. (Morck, R., Yeung, B., & Zhao, M. 2008; Blanchard, J. M. F., & Ripsman, N. M. 2008)

5. Concepts and measurements

This thesis takes both international and domestic level variables into account in the investigation of the conditions that determine success or failure of China's economic statecraft. This chapter will describe the concepts and measurements used to do this. I will firstly go in to the international level and explain how the first hypothesis on international economic strategy is going to be tested, using the concept security externality.

In the second part of this chapter I will explain how Blanchard en Ripsman's framework can be used to analyze the target countries domestic institutional structure. Applying this framework to China's oil for infrastructure deals, makes it possible to test the second and third hypotheses and shed light on pathway of economic statecraft that China follows.

In the third part of this chapter I will introduce five Chinese domestic business-government conditions that, according to Norris, have to be analyzed to determine the extent to which the government can direct and control its commercial actors. (Norris 2010)

Security externalities

Norris categorizes the externalities on the basis of their effects on the targets. The resulting typology captures the full range of security effects that may be generated as a consequence of economic activity. There are two broad categories of externalities, those acting through primarily economic channels and those externalities with a direct military effect. There are six causal pathways of externalization:

1. Hollowing out, or the weakening of a target states military capability.

2. Strategic transfer or the strengthening of the target states military capabilities.
3. Corrosion, economic interaction aimed at the erosion of the health of the targets economy.
4. Bolstering, where economic interaction improves the health of the target states economy.
5. Coercive leverage, economic patterns generate structural dependence.
6. Interest transformation, the interests, goals and objectives of the target state are redefined in such a way that it actually wants the same thing as the state engaging in this type of economic statecraft. (Norris 2010)

The military types of security externalities, hollowing out and strategic transfer are aimed to directly increase or decrease the perceived level of security of the target state. Economic interaction either undermines the continuing commercial viability of firms, sectors or industries that directly contribute to states military power capabilities or it enhances a target states military capabilities through the acquisition of strategic goods, knowledge resources or dual use/ and or dedicated military technology.

In contrary to the military types of security externalities, security ramifications in economic externalities often second order consequences of the economic interaction, for example higher levels of security through increased economic interdependence. The economic branch is subdivided into two groups. The first group contains corrosion and bolstering or the types of externalities that affect the overall health of the target economy as an end in itself. In coercive leverage and interest transformation influencing economic interaction plays an instrumental rather than a teleological role. The target state economy is used as means in pursuit of accessing explorations rights and securing long term supply contracts in the oil industry as end. (Norris 2010)

Institutional structure

The three elements of stateness are alternative paths to resisting the senders demands. A state with a high autonomy would be able to ignore domestic opposition generated by economic statecraft, a state with a high capacity could overcome opposition through economic or coercive means and a state with a high legitimacy could rally domestic opponents. Hence a state manifesting a high degree on one component of stateness has significant stateness, regardless of its levels of the other two components.

Blanchard en Ripsman's concept of stateness is meant to provide a broad definition applicable to economic statecraft in general, regardless of the sector of focus. According to O. Bayulgen and J. Ladewig , when NOCs as instruments of economic statecraft, a key focus should be the balance between executive and institutional capacity in the target country. *"We hypothesize that high degrees of executive constraints create an investment environment that is credible for foreign investors only in political regimes that have the institutional capacity to build coalitions among veto players and resolve conflicts regarding investment policies. Weak executive constraints alternatively, are attractive to foreign investors in political regimes that lack the institutional capacity to mediate among veto players. Hence, both consolidated democracies and autocratic regimes can produce investment policies that are attractive to foreign investors."*(O. Bayulgen and J. Ladewig; 2004)

Taken together the three components of stateness represents the totality of the multifaceted state-society relationship in a given polity. However, since a state manifesting a high degree on one component of stateness has significant stateness, regardless of its levels of the other two components and various authors have shown that executive constraints are of primary interest when investigating the effectiveness

of economic statecraft in the oil sector, the focus will be on the target countries institutional level of executive decision making autonomy. Blanchard and Ripsman provide five guiding questions which can be used to analyze a target countries institutional level of decision making autonomy.

1. Is there a separation or a concentration of power? In short, does the executive/ leader dominate or does the legislature, the military or some other actor act as a veto player over foreign policy?
2. Is the executive a unitary actor or is it a coalition of parties or interest groups?
3. Do different parties/ factions control different institutions of government?
4. Do existing political procedures facilitate autonomous action by the executive leader? Do key actors routinely defer to the executive in foreign affairs?

(Blanchard, J. M. F., & Ripsman, N. M. 2008)

Business-government conditions

I will conclude this chapter with the introduction of Norris's five Chinese domestic business-government conditions that have to be analyzed to determine the extent to which the government can direct and control its commercial actors.

1. Compatibility of State and NOC goals

The first condition the *Compatibility of State and NOC goals* can be placed within the state centralism vs. market domination paradox. It considers the question how closely the goals of the commercial actor are aligned with those of the principal? A high degree of alignment facilitates the ability of the state to achieve its goals since motivating the commercial actor to pursue goals that are complementary to what the commercial actor would do anyway is fairly easy. If the states goals are highly compatible with those of the commercial actors, the state would find it easier to

control or direct commercial actors in pursuit of its strategic national goals. (Norris 2010)

2. Structure of the market

The second condition analyses the structure of the oil market and can also be placed within the first paradox. A market structure where various Chinese NOCs are present and more importantly, have incentives to compete with each other, can result in a situation where NOC commercial motivations get preference over Chinese governments strategic interests. In a fragmented market with a high diversity of foreign oil companies, the target state is less dependent on the Chinese NOCs, making it less susceptible to Chinese economic statecraft.

In a concentrated market structure NOC behavior is more easy to control and the Beijing as puppeteer scenario would be more likely. However monopolistic or duopolistic market structures may produce very large and powerful firms, that are likely to enjoy significant bargaining power vis a vis the government. (Norris 2010)

3. Nature of the reporting relationship

The third condition investigates the nature of the reporting relationship between the state and the commercial actor. The more direct these relationships are, the easier it will be for the government to exercise control over the commercial actors and vice versa indirect relationships result in a higher degree of NOC autonomy. (Norris 2010)

4. Unity of the state.

The fourth condition to access difference between NOC and government interests is the unity of the state. In situations where there are multiple competing and conflicting bureaucratic authorities or in situations in which the state is internally divided among

competing factions or groups, it would be more difficult to control and NOCs. In situation characterized by a highly unified state there is less room for autonomous NOC expeditions. (Norris 2010)

5. Resource endowments

The last factor of importance to investigate the second paradox is the relative capabilities or resource endowments between the state and the commercial actors. If the state is endowed with a considerable budget, large staff of experienced professionals and a track record of active directions of commercial activities there would be a higher degree of control of commercial actors. However if the NOC possesses a significant pool of knowledge and financial resources it would be easier to obtain a higher degree of autonomy. (Norris 2010)

6. Case selection and Hypotheses

The search for and diversification of oil import channels has resulted in cooperation agreements with partners all over the World: Iran, Saudi Arabia, Kazakhstan, Brazil and African oil producing countries like Angola. Especially the countries that can be characterized as relatively poor but also have large oil reserves are of special interest to China. (Kolstad, I., & Wiig, A. 2011; Downs, E. 2006) In order to satisfy the dragons raging thirst, the PRC has diversified its supply by developing an Asia based regional capacity for oil production that makes it less dependent on international shipping, and placed a firm foot on African shore in the energy development of the African continent. (Douglas, J. K., Nelson, M. B., & Schwartz, K. 2006)

China and Angola signed a series of cooperative projects of the oil trade; on the other hand from economic perspective, the Chinese government helps Angola build its infrastructures, and cheap commodities as well. In 2006 the fruit of this investment paid off and Angola surpassed Saudi Arabia as China's largest supplier of oil. (Yilin, J., & Shihua, L. 2012; Douglas, J. K., Nelson, M. B., & Schwartz, K. 2006;)

Brazil is China's second largest supplier in the region after Venezuela. Bilateral trade between the countries has grown exponentially over the past decade, with Chinese commodities imports accounting for nearly half of total value, and reflecting the regional trend. In comparison to Angola, China's import chart from Brazil is a bit more diversified, including foodstuffs (soy beans) and mining, along with oil. The discovery of new reservoirs spiked China's strategic interest in the Brazilian oil industry. (Pereira, C., & de Castro Neves, J. A. 2012).

While all three banks EXIM, CDB and ICBC are involved in the provision of Chinese credit lines to oil rich countries the infrastructure for oil deal framed in the context of financial development aid is only provided by the EXIM bank. Chinese oil

for infrastructure deals successfully provided Chinese access to oil equity and assets in Angola, production of 47000 bpd and between 20% and 50% ownership in four blocks. In Brazil on the other hand, the EXIM bank's infrastructure for oil deal was only successfully implemented in the first phase of the construction of the GASENE gas pipeline linking Rio de Janeiro and Bahia states. (Gallagher, K. P., Koleski, K., & Irwin, A. 2012)

The idea was that this project would open the door for projects on a similar basis in Brazil's oil sector. However, the negotiations on the implementation of the "Angola mode" in Brazil stalled because there were resentments against the import of Chinese labor, Brazilian Law required 75% Brazilian content and the Brazil's development bank, *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) didn't want to make concessions to massive labor force, strict labor laws and leftist government. Soon after, the CDB replaced the EXIM bank on the GASENE project and became the primary source of Chinese credit extension in Brazil. (Alves, A. C. 2011)

The two 20% ownership shares of Sinopec in Brazil were acquired as collateral to oil backed CDB loans not EXIM bank concessional loans. NOC acquisitions in Brazil independent from the golden triangle were far more successful. Independent Chinese NOC acquisition efforts in Angola on the other hand, were all unsuccessful. Apparently the golden triangle oil for infrastructure deal does not produce the same result in every country. Because China tried to enter the Brazilian oil sector using the same formula as in Angola and because of the high discrepancy between two countries considering in the level of success this instrument of economic statecraft achieved, special attention will be paid to the oil for infrastructure deal. (Alves, A. C. 2011)

Golden triangle Petroleum assets in Angola and Brazil						
Angola	Oil assets	Consortium	Reserves Share Chinese NOC's	Progress stage depth and crude	liquid quota Sino-pec	Total
	50% Block 18 2004	Op. BP50%	1 bn	Production (largest find Plutonio, start Oct. 2007); Deep-water (1,200-1,500 m); Light crude (33.2 API)	27.5%	Reserves 972 mn barrels
	20% block 15/06 2006	Op. ENI 35%; Sonangol E.P. 15%; Total, 15%; Falcon Oil 5%; Gemas 5%	1.5bn	Exploration (largest find: Cabaça South Oct. 2010); Deep-water (400-1,500 m); Light crude (34 API)	11%	Production 47000 bpd
	27.5 % Block 17/06 2006	Op. Total26%; Sonangol E.P. 24%; Falcon Oil 5%; ACR 5%; Partex 2.5%; Somoil 10%	1bn	Exploration phase (largest find: Begonia, Apr. 2010); Deep-water (600-1,900 m); Light crude (36 API)	15.3%	
	40% block 18/06 2006	Op. Petrobras 30%; Sonangol E.P. 20%; Falcon Oil 5%; Gemas 5%	700mn	Exploration phase (Largest find: Magnesium-01, Nov. 2009); Deep-water (750-1750 m); Medium crude (API around 20s)	22%	
Brazil	20% Block BMP AMA -3	Sinopec	unknown	Still at exploration phase	20%	Still at exploration phase
	20% Block BMP AMA -8	Sinopec			20%	

Based on tables in (Alves, A. C. 2013)

Hypotheses

This thesis aims to enlighten processes involving the interaction between actors and structures on both the domestic and the international level of analysis. The first hypothesis has an international focus, and states that awareness among China's leadership of its dependency on imported oil and the realization that China's largest source of power is economic, results in economic statecraft strategies aimed at

security externalities that establish structures of economic interdependence between China and the target county.

Given China's experience in dealing with opaque and difficult business environments and burdensome regulations by establishing good relationships with the local political elite. And because China's leadership reasons from a "mirror imaging bias" that emphasizes state control over market domination, the second hypothesis is that China's oil for infrastructure deals follow the leaderships pathway of economic statecraft. (Moreira, S. 2013; Lieberthal and Herberg 2006; Blanchard, J. M. F. 2011; Burgos Caceres, S., & Ear, S. 2012)

A third related hypothesis zooms in on the target states domestic level. According to this hypothesis, Chinese oil for infrastructure deals in Angola were successful because the high level executive decision making autonomy enabled Angolan leadership to resist domestic opposition these deals failed in Brazil because its level of executive decision making autonomy isn't sufficient to overcome domestic opposition.

According to the fourth and final hypothesis there is an interaction effect between the target states institutions and the level of autonomy Chinese NOC enjoy versus their government. Weak target state institutional environments strengthen China's relative power position versus the target county resulting in a higher ability to control its NOCs, strong target state institutional frameworks weaken the relative power position of China and thereby increases NOC autonomous decision making ability

7. Economic statecraft in Brazil and Angola: comparable types of externalities?

This chapter will focus on the international level of analysis and test the first two hypotheses:

1. *Chinese economic statecraft strategies are aimed at security externalities that establish structures of economic interdependence,*
2. *China's oil for infrastructure deals follow the leaderships pathway of economic statecraft.*

Firstly, I will explain which type of security externality China aims for in Angola and Brazil. Secondly, I will assess which pathway of economic statecraft China's infrastructure for oil deal follows.

Angola

After nearly four decades of civil war Angola's national infrastructure was devastated. Almost 80 percent of Angola's transport infrastructure was still not operational in 2009 (Corkin, L. 2012) After the end of Angola's civil war, the Angolan government emphasized rapid reconstruction. (GAO. 2013) Because the blueprint for the infrastructure for oil loans was laid down in Angola, the infrastructure for loans structure as instrument on economic statecraft is also known as the Angola mode. (Corkin, L. 2011)

The Chinese state, in the light of its no strings attached policy, provides the money without the conditionality's. (Sogge, D. 2009) "*China, essentially replaced conditionality-ridden OECD donors and Bretton Woods institutions as the source of credit for Angola's 'reconstruction', and is unruffled by fashionable Western good governance agendas.*"(De Oliveira, R. S. 2009: 623)

While China's prime interest is securing long term supply contracts and accessing exploration rights for reasonable prices and Angola's prime interest is diversifying its economy, Angola and China have a common interests in the improvement of the country's infrastructure. Or as Alves claims: *"By instigating the gradual emergence of economic interdependence, China hopes to build up its leverage over weaker states, so as to enact coalitions that will favor its interests in the long run."* (Alves, A. C. 2011: 54) This has made the infrastructure for oil deals a very effective instrument of Chinese economic statecraft.

Chinese success in securing long term supply contracts and accessing exploration rights becomes apparent when looking at Chinese Angolan trade figures. Angolan oil exports to China have increased sevenfold since China first became involved in Angola in 2002. Overtaking Saudi Arabia, Angola has become China's top oil provider in 2010. China's year-on-year trade with Angola totaled US\$2.04 billion in January 2010, with Chinese acquisitions totaling US\$1.85 billion since 2002. (Burgos, S., & Ear, S. 2012(a))

While the practice of Chinese economic statecraft in Angola improved the Angolan economy, the causal pathway of bolstering necessitates the exertion of the increased power the target state in the international arena that benefits the sending state. (Norris 2010) Examples of a bolstering strategy are for example the British support for its allies in the Napoleonic allies, Soviet aid and economic ties to Cuba, and the formation of the General Agreement on Tariffs and Trade, GATT. (Norris 2010) Whereas coercive leverage is employed to enforce state A's compliance to state B, interest transformation actually seeks to alter state A's goals and bring them in closer alignment with B's interest. The security externality resulting from the economic interaction between Angola and China best resembles the interest transformation pathway of security externalities.

Brazil

Due to Brazil's rising profile as an oil producer, China's interest in Brazil's oil industry increased substantially towards the end of the decade. The increase in volume of Brazil's oil exports to China from 2009 to 2010 indicates the emergence of a new south-south dimension as China attempts to diversify its supply sources. The potential of Brazil's pre-salt reservoirs will soon place Brazil amongst the world's largest oil producers. (Aykut, D., & Goldstein, A. 2007)

Just like in Angola, the framework agreements and official calls from Beijing to engage in infrastructure construction were made in Brazil. Unlike Chinese investment in Angola that kicked off in 2004, Chinese investment stock in Brazil remained small throughout most of the first decade. This changed during the last years of this decade and in 2009 China had become Brazil's largest trade partner. The leap in Chinese investments is an important indicator of the rise of a new stage in the bilateral relationship. (Eunsuk Hong and Laixiang Sun 2006)

The investments followed two patterns, the inclusion of Brazil in the international base of suppliers of raw materials for China, and the entry of the Chinese into the consumer market and the Brazilian industrial area. China tries to incorporate Brazil into its international base of suppliers of raw materials by actively participating in the broad and growing Brazilian consumer market. The predominance of state-owned companies and Chinese investment on the Brazilian consumer market and industrial area indicate that China's interest is not a temporary matter but aimed at establishing a pattern of structural complex interdependence. (Buckley, P at al 2007)

According to a CBBC rapport, Chinese investments in Brazil are mainly directed at the ongoing integration between the two economies and "*there is no doubt*

that the Chinese are making Brazil part of their international supply base for natural resources.” (Silva, E.R. Soares, A 2011: 24)

Because the economic interaction between Brazil and China is obviously aimed at establishing economic integration providing both with a common stake in the success of the integrated economic entity. (Eunsuk Hong and Laixiang Sun 2006) Chinese leaderships aim at the interests transformation externality is even more obvious than in Angola. By investing in Brazilian infrastructure and consumer market China seeks to alter Brazil's economic goals and objectives and tries to align them with China's strategic interest in resource security. (Norris William J. 2010)

The pathway of the infrastructure for oil deals

By examining the “Angola mode” through the framework provided by Blanchard and Ripsman, it can be determined if this instrument of Chinese economic statecraft follows the leadership or the key societal groups pathway. (Blanchard, J. M. F., & Ripsman, N. M. 2008)

The Angola mode offers raw economic stimuli in the form of oil for infrastructure loans provided by EXIM bank. The agreement for these loans has to be formalized in a cooperation framework agreement with the sending and the target state government. In this framework agreement the general terms of the raw economic stimulant (the loan) such as the volume of oil as collateral, the interest rate and maturity are determined. (Dralle, T)

The infrastructure for oil deals have two major features. Firstly, the loans are extended on the condition that the money is invested in infrastructural development. This is founded by two legal instruments: a framework cooperation agreement signed by the two governments in which the general terms of the loan are stated and a loan agreement signed by the EXIM bank and the borrower. The loans are administered on

a project basis through the borrowers account with EXIM bank and a condition to the loans is that the infrastructural works are assigned to Chinese contractors. Through the borrowers account the payments are made directly to these contractors. This means the money actually never leaves China. (Foster, V. 2009)

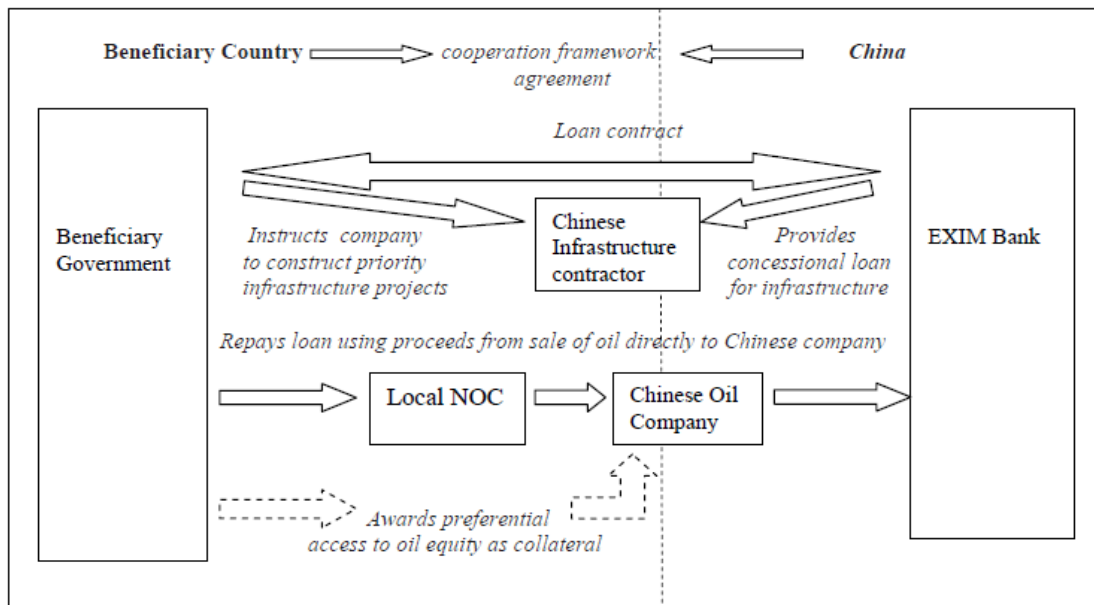
Secondly, repayment is done using proceeds from sale of oil directly to the Chinese company favorably with access to oil equity as collateral. Before the loans are extended a sovereign guarantee is required. The low creditworthiness of developing countries is obviated by placing the local NOC as guarantor of the loan and by requiring repayment to be done in kind. This is done by selling a contractually recorded amount of barrels of oil per day directly from the host countries NOC to the Chinese oil company. The figure of the barrels of oil per day to service the loan is allowed to fluctuate according to fluctuating oil prices. This is why Foster et al claim that the emphasis of the Chinese state in the credit deals tied to repayment in oil is not on creating a hedge against future oil prices but instead a way of securing a steady supply in line with Chinese oil security goals. (Foster, V. 2009)

The infrastructural improvements made possible through the loans might enable the development of other economic sectors which might provide possible investments opportunities from abroad. On the other hand, Chinese leverage on such an important sector of the economy and the close relation between the Chinese and the target state government might discourage others to invest because they fear unequal competitive advantages. This resembles the third step, or third party amplification resulting in modified economy stimuli. (Blanchard, J. M. F., & Ripsman, N. M. 2008)

If the state's leadership decide to coopt with the economic statecraft this is where the domestic level comes into play. (Blanchard, J. M. F., & Ripsman, N. M. 2008) The infrastructural improvements might also benefit local entrepreneurs from

other sectors, make the country more accessible for products from other countries and provide easier access to markets abroad. On the other hand there is also the danger of premature opening up of the domestic market, where the target states domestic products are unable to compete with Chinese import. Additionally, the obligatory contracting of Chinese companies to execute the infrastructural works can result in a lot of resistance from domestic unions and labor organizations. There is also a danger that the domestic corporate elite fears too much Chinese leverage and influence on the countries domestic economy and oil industry. Dependence lurks beneath the surface when engaging in China's interest transformation programs. (Alves, A.C. 2012).

If target state leaders decide to coopt, a high level of executive decision making autonomy will provide a buffer against domestic political fallout, that is, it will restrict the reach of the political costs, to prevent danger to the leadership's position. (Blanchard, J. M. F., & Ripsman, N. M. 2008) In contrast states with a lower degree executive decision making autonomy are more vulnerable to domestic political punishment. Domestic NOC's and labor organizations will have considerable influence on executive policy formation and execution and will have a greater propensity and ability to resist a countries compliance to economic statecraft.



(Alves, A. C. 2011:52)

Chapter conclusion

As predicted by first and the second hypothesis, both in Angola and Brazil China's economic statecraft is aimed at target state interest transformation by establishing interdependence between its own and the target countries economic system. With the infrastructure for oil deals Beijing tries to implement the leadership pathway of economic statecraft in Angola and Brazil however, with differing levels of success. (Blanchard, J. M. F., & Ripsman, N. M. 2008)

In Angola these deals led to a successful obtainment of long term supply contracts and exploration rights while in the Brazilian oil sector similar efforts did not achieve the same result. In the next two chapters I will investigate if the success of China's economic statecraft in Angola can be attributed to the high level of executive decision making autonomy, and the failure of economic statecraft in Brazil due to a lack thereof.

8. The target state domestic level: Angola

As described in chapter three this thesis aims to shed light on processes involving at least two states, a sending and a receiving state, on two levels of analysis, domestic and international. It has been explained that on the international level, the Chinese government tries to achieve interest transformation in Angola and Brazil through establishing structures of economic interdependence using the leaderships pathway of economic statecraft.

The next two chapters will test the third hypothesis for the Angolan and Brazilian case, and assess how target states institutional conditions impact the target countries relative material power position and the impact this has on its susceptibility to economic statecraft. The success or failure of economic statecraft is dependent on political costs or opportunities it engenders. Whether economic statecraft results in political costs or opportunities depend on the extent to which key societal groups are co-opted by the economic opportunities or costs of economic statecraft. (Blanchard, J. M. F., & Ripsman, N. M. 2008)

If key societal groups are to a high degree co-opted in the economic benefits of economic statecraft and push for policy change, a high degree of executive decision making autonomy helps state leadership to resist these demands. If key societal groups are to a high degree co-opted in the costs of economic statecraft, the institutional level of executive decision making autonomy provides a buffer for the political fallout for leaders who do want to comply. This chapter shall review the co-option of key societal groups and the level of executive decision making autonomy in Angola and in the next chapter the process shall be repeated for Brazil. (Blanchard, J. M. F., & Ripsman, N. M. 2008)

The cooption of key societal groups

The state enterprise Sonangol has been a crucial instrument in the leadership's hands. Created in 1976 as the national oil company, it is today a big and successful holding company. While Angola's institutional environment is generally characterized as a fragile decaying system the competent and robust institution Sonangol forms "*the centerpiece in the management of Angola's successful failed state*" (Sogge, D. 2009)

Up to half of Angola's yearly oil revenues are disappearing in the presidency's system of parallel finances where oil-backed loans are "deployed for general governments use". Oil operations run through an extensive network of offshore accounts from which commissions are then paid to regime notables and foreign middlemen. The deals stipulating that loans should be serviced through the direct delivery of oil perfectly fitted with China's oil for infrastructure deals and inevitable made Sonangol party to these loans. Oil backed loans provide the state elite with an easy source of money, that due to complex offshore financial constructions is outside any sort of control. (De Oliveira, R. S. 2009)

The executive power uses Sonangol to form a "parallel state" far more efficient than the deteriorated official state structures. This parallel state takes on complex operations involving foreign partners in a way official government organs like the Ministry of Finance or the Bank of Angola could not. After its establishment in 1976 the state owned Sonangol company took over the operations and infrastructure left behind by Mobil, Texaco, Fina and Shell, which left Angola after it became independent. The first petroleum law promulgated two years later placed Sonangol at the core of the Angolan oil industry. (Sogge, D. 2009)

The oil revenues of Angola's completely state controlled NOC Sonangol, enable the Angolan state to provide solid enough credibility and sovereignty to comply with contracts as enforced by international lawyers, judges and mediators. It

exercises a monopoly of coercive power in zones relevant to oil corporations and has built alliances with colluding political and corporate actors abroad, acquiring both technical capacities in the oil sector as well as in the military, financial and media realms. The Sonangol centered parallel state has resulted in a marginalization of formal institutions and an increase of the executive power of the presidency. (Hodges, T. 2001).

Most of Sonangol's senior technocrats are also supportive of this process. Despite their expressions in interview of desires to roll back the patrimonial character of Angola's political economy, they do not actually envisage having to compete in a genuinely open market. To maintain the status quo Sonangol creates opportunities for the well-connected but non-entrepreneurial individuals, while genuine entrepreneurship is made next to impossible. By sharing rentier opportunities and some of the spoils of the oil boom across the elite continuing support for the presidency is secured.

Sonangol Group has been not only the manager of the Futungo's phantom revenue flows, but also the enabler of elite rentierism across important non-oil dimensions of the domestic economy, simultaneously guaranteeing that all profitable business opportunities are arbitrated by state rulers via the company. (Sogge, D. 2009)

Level of executive decision making autonomy

Angola's dual state enables a small key societal key societal to profit from the economic opportunities Chinese economic statecraft offers. However the vast majority of Angolan society that does not profit from the oil revenues still poses a possible political threat to Angolan leadership. Using Blanchard and Ripsmans

questions I shall assess the extent to which the level institutional of decision making autonomy forms a buffer for the political costs of Angola's parallel state.

- 1. Is there a separation or a concentration of power? In short, does the executive/ leader dominate or does the legislature, the military or some other actor act as a veto player over foreign policy?*

Formally speaking, Angola is constitutional parliamentary democracy, a political system that operates through executive, legislative and judicial branches whose separate powers allow for checks and balances among all three. In a parliamentary democracy multiple parties, civil society organizations and free media enable the public to make its voice heard. However in Angola the formal constitutional system is merely a legitimating façade of formal arrangements that hides the way politics actually work.

In reality the Angolan president's office uses the dominant People's Movement for the Liberation of Angola party (MPLA) to manage a clientalist system of state control. This monopoly is in some cases even formally expressed, for example in the executives powers to appoint or dismiss all officials of the judicial branch, from the supreme court to the audit court. Informally key bodies like the national electoral commission are stacked with ruling party adherents. The lack of financial autonomy, minimal resources and the narrow mandates of the Parliament severely restrict the effective power of the parliament. These kinds of expressions of executive power points neither to the checks nor the balances necessary to maintain a parliamentary democracy. (Rajan, S. C. 2011)

The parliament is mainly a platform for the ruling party the MPLA which got 59 percent of all seats in the first elections in 1992, 87 percent in the 2008 elections and 82 percent in the last elections in 2012. In practical terms this means that the one-

party system of pre 1992 has been restored and that the political debate and checks and balances take place behind the closed doors of the party/ governmental leadership. (Campos, I. 2008)

The judicial branch has the same weak and subordinated position to central authorities. A formal legal system has never been accessible to ordinary Angolans. Suits of citizens against authorities are a curiosity and the government actively promotes less formal and binding approaches to dispute settlement that exclude the judicial branch. These bodies have no mandates to enforce laws or impose legally binding outcomes and merely serve to alert the authorities to problems without requiring them to find solutions. (Sogge, D. 2009)

The legal framework assigns Sonangol with quasi regulatory competences such as the organization of oil auctions and signing production sharing agreements with exploration and production activities. Foreign companies are only allowed to enter the country if they are associated to Sonangol. Its position in the sector is further strengthened by legal aspects that give Sonangol the right of first refusal when one of its associates sells its position or part of it in a block. Other institutional players that are legally obliged to act as regulators for the sector, such as the Ministry of Finance and the Ministry of Petroleum are dwarfed by Sonangol's strong hold over the industry. (De Oliveira, R. S. 2009; Sogge, D. 2009)

The regime is able to control and color the information available to the public, through its command of the airwaves and power to intimidate or buy off critics. Transparency about official budgets and essential political and economic matters is highly restricted keeping the general public and probably some in the political class completely in the dark posing major barriers to open informed politics. (Corkin, L. 2011).

2. *Is the executive a unitary actor or is it a coalition of parties or interest groups?*

As a country with a history tainted red by blood, it comes as no surprise that Angolan actors, before trying anything else, usually take paths of violence and coercion. Thanks to a flow of petrodollars and a free market in military goods and services, Angola is today a highly militarized and ‘securitized’ place. This highly securitized state is very capable to keep domestic parties and interests groups under control, guarding the executives monopoly. (Sogge, D. 2009)

The authority of the formally independent civilian politicians has been dependent on pacts with senior military officials. Effective, disciplined and loyal armed forces are a fundamental project in Angolan state building. The recruitment, training discipline and compensation of military and security officials is closely monitored by senior figures with a close eye for the social make-up of the security branches in order to reduce the risk of dissention and disloyalty. The rise of possible opponents is prevented by a combination of deterrence by the securitized state and an inclusive approach, recruiting officers of ethnic groups from which the opposing parties and their insurgent armies draw adherents. In this way existing parties are conditioned and subdued by the MPLA’s executive power. (Aguilar, R., & Goldstein, A. 2009; Sogge, D. 2009)

3. *Do different parties/factions control different institutions of government*

Oil and war changed the focus of the Angolan economy from being primarily geared to global markets thanks chiefly to agrarian exports, to a situation where the agrarian economy is destroyed and the demographic center of gravity lays in the urban areas.

In the Angolan resource dependent economy the earnings and investment capital of local production systems are dependent on markets driven by the consumption of hydrocarbons elsewhere in the world this means that the urban enclaves are poorly linked with local production systems. Angola's highest source of revenue is the elite export of oil to other countries, domestic politics therefor has little to do with reciprocal relationships between citizens as payers of taxes or producers of goods on the one hand and a political class in need of those taxes and goods on the other. (De Oliveira, R. S. 2009)

Central authorities are aware of the danger of this lack of connection between the civil society (no matter how poorly it might be defined) and the government. This makes them hyper-alert to incipient separatism. Central authorities steer and finance sub-national governance in layers down to local levels, keeping provincial elites "inside the tent" by making every subnational government only accountable upward, to the top authorities in Luanda. (De Oliveira, R. S. 2009)

4. Do existing political procedures facilitate autonomous action by the executive leader?

One of the main goals of the Angolan parallel state is to enable autonomous action of the executive via Sonangol. Sonangol's impact on Angola's economy does not stop in the oil industry, the company has a tendency to invest directly, or allow insiders to invest in all branches of Angolan economy. Because of Sonangol's vast amount of physical resources, personnel and political capital this meddling with economic sectors unrelated to its core business leads to a squeezing out of competitors. This monopolization of the whole Angolan economy enables the upper ranks of the bureaucracy, the military, the party, and their families to steer the revenues of almost all economic activity in Angola in their direction. (De Oliveira, R. S. 2009)

Angola is too valuable an oil province to pass over, but outside the sheltered oil enclave Angola is one of the riskiest economies worldwide to invest in. Sonangol's foreign business partners, major oil firms, service and construction companies, banks and lawyers, oblige because the real burden of this monopolistic drive does not affect them. In sum, what happens in Angola happens according to Sonangol standards as determined by its political masters or it does not happen at all. (GAO, 2013; Aguilar, R., & Goldstein, A. 2009)

5. *What are the prevailing norms of the conduct of foreign policy? Do they encourage executive/leader independence in foreign affairs or executive/leader restraint?*

That the political masters of Sonangol determine what happens in Angola also means that they determine the norms of the conduct of foreign policy. Just as business and politics on the domestic level foreign affairs in Angola are characterized by a high level of executive independence. Because of its oil, there will always be an interest by multiple external and internal actors in maintaining the central structure, whatever the domestic political conditions. (GAO, 2013)

Angola's oil wealth also ensures that there will be enough resources available to prop up incumbents, guarantee the enrichment of the political elite and coerce or co-opt enemies resulting in a political order that is on the one hand violent, arbitrary, exploitative but on the other hand fairly reliable. Because of these stable interests, and Sonangol's financial and political dominance the structure of politics is stable and viable despite the unstable and fragmentary political process.

The relationship between the Angolan state and the oil companies will work in a mutually beneficial way as long as two conditions are in place. Firstly, the parallel economic system insulating oil companies from the unreliability of local conditions

and secondly, the maintenance of the two sorts of state organization. This condition provides an acceptable legal framework and the logistical efficiency to enable the formation of oil enclaves where companies can operate freely and do not face the rent seeking, contractual uncertainty or threat of expropriation that is so widespread outside the oil industry. (De Oliveira, R. S. 2009)

The second condition is the existence of the parallel state. The two sorts of state organization refer to both the failed and the successful part of the Angolese state. Failed because the Angola needs extensive instruments of coercion, in the form of one of Africa's largest armed forces, numerous police and paramilitary forces and an efficient intelligence apparatus to keep domestic interests groups and parties under control. Successful in the sense that Sonagol is an entity that articulates state interest in the oil sector with comparative prowess, bringing together its scarce human resources and enabling success in negotiations and joint ventures as well as access to oil-backed loans. (De Oliveira, R. S. 2009)

In short, limitations of human resources and of predictability, transparency, and the rule of law in the non-enclave Angolan economy mean that it is impossible to engage in it without encountering its rentier, unproductive dominant logic. Sonangol may well be 'a strategic island of competence ring-fenced against chaos elsewhere, but it is also very much part of that chaos and ultimately unfit to rise above it. (Sogge, D. 2009)

Conclusion

Despite the fact that Angola lacks legitimacy the parallel state structure does provide substantial amounts of decision making autonomy and capacity. Its parallel state in symbiosis with Sonangol means that the state has ample amounts of policy resources available to co-opt or coerce key societal groups. Key opposition and societal groups

that form a possible threat are adopted into the economic political system floating on oil. But this dual structure especially enables the executive power to select and implement policies with total disregard of possible domestic opposition.

Angola's parallel state enables a high degree of structural autonomy considering the actors with institutional power to contribute to policy making in the economic oil enclaves, while simultaneously effectively subduing or oppressing opposition in the domestic institutional chaos. Resulting in a high degree of stateness for the Angolan state. This parallel state depends for its survival on the flow of financial revenues from the oil industry, which leads to relatively weak relative power perceptions of the Angolan elite towards China despite the high level of stateness.

In a strange marriage of the latest expertise in oil exploration and the narrow enrichment goals of a failed state leadership, Sonagol is insulated from the rest of the incompetent state apparatus and engages successfully in high finance, business contracts and high tech oil technology. Engagement with Angola means engaging with Sonagol both on the national as well as the international level but despite its political key role it does not phrase itself in a politically intrusive way but is in its smooth transnational sophistication loyal to the presidency further enabling executive independence in foreign affairs. The third hypothesis can be confirmed for the Angolan case, Chinese oil for infrastructure deals perfectly fit Angola's high levels of, institutionally anchored, executive decision making autonomy.

9. The target state domestic level: Brazil

Since the military relinquished power in 1985 institutional design has been a dominant theme in the social science discussion on Brazil. The question of institutional design lays at the heart of the ongoing debates about the sustainability of Brazilian democracy. This chapter will look closer at the co-option of key societal groups and the level of executive decision making autonomy in Brazil.

Co-option of key societal groups

According to Kröger the state corporatism implanted in Brazilian society in the 1930s still continues to influence the Brazilian economy and society. In state corporatism the state actively promotes links between the leaders of both companies and labor and its own structures. Corporatist systems organize power relations between economic actors along the lines of traditional capital rich enterprises in an environment of limited competition and a strong government distributing all the available credit. State corporatist structures also mean that trade unions and industries do not organize horizontally over industry or profession-specific lines but hierarchically. (Kröger, M. 2012)

He claims that Brazil has been building a neo-mercantilist development approach based on non-institutional restrictions of imports and active promotion of exports. The main goal of this strategy is to increase the state clout in international political economy, which allows greater security and expansion, and control over territories; economic gains are the means to achieve these main goals. However, the Brazilian strategy in which an active state promotes global market competitiveness enforces the problematic institutional and structural arrangements of state corporatism. It seems to be exacerbating rather than resolving the power concentration and structural inequality identified with it. (Kröger, M. 2012)

The strong business constituencies of Brazil's pluralist democratic regime are reflected in the institutional structure of its oil sector. Under the authoritarian developmental state (1946-1989) oil exploitation was monopolized by the national oil company Petrobras but in the 1990s the state gradually assumed a regulatory role and Petrobras lost its exclusive rights. A constitutional amendment in 1995 opened the industry up to participation by other public and private enterprises, both national and foreign. As a company of mixed capital both public and private Petrobras is accountable to two different constituencies. A private stake motivated by pure revenue interests and the states golden share that is answerable to public constituencies. (Alves, A. C. 2012)

China became Brazil's largest trading partner in 2009. Although the commodities share in Brazilian export to China rose sharply over the period 2000-2011 the most significant shift in bilateral trade was the addition of oil to the Brazil-China exports. China made some serious efforts to tap into the countries oil industry. Several multibillion dollar credit lines for infrastructure development were announced but none materialized. The only credit line that did was a non-oil backed loan for the construction of a gas pipeline linking Rio de Janeiro with the Bahia states (GASENE project). Looking at the way this deal materialized the strong corporate influence on the formation and execution of Brazilian energy policy becomes clear. (Alves, A. C. 2012)

The EXIM bank expressed its interest in funding the project in 2004 on the usual oil for loans condition that Sinopec was signed up as contractor. Part of Hu Jintao's official visit to Brazil was signing the GASENE cooperation agreement. However Brazil's National Development Bank (BNDES) decided not to agree with the Chinese condition to make Petrobras guarantor of the loan and obligation, also in line with Chinese economic statecraft, to procure a large share of labor, services and goods in

China. These kinds of concessions were impossible to make for the BNDES because of Brazil's large industrial base, thriving services sector and strict labor and import laws. (Alves, A. C. 2011)

With provisional loans the project was eventually kickstarted in March 2006 and Petrobras allowed Sinopec to control the execution of the first phase of the project. Because the EXIM Bank kept pushing for a larger share of Chinese content Petrobras cancelled Sinopec's contract for the second phase of the GASENE project. A new tender was launched and eventually the CDB was authorized to replace EXIM bank. *When we compare development banks, CDB offers mostly commercial interest rate.* (Gallagher, K. P., Koleski, K., & Irwin, A. 2012: 11)

That the CDB was chosen over the EXIM bank despite the more commercial terms of its loans indicates that the BNDES preferred to pay a higher interest over the obligatory high Chinese content of the EXIM bank conditions. Considering the power of Brazil's key societal groups, the large industrial base and thriving services sector, BNDES could not make concessions considering the Brazilian work share. Rumors of importation of Chinese workers ignited massive waves of protest among the powerful labor unions of the country. The EXIM bank distributes loans under the financial aid umbrella with strategic interests instead of probability in mind. Thereby are the loans extended to governments rather than companies which gives the Chinese government a far greater ability to determine the conditions for the loans, making it an effective instrument of economic statecraft. (Alves, A. C. 2011)

The interest rates on the lines of credit extended to Petrobras are based on the London Interbank Offered Rate. Because the CDB credits unlike those of the EXIM do not fall under the aid umbrella and are extended to companies instead of governments loans from the CDB gives Petrobras far more leeway considering the conditions of the loan. EXIM credit extension is primarily motivated by the strategic

interests of the Chinese government, the fact that commercial motives play a larger role in the CDB credit extension makes it a more attractive partner for Petrobras. (Downs 2011)

In October 2008, as the global financial crisis deepened and falling oil prices threatened Petrobras' plans to develop its high-cost pre-salt oil resources, CDB offered Petrobras a substantial line of credit because development of the pre-salt fields would boost Brazil's oil exports to China but primarily because the oil put up as collateral would make the loan highly profitable. (Downs, E. 2011) CDB's 2009 loan to Petrobras eventually led to Sinopec's 2 20% 205 blocks in the Para-Maranhao basin grew out of its search for business opportunities in Brazil (DOWNS). But in a way the credit extension by CDB instead of the EXIM bank can also be seen as an Chinese adoption to take the cooption of Brazil's key societal groups into account in exercising economic statecraft. Because of Petrobras its susceptibility to political influence in its decision making due to accountability to its private shareholders, CDBs loan was directly negotiated with and extended to Petrobras instead of the Brazilian executive. Secondly the loan was aimed at the development of the pre-salt reservoirs instead of infrastructure, and thirdly, learning from the GASENE experience, the Chinese content was reduced to a 30% minority parcel. (Alves, A. C. 2011)

Despite the fact that the CDB energy-backed loans are part of the governments energy security strategy, they are better viewed as transactions developed and shaped by multiple actors pursuing multiple interests, especially profitability. CDB's loans demonstrate that even cross-border energy deals that serve Beijing's strategic priorities and involve close coordination between the government, state-owned enterprises and banks are not necessarily part of a national blueprint for energy security. Business often comes first. (Downs, E.S. 2009)

Level of executive decision making autonomy

Where the key societal groups in Angola co-opted by Chinese economic statecraft profited from the oil for infrastructure deals, and therefore were eager to cooperate, in the Brazilian case other interests are at play.

- 1. Is there a separation or a concentration of power? In short, does the executive/leader dominate or does the legislature, the military or some other actor act as a veto player over foreign policy?*

Compared with Angola there are much more checks and balances in place in the Brazilian democracy to control the executive. The judiciary, the legislative and the federal states empowered by Brazils 1988 constitutions are able to effectively use their democratic prerogatives to block executive initiatives that counter their interests. The Judiciary system has multiple appeal possibilities and involves several layers of courts at federal and state levels. Unlike Angola the Judiciary system is able to operate independent from the executive power and forms an effective check. (Power, T. J. 2010)

In congress consisting of a Chamber of Deputies with 513 seats and a State Chamber with 81 seats, and exercising legislative power the loyalties are divided between party and state allegiance. Unlike Angola Brazil is characterized by extreme party fragmentation due to which it is almost a certainty that the Brazilian president will never control a majority of the seats in Congress. Even when the executive constructs a broad coalition, parties can and do abandon the president on key notes. (note) Because regional lobby groups cut across ideological boundaries it is difficult to enforce party discipline in Congress but also in the government itself. (Figueiredo, A. C., & Limongi, F. 2000)

The effective lobbying in Brazil means that material interest of powerful groups in society have primacy over political party ideology. Another effect of the effectiveness of the regionally orientated lobby groups is that most legislative debates are addressed by their regional impact. (Kröger, M. 2012)

Especially when resources related legislative acts are under discussion because of the underlying royalties question. Further fragmenting and complicating the picture is the autonomy of the federal states. Each state has its own legislature and administration. Regardless of party affiliation state governors tend to hold a strong influence over the Congress members from their state. Adding to this fragmentation of the federal executive is the influence independent civil society groups such as labor syndicates and socio-environmental movements and the well-established independent business class exert. (Kröger, M. 2012)

Although the Brazilian democracy is very fragmented, lobby groups have considerable power and the strong influence governors have over party members, none of the three powers is acting as a veto player considering policy formation. (Power, T. J. 2010)

2. *Is the executive a unitary actor or is it a coalition of parties or interest groups?*
Constrained by the separation of powers Brazilian presidents must obtain political support in a Congress with one of the highest levels of party fragmentation in the world. Additionally the control of party leaders over candidacies is restricted by an open list system which prevents them to exert influence over party members voting decisions within the Congress.

In these kinds of systems it is hard to discipline parties resulting in systematic resistance facing presidents trying to get their legislative proposals through Congress. However Figueiredo and Limongi show that this is not necessarily the case

in Brazil. According to them the extensive legislative powers of the president allow the executive both to control the legislative agenda and to restrict the legislature's transformative power. Because the executive controls the resources upon which politicians depend for their political survival and internal rules organize the legislative work entirely around political parties, decision making is highly centralized and the president can affect a legislators capacity to pursue particularistic policies. (Figueiredo, A. C., & Limongi, F. 2000)

In the 1990s it was attempted to dismantle this legacy and transfer deliberative power to civil society association and autonomous workers. Although councils and other participatory democratic institutions have been developed the neo-corporatist transformation of Brazilian society has been unsuccessful. Neo-liberal movements have weakened the position of the government and promoted company independence. This resulted in considerable political influence of the already powerful companies on political policy formation. (Kröger, M. 2012)

On May 2011 president Rouseff installed a new state corporatist institution. According to the director of Chamber Jorge Gerdau the goal of his Chamber of Management Policies, Performance and Competitiveness was to maintain good relations with the private sector without conflicts of interest and to optimize the performance of executive power in serving society, reducing costs and rationalizing processes and policies. But also this latest attempt to confine corporate influence on political decision making and bring executive power back to the government, gave Brazil's biggest capitalists one more channel of direct access to state bureaucracies. In other words Brazil still shows clear signs of state corporatism. Consequently powerful capital rich enterprises still have considerable influence on executive policy formation and execution. (Kröger, M. 2012)

3. *Do different parties/factions control different institutions of government?*

The neoliberal privatizations of the 1990s created a context of fostering an independent association between foreign and national capital. This interdependence strengthened the power of state institutions in economic decision making. In contrary to the commonly held view that neo-liberalism diminishes state coordination of the economy the neoliberal reforms of the 1990s, “*in reality helped to sow the ties of capitalism in Brazil. And created bases for its reinforcement in the subsequent government*” (Kröger, M. 2012)

However despite the fact that the fortification of the state corporatist system by neoliberal reforms during the 1990 might have resulted in an increase of state power the intentional government policies during this time led to an inversion of the hierarchy within the ruling classes. Neo-liberalism resulted in a shift of emphasis from the political to the economic realm, in favor of the interests of local family elites. (Kröger, M. 2012).

According to Abu-El-Haj, this development led to the adoption of a neo-mercantilist consensus among the most important politicians, industry groups, banks and economic think-tanks. These institutional arrangements, even after neoliberal privatization reforms gave big local capital preferential institutional access to the state, unifying the objectives of government and big capital so that it is hard to distinguish between them. (Abu-El-Haj, J. 2007).

This alliance supported neo-mercantilist interests and by limiting the institutional access of trade unions, limited the influence of contentious actors criticizing investment policies. This political economic social class still exists in Brazil and keeps on accumulating power. Their high salary earning positions offer them privileged positions from which they can exert influence over the legislative and

legal process, the administration of the public machine, the hiring of large quantities of workforce or even in the formation of public opinion.

*“In the 1990s, 287 of Brazil’s 300 largest corporations were controlled by Families. The continuity of elite families and their networks is impressive’.*³⁵ *After waves of corporate mergers in the past decade, the figure is even more concentrated.*³⁶ *One percent of the population controls more wealth than the poorest 50 per cent.*³⁷ *Five thousand Brazilian families, 0.001 per cent of the population, control 40 per cent of the country’s GDP.*³” (Kroger 2012 :892)

Adding more weight to this structure in the oil sector, are Brazil’s strict regulations regarding local content. From the beginning of the liberalization one of the major criteria to evaluate bids one of the major criteria to counter foreign influence was that a majority share of the ownership of the oilfields should be in the hands of Brazilian companies. Over the years this local content clause has become more demanding and complex, including different specifications for onshore and offshore, the various water depths, and developmental stages. Given the dominance of the corporate families this meant a further enrichment of a small group of local elites. (Sennes, R. U., & Narciso, T. 2009)

Although the leftist nature of Brazil’s current regime in combination with the nationalism of Brazils civil society considering resources, gives the executive some leeway in the exerting political influence over the oil sector in the sense that the directing board of Petrobras is appointed by the president. However the necessary sanctioning by the senate limits the executives autonomy in this regard.

All the above has contributed in different ways to a complex institutional structure in the oil sector that resulted in unclear/overlapping jurisdictions of different levels of authority and of regulatory frameworks. Additionally, bureaucratic

inefficiency, lack of synergy among state agents at the various levels and the latent nationalistic pressure over resource regulations has resulted in a relative regulatory instability of the sector over which the 5000 Brazilian corporate families have considerable leverage. (Power, T. J. 2010).

4. Do existing political procedures facilitate autonomous action by the executive leader?

In general, presidentialist systems such as Brazil's lack a built-in mechanism to induce cooperation between the executive and legislative branches of the government. Different constituencies and fixed mandates determine the behavior of the representatives and the president therefore the chances that the legislative and executive branch share the same agenda is small. The legislators political survival is not dependent on the success of the government hence representatives have few incentives to support the government. (Cason, J. W., & Power, T. J. 2009).

Brazil seems to be a worst case example of the presidential system where the president, constrained by the separation of powers, must obtain political support in a Congress with high party fragmentation and an open list system prevents party leaders from exerting control over party members. Brazilian presidents however have had a considerable degree of success in enacting their legislative agenda's. Decision making is highly centralized due to internal rules that organize legislative work entirely around political parties. The level of executive dominance over the legislation resembles that found in parliamentary regimes. This executive dominance is ensured by the range and extension of legislative powers held by the president. (Figueiredo, A. C., & Limongi, F. 2000)

The leaders of the parties that belong to the presidential coalition cooperate with the executive because participation in the government provides parties with

access to resources that individual legislators need for their political survival: policy influence and patronage. Party leaders exchange political support in the form of votes for policy influence and patronage. Backbenchers from parties who do not follow the party line are punished with sticks provided by the executive to the party leaders namely by denying them their share of patronage. Once the government is formed and benefits are distributed among the members of the coalition the president with the help of the party leaders, may threaten representatives and punish those who do not follow party line. Brazilian presidents govern essentially by agreeing to share executive power, for example by allocating different portfolio's to other parties. (Cason, J. W., & Power, T. J. 2009).

5. What are the prevailing norms of the conduct of foreign policy? Do they encourage executive/leader independence in foreign affairs or executive/ leader restraint?

Another consequence of the neo-mercantilist state corporatist direction of Brazil is the increasing role of the presidency in foreign affairs. Prior to the neoliberal reforms of 1994 presidents were highly dependent on the Ministry of External Relations (MRE) and accorded the ministry great autonomy in policy making. To the extent that when presidents were involved in diplomacy it was in the context of carefully stage-managed summits and state visits where outcomes were generally pre-negotiated. This radically changed in the mid-1990s. (Cason, J. W., & Power, T. J. 2009)

The neo-mercantilist development approach aimed at increasing the clout of the international political economy combined with level of executive dominance over the legislation resulted in a presidentialization of foreign policy. As a consequence Brazilian foreign policy has become much less consistent and “strategic”. As Brazilian presidents engage more directly in foreign affairs personal relationships

between Brazilian presidents and their counterparts have become much more important than they used to be. (Cason, J. W., & Power, T. J. 2009).

These institutional arrangements indicate extensive decision making autonomy of the executive leader. However, as mentioned before because the unified objectives of the government and big capital after the neoliberal reforms of the Brazilian economy make it hard to distinguish between state and corporate interests, these autonomous decisions are significantly influenced by corporate interest. The considerable power of lobby groups, the control governors have over party members, the role cooperate interest plays in political decision making and the willingness of the president to discipline backbenchers that oppose the neo-mercantilist state corporatist direction shows that powerful capital rich family enterprises have a strong influence on the political procedures and thereby on the direction of the “autonomous actions” taken by the executive leader. (Power, T. J. 2010).

Conclusion

In the Brazilian case, Chinese economic statecraft signals, in the form of the proposed financing for the GASENE project and the development of the pre-salt reservoirs, resulted in critical attitudes of key societal groups towards the Chinese meddling with the domestic Brazilian oil sector. For the GASENE project the EXIM bank was replaced by the CDB, because the more commercial orientation of the latter resulted in less strict demands considering Chinese content. The loans were extended directly to Petrobras instead of the Brazilian government and the credits were used for the development of the pre salt reservoirs instead of general infrastructural developments executed by Chinese contractors, this decreased the leverage possibilities for China.

When Brazil was in need of credit, for example for the GASENE pipeline and the development of the pre-salt reservoirs, the economic costs of the provision of the

credit on the Chinese oil for infrastructure conditions as in Angola, proved too high for Brazil's key societal groups and would have resulted in considerable domestic political costs.

Despite that existing political procedures facilitate considerable autonomous action by the executive leader, and that the prevailing norms of conduct of foreign policy encourage executive/leader independence in foreign affairs, the neo corporatist nature of the Brazilian state enforced by neo-liberal reforms in the 1990s, gives the 5000 corporate families in Brazil a lot of influence on policy formation and execution. Compared to the Angolan situation where Sonangol is used by the leadership to keep politics under control in the Brazilian case business government relations seem to work the other way around. In Brazil the influence domestic corporate strategic and commercial interest have on politics results in non-cooption of Brazilian leadership with the economic statecraft signals. (Kröger, M. 2012).

The third hypothesis isn't applicable to the Brazilian case, Brazil's executive power has significant levels of institutionally anchored decision making autonomy but this high level of stateness is not used to defy domestic opposition and make them comply to the signals because state leadership has different interests. Some authors see the CDB replacement of the EXIM bank on the GASENE project as an adoption of China's economic statecraft to take the key societal groups in Brazil into account, following the key societal groups path. (Alves, A. C. 2013) However, Downs points out that the CDB decision to invest in the pre-salt reservoirs was primarily motivated by the prospects of high profits. Indicating a market dominated business first approach instead of a state controlled strategic political considerations. (Downs 2007)

The oil for infrastructure deals in Angola were successful due to the compatibility of Angolan institutional conditions with China's pathway of economic statecraft in Brazil they failed to produce satisfying results because the leaderships

pathway of economic statecraft is incompatible with the power distribution in Brazil's society. Apparently the mirror imaging bias is still going strong amongst China's leadership.

10. Domestic Chinese NOC- government conditions

The last chapter of this thesis investigates the Chinese domestic level and test the fourth hypothesis, if there is an interaction effect between target states institutional conditions and the level of NOC autonomy. An important finding from chapters 7 and 8 was that the leaderships pathway followed by China's oil for infrastructure economic deals follow which is far more compatible with Angola's then Brazil's institutional framework.

Efforts of Chinese NOC's to pursue their interest in Angola and Brazil independent from China's golden triangle, were in Brazil far more successful than in Angola. In Brazil the NOC's have independently gained access to 791 million barrels from five different oil assets. In Angola however, joined efforts by Sinopec and CNOOC to acquire a 20 percent stake holding in block 32 operated by Total failed because Sonangol used its preferential right to block the transaction. (Alves, A. C. 2011)

Independently acquired NOC oil assets in Brazil	Estimated reserves	Estimated block production in barrels per day	Net Share
SINOCHEM 40% Block BM-C-7 Pregrino Campos Basin (may 2010)	300-600 million	100.000	40% (40.000 bpd)
REPSOL-Sinopec (oktober 2010) 10% albacora Leste (campos Basin)	565 million	180.000	4% (7200 bpd)
37% BM-S7 pracuca (santos basin)	550 million	Still at exploration phase	14.8%
25% BM-S-9 (Santos basin)	1,1-2 billion	120,000	10%
GALP-Sinopec (december 2011) 10% BM-S-11/ Lula field (Santos Basin)	8.3 bilion	100.000	3.3% (3300 bpd)
Total share	791 million	50.500	

(Based on a table by Alves, A. C. 2011)

Using the independent oil acquisitions China's NOCs in Brazil and Angola, I will access the 5 business government conditions that determining the level of NOC autonomy.

Interest compatibility

According to Alves Sinopec's and CNOOC's independent investments in Angola were the consequence of Sinopec's unwillingness to cooperate with Sonangol in the construction of a refinery, the Sonoref refinery. Sinopec's initial willingness to cooperate was a compromise to the Angolan government who linked the project to the concession of oil blocks. When Sinopec, CPNC, and CNOOC listed their subsidiaries on the New York and Hong Kong stock exchanges in 2001 they became exposed to the influence of other actors than the party state. (Downs 2009) When it became clear that the construction of the highly sophisticated refinery would have a small prospect of profit, Sinopec left the project. Sinopec's unwillingness to incur financial loss for the purpose of consolidating political capital inflicted harm to the strategic energy security interest of the state. (Alves 2011)

Moriera points out that the incompatibility of state and NOC interest in Angola made Sinopec and CNOOC vulnerable to political risk: *"the risk of a loss of a firm or an investor due to unforeseen momentous and/ or gradual changes in the "rules of the game" under which businesses/ investors operate."* (Moreira,S. 2013: 133)The Angolan political elite was unwilling to accept the changes to the Chinese investment model. The terms on which Sonangol engaged with the Chinese NOC ensured the cooption of key societal groups through Angola's dual state structure, using the revenues to appease and suppress possible opposition. Independent acquisitions by Chinese NOC's posed a possible threat to the elites who for their position are

dependent on the dual state structure. The oil for loans deals of China's golden triangle fit perfectly within this structure. (Moreira, S. 2013)

By entering a joint venture with China Sonangol international (CSIH) Sinopec was brought back within this structure of personal friendships that controls Angolan politics and economics. Using the state to engage in these rentier structures was the only way for Sinopec to gain access to Angolan oil. In this sense the goals of the Chinese state and Sinopec are highly compatible. (Moreira, S. 2013)

In Brazil the Chinese NOCs were quite successful in securing assets through mergers and acquisitions, although the net share of ownership of Chinese NOCs is far smaller than in Angola. The highest share of 14.8% in the BM-S-7 block in the Piracuca block is still in development and ownership in the other blocks is just a few percent. The block BM-C-7 in the Campos basin is the only block where a Chinese oil company has a significant share of 40%. This share is owned by Sinochem which although state controlled isn't a NOC. Formerly owned directly by the Chinese government, Sinochem converted to a joint-stock company in 2009; it is now owned by the newly formed Sinochem Group (98%) and publicly traded Chinese shipping giant COSCO (2%) signaling Sinochem's transformation to a market-oriented company. (mercopress.com/2012/10/23)

The fact that the only Chinese oil corporation that managed to acquire a significant share in a Brazilian oil fields isn't a NOC combined with Petrobras dual rejection of the EXIM banks funding for both the 2nd stage of the GESENE pipeline and the exploration of the pre-salt reservoirs, is a clear indication of Brazil's corporate elites strategy to keep Chinese political influence and leverage to a minimum. That independent NOC's acquisitions, following strategies guided by a market dominated

perception of FDI were far more successful than the state centralist efforts of China's golden triangle, further strengthens this indication. (Xu, X. 2007)

Houser has observed that: “*Although NOCs do occasionally make investments for political rather than economic reasons, business considerations rather than policy directives motivate the majority of their investments*” (Houser, T. 2008). The NOC inability pursue commercial goals and acquire assets in Angola, independently from the government, resulted in their alignment along the governments lines. In the market dominated Brazilian institutional environment however, Chinese NOC are gladly and successfully venturing out on their own. In principle NOC commercial interests and the States strategic political interest are not always compatible. Brazils market dominated institutional environment brings this tension to the surface while Angola's institutional conditions provides the Chinese government with effective tools to domesticate its NOCs. (Houser, T. 2008).

Market structure

Foreign companies involved in Angola operate under joint venture operations and production-sharing agreements (PSAs) with Sonangol. Chinese partners are Sinopec and CNOOC. Besides these Chinese companies, other dominant players on the Angolan market are Marathon, Petrobras, ExxonMobil, British Petroleum (BP), Statoil, Eni, and Total. Despite this large variety of players Angola market doesn't qualify as highly fragmented due to the fact that all companies operating on Angolan territory have to agree to an alliance with Sonangol. Sonangol has a dominant presence in the sector and Angolan state control over the company ensures that allying with Sonangol does not provide leverage for the Chinese NOCs or the Chinese government on the Angolan administration. (Sennes, R. U., & Narciso, T. 2009).

The independent efforts of Sinopec and CNOOC to acquire the 20% stakes in block 32 in 2009 exemplify the way the concentrated market structure of Angola enables Sonangol to control the NOCs present on its territory. This ultra-deep water block was being relinquished by the American oil company Marathon. Besides sidelining the established Chinese business model, an important source of revenue used by the Angolan elite to keep up the dual state, Sinopecs and CNOOC competing bid with CNPCs offer also countered the interest of the Chinese government. (Alves, A.C. 2012).

Competing NOC's drive the price of the asset up and harm the overriding state interest at accessing exploration rights and at securing long term supply contracts for reasonable prices.(Liou, C. S. 2009) Sonangol's exercise of its right of first refusal can be seen as a security externality resulting from China's economic statecraft. In 2004 Sonangol used its pre-emption rights to bypass Shell and jointly explore block 18 with Sinopec after it was granted a much needed loan by the EXIM bank, in 2009 the same preferential rights were used to block the bids by the renegade NOCs bypassing the government, state bank, NOC, golden triangle. Sonangol blocked the sale of a 20% stake in Block 32 to CNOOC, who tried to acquire this stake independently from the golden triangle. (www.china-briefing.com; Pereira, C., & de Castro Neves, J. A. 2012).

Just like Angola, Brazil's oil market is also dominated by a domestic NOC, Petrobras which accounts for 95% of Brazil's national oil and gas production. Unlike Sonangol the Brazilian NOC has lost its monopoly over oil production and exploration with the constitutional change in 1997. Though many companies still chose to partner with it. Brazilian oil industry is characterized by a high degree of fragmentation. In 2009 the *Agência Nacional do Petróleo, Gás Natural e Biocombustíveis* (ANP) estimated that as many as 36 foreign companies were

involved in upstream activities in Brazil. In the highly fragmented markets China's NOC's only managed to acquire a small percentage of ownership over Brazil's oil fields. Only the more commercial orientated Sinochem corporation got a 40% share in Block BM-C-7 in the Compos basin. (Silva, E.R. Soares, A 2011)

Petrobras formally doesn't have a monopoly but due to the neo-corporatist nature of Brazil's economy it has maintained its dominance over the sector. Petrobras does enjoy significant bargaining power vis-a vis the government but as explained above, the oil for loan deals are a form of economic statecraft aimed at the leadership. Petrobras safeguards its commercial interest and the government and Petrobras together, are aware for too much foreign political leverage on Brazil's oil sector. This has made independent market oriented Chinese NOC acquisitions far more successful than the attempts to access exploration rights through the politically founded oil for loan structure. The highly fragmented market and Brazil's neo-corporatist state provide Petrobras and the government with an considerable buffer to resist Chinese economic statecraft. (Silva, E.R. Soares, A 2011)

Nature of the reporting relation ship

The nomenclature system, the system of hierarchically appointing personnel in control of the management of China's institutions is the states primary instrument of control. Under this system managers must learn to balance corporate and party state interest. They are not only evaluated on their general performance but also on their commitment to the party state. *"in other words the secret to success is to demonstrate managerial powers while not causing problems for the CCP."* (Downs, E.S. 2009)

The investment approval system is a second form of control. Foreign energy investments in excess of US\$30 million require approval of the National Development and Reform Commission (NDRC) and those in excess of US\$200 million have to be

reviewed by the NDRC and then submitted to the State Council for approval. A third control mechanism, as mentioned above, are China's state owned banks. (Gallagher, K. P., Koleski, K., & Irwin, A. 2012).

In Angola the Chinese government interacts and NOCs are interacting intensively with national leaders, and Sonangol management dealing with Angola's resource nationalism. The complete state control over Sonangol ensures state control over national resources and the resulting power from exclusive excess to the rents embedded in the oil is used to exert sovereignty over Angola. As long as Chinese business involvement suffices to the "mirror imaging bias", that is concentrating on good relations with political elites whom reasoning from the Chinese perception of business government relations could protect and facilitate the deals, Angola is happy to engage with China's golden triangle. (Oliveira, R. S. 2009).

As came forth from the analysis of the market structure and the goal compatibility of the NOCs and the Chinese government, independent actions of commercial actors form a political risk for the Angolan leadership and consequently also for the golden triangles activities in Angola. Riding the wave started by EXIM Bank, the CIF credit line also managed to establish through a handful of well related individuals, a direct connection to the Presidency in Angola. CIF was funding significant infrastructure projects, three railway lines, a new airport, the Special Economic Zones, and mega housing projects. However most of these came to a halt in late 2007 due to unrealistic planning and major disbursement problems. CIF failed to complete all flagship infrastructure projects under its responsibility and honor its financial commitments, this raised some significant concerns among the Angolan political elite. This sequence of events had a negative impact on China's image and interests in Angola. Despite the fact that CIF invested on the same conditions in

Angola as the EXIM bank, the lack of government control resulted in earlier mentioned problems. (Alves, A.C. 2012)

In general however, the control of Angola's leadership over Sonangol ensures control over the country and its oil wealth, and Chinese economic statecraft results in effective Chinese leverage on Angola's leadership. Chinese economic statecraft has proven an exceptionally useful tool in the Angolan institutional environment. However the success of this formula is dependent on state control over the commercial actors. The close and intense corporation between Chinese banks, NOC,s government and Sonangol of the oil for loan deals, is impossible without a good reporting relationship between all the actors involved. (1.Burgos, S., & Ear, S. 2012).

In Brazil the 2 x 20% shares of Sinopec in the blocks in the para-Maranhao field are acquired through the same structure as the majority of the assets in Angola. Chinese NOC have to start a joint venture or sign production sharing agreement to get access to Brazilian oil. The leverage acquired through the golden triangle ensures Beijing of a relatively good reporting relationship. Unlike Angolan situation however, where the complete submission of Sonangol ensures a good information flow, the neo-corporatist nature of the Brazilian oil sector and the inverted leverage structure of Petrobras vis-à-vis the Brazilian government complicates the flow of information. More importantly because Brazilian leadership isn't legitimizing its position using Petrobras as an instrument, it is far easier for NOC manager to demonstrate commercial managerial prowess while not causing problems for the CCP. (Downs, E.S. 2009)

The independently acquired Chinese assets in Brazil thwart the information flow based on good and intimate relationships with the target counties political elites. Stakes in these independently acquired fields enable NOC's to let commercial

company interests get primacy over the strategic political interest of the government without the strict reporting obligation they face in the asset acquired through the loan for oil formula. In independent NOC acquisitions it is far easier for NOC managers to strike the deal and inform the NDRC and state council after the fact. According to Downs anecdotal information indicates that this often happens. (Eunsuk Hong and Laixiang Sun 2006; Downs2009; Liou, C. S. 2009)

Unity of the state

The three conditions described above, primarily concern the state centralism versus market domination paradox. A market dominated structure magnifies the difference between NOC commercial and governments strategic political interests. Although it was also pointed out that market dominated investment environment's change the reporting relationship to the benefit of commercially oriented investment decisions. The next two conditions more specifically cover the state control versus NOC autonomy paradox

Danreuther points out that Chinese oil companies are to a significant degree powerful and autonomous actors in their right even if there are formally owned by the state. This powerful position is due to a bureaucratic transformation of energy ministries into companies in the 1980 that set in motion a decline in state control. (Dannreuther, R. 2012)

China's NOCs have successfully prevented the emergence and empowerment of an independent energy ministry. The prevention of the rise of such an overarching strategic body has preserved their own access and influence on government policy making. The domestic energy bureaucracy is internally divided with considerable NOC influence nevertheless not isolated from government pressure and interest of the

state. NOC were able to influence decision making to advantage their own interest by lending employees to the understaffed energy bodies. (Danreuther 2012)

Managers of NOCs have two roles; as party officials in the state sector and as CEO in commercial entities. There are two different government agencies analyzing their performance on two different criteria. Their political performance, or the way their company policy serves the central government's policy, is judged by the National development and reform commission (NDRC) and their economic performance by the state-owned asset supervision (SASAC). Because the SASAC uses far more precise indicators compared to the NDRC policy guidelines measuring NOC managers on a political scale. SASAC's annual economic performance evaluation is what motivates NOC managers. The vertical integration of the NOC's combined with the way the bureaucracy is build up explains, according to Liou, the preference of NOC managers for economic logic over the political. (Liou, C. S. 2009)

In the old mode of business operation under China's planned economy 75% of Sinopecs crude was supplied either by its current domestic competitor CPNC, or by Sinopecs foreign counterparts. After the reform Sinopec and CPNC not only became domestic competitors, but also on the international level. The Chinese government deemed it necessary to reform the energy bureaucracy and introduce a certain degree of competition and push the NOCs into the market expecting that the competition and the Chinese oil market could be under its control. By devising a particular market structure and endowing Chinese NOC with monopoly power, the government has pinned its hope on them to help ensure and enhance China's energy security. (Liou, C. S. 2009).

Chinese NOC autonomy resulting from the bureaucratic fragmentation after the reform is key in explaining the pattern of NOC's overseas expansion. In Brazil, CNPC and Petroleo Brasileiro SA signed a cooperative agreement in early 2005 to

jointly invest in the areas of oil refining, pipelines, and exploration and development putting CNPC in direct competition with Sinopec's efforts to enter the Brazilian oil sector via the GASENE project. (www.ogj.com)

Because the way each firm was organized under the planned economy Sinopec's fanatic involvement with the GASENE project can be seen as a way to compensate for its disadvantage in operations in the upstream market, to reinforce its domestic market position vis-à-vis CNPC. But the GASENE project was also part of the Chinese government's strategy to acquire access to the Brazilian oil market. Competition between NOCs is countering its strategic interests. Although Chinese NOCs are state firms responsible for carrying out national political goals, corporate autonomy resulting from restructuring empowers NOCs to resist the state's political policies that conflict with their commercial goals. (Alves, A. C. 2011).

The example of Sinopecs and CNOOC's competing bids on block 32 in 2009 shows that competing independently operating Chinese NOCs have a small chance to result in favorable outcomes for the Angolese government because of the political risk they form for the elites in Angola's highly centralized executive dominated institutional environment. (Moreira, S. 2013) Brazil however, has a more market dominated institutional environment where competing Chinese NOC might even provide certain economic advantages for the corporate key societal groups. (Liou, C. S. 2009).

Resource endowments

Multinationals from emerging countries are most likely to invest in developed countries or sophisticated technology, learning and compensation for their competitive disadvantages on the world marketed Chinese NOC are no example. (Jiang, W. 2009) Additionally the Chinese government has deemed it necessary to help nurture some

Chinese corporate giants to ultimate project China as a rising power. Chinese NOC have engaged in mergers and acquisitions by super oil giants like Exxon-Mobil, BP and Shell. Outward foreign direct investment enables Chinese firms to internalize the positive attributes of their investments. By investing abroad, Chinese firms gain access to non-natural resource related tangible assets such as intellectual property, design centers, managerial expertise, quality control systems, and marketing systems. (Jiang and Sinton 2011)

Similar to how the NOC management was able to profit of the opportunities of the bureaucratic reformation due to their knowledge of the energy market, the acquirement and access to oil exploration specific high technology gives NOC a significant pool of knowledge which can be used to obtain a higher degree of autonomy. (Chen 2009)

This development is strengthened by the fact that with the overseas expansion NOC are reassessing the kind of personnel needed for senior management post. The rising generation of senior managers differs substantially from their predecessors in their educational credentials. As the number of executives who have worked and studied abroad increases these companies are becoming more and more autonomous and exert their influence on the party-state because the skill they possess are in short supply in Chinese industry and government. (Downs, E.S. 2009)

In Angola the unequal division of the intellectual capital in the advantage of the NOC's is balanced by the extensive amounts of financial and political capital the "traditional Chinese business model" provides to the government. The Chinese government is relatively better endowed with resources due to the personal relationships with the political leadership of the target country, sustained by the loan agreements of the Chinese state bank with the target government and enforced by intergovernmental treaties.

In Brazil on the other hand, most of the NOC's oil assets are independently acquired and the institutional conditions of Brazil's oil industry stimulate autonomous NOC action giving the government less access to the resources NOCs acquired through mergers and acquisitions. The fact that NOC managers often strike the deal and inform the NDRC and state council later shows that Brazil's institutional environment encourages autonomous business decision-making. That the CDB in the credit extension to Brazil lets commercial motivations get primacy over political strategy seems to indicate that there is a spillover of autonomous decision making to other Chinese state owned companies.

Chapter conclusion

As shown in Chapters 8 and 9 target state institutional conditions in Angola and Brazil have a high impact on the success or failure of economic statecraft because it has a profound influence on the extent to which Chinese involvement in the target country is characterized by state centralism or market domination. The main finding of this chapter is that the fourth hypothesis is partially true, target states institutions do strongly influence the level of corporate decision making autonomy of Chinese NOCs versus their government. Chinese NOCs in Brazil are considerably more autonomous than in Angola.

The different market structures of Angola and Brazil brought to light that NOC commercial interest and the states strategic interest are principally incompatible. The Brazilian corporate elites, aware of Golden triangles attempts to gain leverage on the oil sector obstructed the oil for infrastructure deals. However, China's NOC are allowed to enter the oil sector independently in a more market dominated setting. This makes that Chinese oil companies in Brazil enjoy a larger degree of autonomy than in the government controlled Angolan setting.

The high leverage of the Chinese government on the Angolan government and thereby Sonangol ensures Beijing of a good flow of information. In contrast the neo-corporatist nature of Brazil's institutional framework severely limits the flow of information. China's bureaucratic fragmentation is less of a problem in Angola's highly centralized executive dominated institutional environment because NOCs that deviate from the "traditional Chinese business model" are brought back in line by the Angolan elite. The Brazilian institutional situation enables NOC managers to fully exploit the bureaucratic fragmentation, chasing their commercial goals. Conclusively, the relative resource endowments of NOCs Brazil is way better than in Angola, where the financial and political capital of the Chinese state disarms the intellectual, managerial and technical capital of the NOCs.

However, in as we have seen in Chapter 7 the it is not only the level of executive decision making autonomy that determines the relative power position of the Chinese government versus the target government. Both Brazil and Angola possess considerable levels of executive decision making autonomy. China's economic statecraft failed in Brazil because the leaderships pathway that was followed isn't compatible with Brazils institutional environment.

11. Conclusion

The central question of this thesis is: Under what conditions does the Chinese state succeed or fail to control, direct or otherwise use national oil companies in pursuit of its strategic goals? Two possible explanatory frameworks emerged from the literature. The first has an international focus and explains success or failure of economic statecraft from the perspective of a target states susceptibility to it, which is determined by its institutional conditions. The second framework has a Chinese domestic focus and supposes that the ability of the sending government to incentivize its commercial actors to behave in line with its strategic interest is dependent on sending state domestic business government conditions.

In line with Putnam's two level game theory I investigated both the Chinese domestic as the international level, using a comparative case study on Brazil and Angola, two countries with highly different institutional frameworks. I tested four hypotheses:

1. Chinese economic statecraft strategies are aimed at security externalities that establish structures of economic interdependence between China and the target country.
2. China's oil for infrastructure deals follows the leaderships pathway of economic statecraft.
3. Chinese oil for infrastructure deals in Angola were successful because the high level of executive decision making autonomy enabled Angolan leadership to resist domestic opposition and due to its insufficient level of decision making autonomy the deals failed in Brazil.
4. There is an interaction effect between the target states institutions and the level of autonomy Chinese NOC enjoy versus their government. Weak target state

institutional environments strengthen China's relative power position versus the target country resulting in a larger ability to control its NOCs, strong target state institutional frameworks weaken the relative power position of China and thereby increases NOC autonomous decision making ability

The first hypothesis, tested the methods and goals of China's economic statecraft, I have shown that both in Angola and Brazil China's economic statecraft is aimed at the interest transformation security externality target. The method by which this interest transformation is to take place is by establishing interdependence between its own and the target countries economic system. An important instrument China has used to achieve this are the so-called oil for infrastructure deals, where loans are extended to the target country, for infrastructural improvements to be repaid, with oil as collateral.

The second hypothesis, is the first hypothesis zooming in on the target states institutional conditions. Using Blanchard and Ripsman's framework I have shown that there are two pathways of economic statecraft, a key societal groups pathway and a leaderships pathway. Institutional conditions determine the success or failure. When economic statecraft follows the key domestic groups pathway, key domestic groups are co-opted by the economic benefits of the senders signals of economic statecraft and push for policy change. High levels of executive decision making autonomy enables state leaders to resist the calls and defy the sender. When economic statecraft convinces target state leaders that they ought to comply with the senders demands high levels of executive decision making autonomy help them to overcome domestic opposition to compromise. China's oil for infrastructure deals follow the leaderships pathway of economic statecraft.

Considering the third hypothesis can be said that, in Angola the Chinese government was highly successful incentivizing its NOCs to produce security externalities in line with its strategic interests. Angolan institutional conditions deterred the NOCs from autonomous expeditions and if they tried close ties between the Angolan and Chinese government resulted in a swift domestication of the NOC who dared to deviate from the line of the government.

The failure in Brazil however, was not due to a lack of executive decision making autonomy but because the leaderships pathway of economic statecraft China's oil for infrastructure deals follow is incompatible with Brazil's institutional conditions. Brazilian state leadership was not co-opted by Chinese economic statecraft due to opposition of the powerful neo-corporatist societal business elites. Chinese NOCs were allowed on the Brazilian oil market but not through the Chinese state centralist oil for infrastructure constructions. The main oil equity Chinese NOCs acquired in Brazil was accessed independently from the government and its main instrument of Chinese economic statecraft, the EXIM bank.

With respect to the fourth and final hypothesis can be said, that there indeed is an interaction effect. However, the level of autonomy NOCs enjoy versus their government, is in the cases I investigated, not to be accredited to the strength of their institutional environments. Or at least not when using the level of executive decision making autonomy as institutional indicator.

Both Angola and Brazil have significant levels of executive decision making autonomy but in Brazil Chinese NOCs enjoy a high degree of autonomy from the Chinese state and in Angola the relationship is characterized by a high degree of state control. After accessing Angola and Brazil using Blanchard and Ripsman's framework it became clear that the relative power position of China versus the target state has more to do with the pathway of economic statecraft followed.

The discussion on the level of executive decision making autonomy and how the Chinese government and NOC's handled the cooption of key societal groups in the target country falls within the state centralism versus market domination paradox.

In Angola, the golden triangle loans for oil structure did not only mean plentiful and relative cheap financing but Beings support also entailed a significant political risk management tool. The Angolan case fitted perfectly with the Chinese customarily buildup of personal relationships of mutual trust and obligation with political elites, whom the Chinese believed could protect and facilitate deals by themselves. Just like the communist party and government leaders have undisputed control over major decisions that affect China's oil and gas industry, Sonangol is under complete control of the Angolan state.

In this state controlled environment NOC acquisition efforts independent from the Golden triangle formed a potential political risk for the Angolan elite. For the Chinese government independent NOC acquisitions entailed a undesirable shift to NOC autonomy. Sonangol's exercise of its right of first refusal when Marathon Oil Corp tried to sell a block to CNOOC, can be seen as a security externality. The golden triangles oil for infrastructure deals were a more preferable scenario for Angola's elite thus Sonangol's exercised its right of first refusal, domesticating the CNOOC that defied the established rules of engagement.

China's relative material power position is the greatest in state centralist situations. China is experienced in navigating through complex patron-client relationships, handing out personal and institutional favors and dealing with opaque political constrains. In accordance with its "mirror imaging bias" China concentrates on good

relations with political elites whom in their perception of business protect and facilitate the deals.

China's economic statecraft was far less effective in Brazil because China refuses to deviate from the leaderships pathway. In Brazil, the golden triangles non-coercive economic incentives of the oil for infrastructure deals are perceived as potentially highly costly, by Brazils corporate elite who resent Chinese leverage on the oil sector. The economic costs of the conditionality's of EXIM banks oil for loan structure proved too much risks and the more commercial interest rates of the CDB were chosen over the conditionality's of the EXIM bank deal.

The target state institutional conditions also impact the level of NOC autonomy, and the extent to which the Chinese government is able to control or direct NOC behavior. Analysis of the five domestic business government conditions showed that NOCs enjoy a far greater level of autonomy versus the Chinese government, in the market dominated Brazilian environment than in the government controlled Angolan setting.

The ability of the Chinese government incentivize its NOCs to engage in economic interaction that produces security externalities that are in line with its strategic goals is far greater in "state centralist" Angola then in "market dominated" Brazil. Apparently the mirror imaging bias has created a certain path dependency concerning China's economic statecraft. However China's successful restructuring of the energy bureaucracy made not only made NOCs more competitive on world markets, the other side coin is that the interest of commercially orientated NOCs are not always compatible with the states state centralized execution of its energy grand strategy.

Following the leaderships pathway of economic statecraft in Brazil's market dominated institutional environment diminishes the opportunities of Chinese

government to incentivize its NOCs to produce security externalities that are in line with its strategic interests. In It might be hard, if not impossible for state Centralist China to change direction and follow a domestic groups pathway, without giving up government control and giving in to market domination. And it is questionable if China would pursue this pathway of economic statecraft while at the moment, it is already struggling to keep its increasingly commercially motivated NOCs under control.

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