硕士研究生学位论文

题目：Why is China granting loans and making investments in Latin America? A comprehensive evaluation.

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Abstract

This study focuses in why China is offering loans to Latin America. Understanding the differing interests between the state (principal) and National Oil Companies ran by performance based managers (agent) is a necessary theoretical foundation in the understanding of Chinese foreign affairs. My main argument is that these agents have been able to manipulate the decisions of the state after analyzing the benefits, problems and misconceptions of Chinese Loans. It was found the more corrupt a Latin American country is, the higher the amount of loans it will receive. Second, the more developed a country is, the more loans it would receive, challenging the view that China is giving loans as development assistance. Third, being a member of OPEC or having natural resources does have a positive association with the loans granted. China needs energy in order to continue its development path granting NOCs the especial powers they enjoy today.
Content

1. Introduction ............................................................................................................................. 3

2. Theoretical framework ............................................................................................................ 5

  2.1 Definition of NOCs ............................................................................................................... 5

  2.2 The rationalist approach ..................................................................................................... 6

    2.2.1 Political Utility ............................................................................................................. 8

    2.2.2 Foreign Investment ........................................................................................................ 9

  2.3 The constructivist approach ............................................................................................... 10

    2.3.1 Chinese Identity: ........................................................................................................ 11

    2.3.2 Bureaucrats performance shaped identity ................................................................. 12

    2.3.3 Problems with performance based indicators ............................................................ 14

    2.3.4 Credit claiming and blame avoidance ......................................................................... 16

    2.3.5 What has happened in practice? .................................................................................. 22

    2.3.6 China’s Energy Security Dilemma ............................................................................. 24

3. The history of the rise of Chinese Oil Companies within the Chinese bureaucracy .......... 27

  3.1 The Maoist Era (1950-1978) ............................................................................................. 27

  3.2 The Deng era (1978 and 1998) ........................................................................................ 28

  3.3 Chinese access to the WTO .............................................................................................. 29

  3.4 What is the situation today? ............................................................................................... 32

4. Benefits and problems of Chinese Loans ........................................................................... 35

  4.1 Benefits ............................................................................................................................... 35

    4.1.1 China supports development ....................................................................................... 36

    4.1.2 Investment in riskier countries .................................................................................... 36

    4.1.3 Increases negotiation power for Latin American countries with the traditional Banks ................................................................................................................. 38

  4.2 Problems ............................................................................................................................. 38

    4.2.1 Lack of transparency ................................................................................................... 38

    4.2.2 Conditionality .............................................................................................................. 39

    4.2.3 Environmental cost ...................................................................................................... 40

    4.2.3.1 Poor enforcement and respect of credit lines .......................................................... 40

    4.2.4 Several entities inside the Chinese government makes foreign assistance less efficient .............................................................................................................. 43

    4.2.5 Dependent on Beijing diplomatic priorities ............................................................... 43
1. Introduction

China’s loan commitments of $37 billion to Latin America in 2010 were more than the combined amount provided by the World Bank, Inter-American Development Bank, and United States Export-Import Bank for that year (Gallagher, et al., 2012, p. 1). Contrary to Chinese investments in Africa (see Bräutigam, 2010; Corkin, 2011), investments in Latin America have not been extensively academically examined. This study will not seek to explain what China is offering to Latin America but the rationale behind granting these loans, its reasons and motives. Chinese National Oil Companies (NOCs) have conventionally been thought of as the long arms of the state. I will try to show how these “arms” have been able to develop as quasi-independent organs. Being able to understand the diverging interests between the state (principal) and the NOCs (agent) in this field is a necessary theoretical foundation in the understanding of Chinese foreign affairs. This will be done by analyzing the diverging interests of China and their NOCs. The main argument of this paper is that these agents are able to manipulate the decisions of the state, which in return seeks economic and political utility.

This paper will seek to prove that the amount of money China loans to Latin American countries has an association with the level of corruption of a country, its development index, and the recipient’s country’s access to resources. Both qualitative and quantitative research methods will be used.

First, there will be an extensive qualitative review to explain the historical rise of the Chinese Oil Companies within the Chinese bureaucracy to help us understand the current status quo. Moreover, the problems, benefits and falsely perpetrated myths - that keep the focus off of the real issues- associated with Chinese loans will be shown.

To finally demonstrate this, this paper conducts a regression in which Chinese loans to Latin America will undergo statistical scrutiny in order to evaluate which factor more greatly influences their accession: corruption, the recipient country’s development index
or the Chinese demand of Latin America oil. I will also present the limitations of data bases used in this study.

All this will be done after presenting a theoretical framework to better understand this relationship with two international relations perspectives. Firstly, the rationalist approach, with which I will argue that China seeks to secure better returns on its investments and the reasons behind going abroad. In addition, due to the limitations of the rationalist framework to understand the current state of affairs, I will also use the constructivist approach arguing that China as a state is trying to establish itself as a superpower and exemplar country while their NOCs take advantage of this situation to benefit themselves. Another plausible option is that the state is aware of these issues but it uses blame shifting strategies to get the resources it wants to secure the energy it needs to keep its level of growth while avoiding the blame of the problems created by its NOCs.

Issues of identity will be presented to better understand the framework in which Chinese politicians and bureaucrats in charge of the SOEs operate, especially bureaucrats’ performance-based identity considering the inherent gaming problem. This will help us comprehend how, despite this clear principal agent problem, the NOCs have been able to rise to the top sphere of Chinese political influence with no real threat to their power. Even if there have been several efforts to control them, these have not been successful due to the government’s constraint to safeguard their high levels of energy security for consumption, investment and growth in order to maintain their legitimacy. The evidence found in this paper suggests that Chinese loans are closely linked to the borrowing countries’ high levels of corruption despite Chinese rhetoric positioning itself as a “Great power style” or leading by example, at least in the Latin American context. Furthermore, the more developed a country is, the more loans it would receive. This challenges the view that China is giving loans just as development assistance and on the contrary suggests that it is using them as tools for their soft power expansion plan, while assuring their investments are not affected.
2. Theoretical framework

2.1 Definition of NOCs

National oil companies or NOCs refer to companies that are wholly or partially owned by the government (World Bank, 2010). The ownership structure of NOCs are often contrasted to international oil companies (IOCs), which are owned by private investors whose shares are traded on various stock markets. The traditional view holds that IOCs serve only the interests of its shareholders, while NOCs are the custodians of the state’s natural resources and act as an assurance vehicle that carries out the political demands of their governments. NOCs support the state’s broadly based energy security, defined in terms of security of supply, and often entail ownership or exclusive rights to desired supplies of oil. In addition, NOCs can be used by their national governments as a tool to achieve foreign policy goals, leading to direct alliances, as well as cooperation ties between other NOCs. For example, China’s oil-based relationships with Iran, Africa, Russia, and others are often characterized as being partly politically motivated. The following graph shows the structure and ownership of the three main Chinese NOCs.
2.2 The rationalist approach

The concept of state loans falls under the headings of economic diplomacy and broadly speaking under foreign policy. Focusing on the former, rationalism assumes that states are utility-maximizing unitary actors with clear preferences and that they have access to limited information, also known as bounded rationality (Woolcock, 2011). State representatives can rank the available options known to them under their bounded rationality (Simon, 1947), and choose the option that brings greatest utility. In economic diplomacy particularly, rationalism often assumes that the actor seeks to maximize economic utility.
However, when analyzing Chinese economic diplomacy it cannot be assumed that economic utility is the only goal. Specifically, in Chinese foreign policy, politics and economics are neighboring policy areas with unclear borders. For example, the country has provided development finance to African countries with no strings attached, providing that the recipient respects its One China policy (Zafar, 2007). The “People’s Republic of China’s (PRC) One China policy” seeks to persuade other countries to recognize the PRC (and not the Republic of China or ROC) as ‘One China’. Today only five African countries accept ROC (Taiwan) as a country.

Moreover, the Scarborough Shoal incident, in which China forbade banana imports from the Philippines because the Philippines navy detained Chinese fishermen in territorially disputed areas (Zhao, 2013), is another example of how the PRC has used economic means as retaliation to maximize political utility from time to time.

A problem with the rationalist approach is that it assumes that the actors under analysis are unitary. “It is a theoretically useful simplification of reality, rather than a true reflection of it” (Keohane, 2005, p. 108). In the creation of Chinese state loans, numerous parties play a role, such as policy banks and oil companies and these parties are always linked to the CCP. In particular, the companies involved are state-owned enterprises (SOEs) and

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policy banks that fall directly under the CCP leadership. The black box nature (Lawrence & Martin, 2012) and closed links (guanxi 关系) of the financial ties studied, make it difficult to judge the reasoning of individual officials or parties within the government. It is important to remember for this analysis that government officials in China might be either members of the state, the party, or members of their SOEs.

2.2.1 Political Utility

The other possible political rationale for China to engage in the lending of funds is to gain support in international forums on issues such as its human rights record. An analysis of UN votes shows that 95% of all Chinese and Latin American votes in the UN were the same in 2004 (Latin American Research Group, cited by (Cheng, 2006)). Nevertheless, in 2004 such loans scarcely existed, making the argument that Chinese loans are provided in return for UN voting behavior, difficult to sustain. However, looking at the UN Security Council alone, the argument changes. When a country is a member of the Security Council, it is significantly more likely to receive project funding from the World Bank than when it is not, making the World Bank a kind of foreign policy tool (Dreher, et al., 2008). In this line of thought, Chinese loans could be used as a carrot for countries to align themselves with Beijing in the Security Council. Moreover, they can also be used to alter behavior by threat of withholding them. Indeed, China has been willing to use hard economic power for political purposes in international relations in the past, for instance in the Scarborough Shoal incident. Yet, threats of withholding funds are not likely to be publicly announced or discussed, which makes it difficult to analyze (Gerritsen, 2015). The same occurs with the terms of the Chinese loans negotiations that will be explained in the Chinese loans problems section.
2.2.2 Foreign Investment

The OLI Framework will be examined in this paper to understand the foreign direct investment (FDI) (Dunning, 1977), and especially that which is done by NOCs. “OLI” stands for Ownership, Location, and Internalization, three potential sources of advantage that may underlie a firm’s decision to become multinational and therefore invest abroad. In itself it does not constitute a formal theory that can be confronted with data in a scientific way, but it nevertheless provides a helpful framework for categorizing much (though not all) recent analytical and empirical research on FDI.

Ownership advantages address the question of why some firms but not others go abroad, and suggest that a successful MNE has some firm-specific advantages which allow it to overcome the costs of operating in a foreign country. For Chinese NOCs it is easy to overcome this cost specially due to having the state to back them up. Location advantages focus on the question of where an MNE chooses to locate. In this case it is intuitive to think NOCs will go to countries with natural resources or places where there is a central government that facilitates them to start their operations instead of dealing with multiple levels of government delaying the start of their projects. Finally, internalization influences how a firm chooses to operate in a foreign country, trading off the savings in transactions, holdup, and monitoring costs of a wholly-owned subsidiary, in contrast to the advantages of other entry modes such as exports, licensing, or joint ventures. In order to secure its energy it is intuitive to think the NOCs will invest alone to have full control of their operation avoiding coordination problems.

A key feature of this approach is that it focuses on the incentives facing individual firms. This is now standard in mainstream international trade theory, but was not at all so in the 1970s when FDI was typically seen through a Heckscher-Ohlin lens as an international movement of physical capital in search of higher returns. Other theories found to understand FDI are first, the production cycle theory of Vernon, second, the theory of exchange rates on imperfect capital markets and third, the internalization theory. I decided
to focus in the eclectic theory (OLI theory) because it is a mix of three different theories of direct foreign investments (O-L-I).

2.3 The constructivist approach

According to Graham T. Allison in Essence of Decision, states do not take decisions as if they were rational unified actors and there are behaviors within state organizations that may affect national decisions (Allison, 1971). Constructivism in International Political Economy arose in response to changes in the political world that the dominant rationalist theory could not explain. For example: the absence of war in the Cold War and a realization of the limits of such theories (Blyth, 2003). Instead of concentrating on preferences and interests, constructivism focuses more on ideational variables. The constructivist approach application differs according to the subject matter. For instance, while in the study of diplomacy a constructivist approach would focus on persuasion in international negotiations (Woolcock, 2011), foreign policy analysis may focus on the ideas that policymakers hold. Ideas can influence policy in three ways: by institutionalization, by providing “road maps” through the beliefs they are based on, or in situations without a unique equilibrium (Goldstein & Keohane, 1993, p. 3). These roadmaps can set the means to arrive at national goals especially as ideas can influence both the goals and the means of foreign policy.

Moreover, a constructivist approach to foreign policy may look at how social norms and identities influence foreign policy behavior. Such an analysis assumes that the “construction of [national] identity substantially informs what [is] defined as the national interest” (Wicaksana, 2009, p. 1). Before getting into the analysis of ideas of utmost significance to Chinese politics and foreign policy, it is imperative to present the main criticism directed at constructivism. Specifically, one point of critique is that
constructivism is often used to make up for faults or gaps in other theories (Abdelal, 2009). For example, if particular circumstances cannot be explained by rational analysis, it must have been ideational variables that caused this unexpected shift. These types of conclusions should be avoided to reject any type of normative presumptions. Moreover, rationalism specifies the actor of importance, which is the state, while constructivist theories usually do not deal with the state as a single entity.

Under the assumption that a country’s government acts according to its national interest, it could be argued that national identity shapes the goals of foreign policy. In addition, the means to achieve a goal may be influenced by a ‘logic of appropriateness’. In a government, individuals act according to what they find appropriate, which is fueled by for example their role, expectations of peers, but also identity (March & Olsen, 2008). In this case, I look specifically at national identity and social historical norms, which may influence such logic of appropriateness.

In contrast, in the Chinese case there can be diverging ideational interests between the SOEs like the National Oil companies, which are mainly profit oriented, and the Chinese government, which seeks to act as a welfare maximizer in order to maintain its political monopoly and not see their legitimacy challenged. Therefore, elements of the Chinese identity and elements of the National Oil Companies bureaucrats will be presented separately.

2.3.1 Chinese Identity:

A common rhetorical card is the nationalist one. In this historical view, China should seek to regain its former place in the world. While China used to be powerful and the ‘central’ or ‘middle kingdom’ as the Chinese name for China (zhōngguó) implies, it has not yet regained this status. In particular the Century of Humiliation (bǎinián guóchǐ百年国耻)
stands out in this rhetorical usage, which is the approximate hundred years of oppression by Western and Japanese powers between 1839 and 1949 (Kaufman, 2010). The wish for ‘restoration’ (fùbì) to its period of greatness is exemplified in the hosting of the 2008 Olympic Games, or even by China’s accession to the World Trade Organization (WTO) (Lanteigne, 2009). This initiative can also be identified in several concepts used by the Chinese leaders such as ‘peaceful rise’ or ‘harmonious world’, which shows that “restoring Chinese glory […] permeates all facets of the current modernization process” (Ogden, 2013, p. 18).

The second idea covered here is the Chinese view of how China should behave as a newly re-established great power. To neutralize the ‘China as a threat’ narrative, China has progressively tried to position itself as a ‘responsible power’ in the international system (Deng, 2006). The view of the responsible power stems from what Jiang calls the ‘Great Power Style’: Great Powers are to behave responsibly, generously and loyalty, and should lead by example (Jiang, 2011). This increased importance attached to projecting an image of China as a benevolent power abroad is apparent in China’s engagement with Sudan. Specifically, the country has been more involved in seeking peace in Sudan and South Sudan than its economic stake in the oil industry would permit (Tadros, 2012). Such cases show the prominence the Chinese government attaches to their image projection. Hence, the idea of Great Power Style may also be of influence in its financial relations with Latin America.

2.3.2 Bureaucrats performance shaped identity

State-owned enterprises NOCs must fulfill both political and economic mandates that are prescribed by the state. Since economic objectives are often easier to obtain, they have taken preference over national political interests. The former can be more easily codified and quantified like the company’s profitability, whereas political objectives are more
elusive and abstract by their very nature, like maintaining energy security and the state’s socio-economic welfare. Although these goals are not necessarily exclusive, their interpretation could lead to unintended outcomes, resulting in a principal-agent situation. This is extended by the fragmented bureaucratic structure as well as the politically powerful elites, consequently allowing NOCs to maintain their monopoly and push corporate economic interest abroad by influencing foreign policy.

Moreover, China's bureaucratic ranking system, combined with the functional division of authority among various bureaucracies, produces a situation in which it is often necessary to achieve agreement among an array of bodies, where no single body has authority over the others (Kenneth, 1992).

Three Chinese SOEs are among the top 10 firms on the Fortune Global 500 list for 2012. The three are Sinopec Group, China National Petroleum Corporation, and State Grid Corporation of China, ranked 5th, 6th, and 7th, respectively. The leaders of such firms, and indeed all Chinese SOEs, are assigned to their jobs by the Party’s Organization Department and may move back and forth accordingly between jobs in business and government maintaining a formal place in the Chinese political system. In the 17th Central Committee, 22 SOE bosses were alternate members of the Party’s Central Committee, and 1 was a full member (Lawrence & Martin, 2012). This exemplifies how the guanxi aspect of the Chinese political situation makes SOEs hard to control within China. Now, if the controls mechanisms are hard to enforce inside the state, further research is needed to determine the state’s difficulty to control their SOEs and their managers abroad where information asymmetries abound.

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2.3.3 Problems with performance based indicators.

Theoretically, the meritocratic system is based on a system of performance-based indicators. In this part, I will challenge this system by presenting some of the main issues with a UK civil service study (Burgess & Ratto, 2003), which provides criticisms that can be perfectly applied to the Chinese case. The paper examined the use of different incentives, particularly in light of 1998 reforms, which focused more on financial incentives.

1. Multiple principals: many masters, therefore hard to “incentivize” because individual principals are often interested in only some of the employees’ outputs.

2. Extreme measurement problems: Many organizations do not have a single goal – e.g. police or welfare benefits assessors. Sometimes goals and bureaucratic work are not easily observable or measurable (for example: Wilson craft and coping organizations in his types of government organizations matrix) (Wilson, 2016) (Barzelay, 2001, p. 137).

<table>
<thead>
<tr>
<th>James Q Wilson’s matrix of types of government organizations:</th>
<th>Production processes: are visible to outside observer</th>
<th>Production processes: are invisible to observer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency Outputs are easily measured</td>
<td>production organization (tax system) simple repetitive stable tasks; specialized skills</td>
<td>craft organization (Auditors, Attorney General) application of general sets of skills to unique tasks, but with stable, similar outcomes</td>
</tr>
<tr>
<td>Agency Outputs Not easily measured</td>
<td>procedural organizations (military) specialized skills; stable tasks, but unique outcomes.</td>
<td>coping organization (central governments policy units) application of generic skills to unique tasks, but outcomes can’t be evaluated in absence of alternatives</td>
</tr>
</tbody>
</table>
Moreover, policy evaluation is a normative act, making it a matter of political judgment. Due to the politics of blame, the process of evaluation can be highly contested. Evaluation linked to accountability and lesson drawing that may have winners and losers. Many stakeholders have an interest in the outcome. Evaluations provide an opportunity to reshape the course of a policy and historical path dependencies may be broken (Bovens, et al., 2008).

3. Teamwork issues: The free rider problem is more serious in larger organizations. On the other hand, team-based rewards can foster cooperation and create positive externalities.

Moreover, other theoretical problems found in a Harvard Business Publishing article are (Frey & Osterloh, 2012):

4. Unthinkable new challenges: In a modern economy, where new challenges emerge constantly, it’s impossible to determine the tasks that will need to be done in the future precisely enough for variable pay for performance to work well. For example, when the evaluation criteria were set in China, the environment protection one was not considered.

5. Gaming: People subject to variable pay for performance do not passively accept the criteria. They spend a lot of time and energy trying to manipulate the criteria in their favor, helped by the fact that they often know the specifics of their work better than their superiors do. “The cadres produce the data, and data produces the cadres” (数字出官，官出数字). Mao’s Great Famine, where China lost 30 million people, 5% of its population, was exactly a product of cadre’s over reporting.

What about with respect to the one child policy? Besides human rights and legitimacy, there has been too much blood shed because of this policy; killing of babies and forced abortions, not only by their parents but officials (Ren, 2015).
6. “Multiple tasking” problem: performance indicators often lead employees to focus exclusively on areas covered by the criteria and neglect other important tasks.

7. Intrinsic motivation: depending on the job, civil servants may care about their output and be less inclined to shirk. Variable pay for performance tends to crowd out intrinsic motivation and thus the joy of fulfilling work. Such motivation is of great importance to business, because it supports innovation and encourages beyond-the-ordinary contributions.

2.3.4 Credit claiming and blame avoidance

In a system where promotion to the top is designed by performance indicators, it could be argued that this promotion is a function of how well politicians are able to take credit for results and avoid blame for any trouble they may find. This section will be divided in 4 points: 1. Blame will be explained and the different strategies cadres can use in order to avoid it. 2. The conflict between intergovernmental decentralization between different levels of government and political recentralization of the "Party Management of Cadres" makes it difficult to know who is responsible of the policy design and its (un)successful implementation. 3. The case of credit claiming and blame avoidance in a fragmented authoritarian regime. 4. Unanswered questions in the experimentation policies.

1. Blame management

Blame is a perception of harm or loss over something that could have been done better, and the perception of responsibility or agency. These two things together are blame. People care about this because human beings like to be well thought of. Governments care about this more than human tendency for two main reasons. First, they have to get reelected or legitimize their decisions in authoritarian regimes. Second, because negative results or outcomes the government obtain play badly on their reputation in terms of electoral prospects or maintaining authority in dictatorships, the career prospects of those
who work in government are affected. If they do something well they might get 0.1% of growth of national domestic product, maybe a little paragraph on page 15 of the newspaper, but if they make a huge mistake, their career is over, and they will be remembered for 10 years.

There is logic in blame avoidance on the part of those who wish to be reelected and want to be reappointed in bureaucracies or in authoritarian regimes to maintain their legitimacy.

1.1 What steps do government officials use to avoid blame?

1.1.1 Presentations, strategies by altering and framing people’s perceptions of harm and responsibilities using “spin doctors”. This can take various forms like making excuses or giving justifications of why things are better than people might think. It can involve methods that are not even based on arguments by changing the subject, by creating diversion, or by simply saying sorry and moving on without closing off the debates. These are much easier to control in a system where the media is manipulated by the government, as is the case in China.

1.1.2 Agencies’ strategies like organizing the government offices chart in such a way as to minimize the exposure to blame. If the government operates through delegation, it can delegate unpopular responsibilities away from the official. This strategy was presented in the Prince from Machiavelli: “the prince must delegate difficult tasks to others and keep popular ones for themselves”. In order to take a region under control, the prince sent an official to do all the dirty jobs. Then people complained about the brutality of this particular person. The prince ended up killing this official while giving people “panem et circences (food and entertainment)”. At the end, the prince ended up controlling the region and the people were happy.

Agencies’ strategies can work through partnership strategies. They can work by constantly reorganizing the furniture so that there is no stable structure of responsibility.

1.1.3 Policy strategies based on the procedures with standard operation routines that reduce risk. An analogy would be when people do all the necessary procedures before an
operation to minimize the risk of being involved in malpractice suits, even if the doctor would consider them unnecessary.

1.2 Is blame avoidance wrong?

It depends on how the policies are designed. Blame and the fear of blame can encourage people to definitely be more careful in what they do, say, and how they conduct themselves. Even if blame cultures are perceived as bad, they can perform positive social functions as people want to avoid having bad press directed at them. Blame games can help us to identify whether there is harm and who is responsible in complex situations in which it may not be obvious from the start. Some forms of blame avoidance can contribute to making responsibility clearer, sharpening policy debates, and increasing transparency, but some have the opposite effect. Today, politicians operate in a more continuous “news cycle” than they used to. There is a longer frontier, and many more media outlets, which are harder to control in a way that once might have been possible, even in China.

The growing role of social media is a concern to the CCP observing the Arab spring. More access to the Internet and social media complicates government efforts to control public opinion. Even if the government uses tools like keyword filtering, site blocking, and other means of watching and controlling what people do online, chatrooms for "secret meetings" still exist, creating characters that easily beat the filtering technologies. Moreover, Chinese Internet users' creativity render government control of the Internet only partly effective (Yang, 2009).

2. Intergovernmental decentralization and political recentralization: who gets the credit?

Intergovernmental decentralization is institutionalized to such degree that it is increasingly becoming difficult, if not impossible, for the central government to unilaterally impose its will on the provinces and alter the distribution of authority between levels of government.
Activities of government are divided between the provinces and the center in a way that each level of government makes final decisions in certain fields. Foreign policy, national defense, and population planning are controlled by the central government, while local public security, road construction, school building, and most economic matters are handled by the local governments.

Local officials have developed strong non-state sectors including collectives, private economies and joint ventures, which are beyond the control of the central government. With their economic power, the provinces began to resist new fiscal policies initiated by the government. Provincial officials form the largest bloc in the electorate (e.g. Central committee) and their votes are important to any top leader's political legitimacy. The local governments have access to information not available to the central government leading to the principal agent problem, and may withhold such information to resist central government. Provinces have the primary responsibility over the economy and, to some extent, politics within their jurisdictions. Most economic matters are handled by the local government, and they appoint officials or recommend officials within their jurisdiction.

Intergovernmental decentralization (de facto federalism) empowered local governments to be more efficient in responding to social demands and changing socio-economic circumstances. While in principle the central government still held great power over local governments, cooperation from the provinces became essential. The provinces had the power to not only deal with local affairs but also influence decision-making at the central level. While the central government maintains its official domination over the provinces and has de jure power to veto initiatives by the provinces, the provinces also have de facto power to veto policy initiatives by the central government, which results into a policy deadlock that prevents major meaningful reforms.

However, even if the functions are well defined, there has been political recentralization. After 1989, the government reinforced the system of "Party Management of Cadres", which gives the central government a dominant say over personnel decisions at provincial and city level. There is also the Cadre transfer system: leading members of a Local Party
Committee/Government should be transferred after working in the same position for 10 years. China has recentralized key areas such as quality control, auditing, environment, land management, statistics and industrial safety (Yongnian, 2006).

Therefore, if there is a rotation of cadres, and the central government has a say over personnel decisions at provincial and city level, how can one individual scientifically get the credit for the successful design and implementation of a policy when the “ceteris paribus condition” exists only in the theoretical world and there is always the law of unintended consequences for which these officials can either take the credit for a policy success or avoid the blame in the case of a policy failure.

3. Credit claiming and blame avoidance in a fragmented authoritarian regime.

Moreover, China's bureaucratic ranking system combined with the functional division of authority among various bureaucracies produces a situation in which it is often necessary to achieve agreement among an array of bodies, where no single body has authority over the others (Kenneth, 1992). The authority below the very peak of the Chinese political system is fragmented and disjointed. There are six functionally defined clusters of bureaucracies identified as the core organs that have nationwide hierarchies and that exercise strong executive power. The top-level leaders can exercise enormous leverage over the political system as a whole and make decisions by identifying problems and then adopting responses to those issues that derive logically from their own value preferences (or power needs in intra-elite struggles) (Lieberthal, 1992).

Again, who is to be blamed or praised for the outcome of a policy in these cases? Outcomes are shaped by the incorporation of interests of the implementation agencies into the policy itself. Fragmented authoritarianism thus explains the policy arena as being governed by incremental change via bureaucratic bargaining.

\[3\] Economic Bureaucracies, 2 Propaganda and Education Bureaucracies, 3 Organization and Personnel Bureaucracies, 4 Civilian Coercive Bureaucracies, 5 Military System, 6 Communist Party Territorial Committees
4. Unanswered questions in the experimentation policies.

In China, decentralized experimentation played a crucial role in generating institutional and policy innovations for economic reform and in adapting to a rapidly changing economic environment. National policy-makers who wished to change the way the economy was run used the results of experimental programs to overcome opposition from rival policy-makers who tried to defend the old rules of the game (Heilmann, 2008). A counter argument could be that it was factional competition at the national level that gave rise to local experimentation through patron-client networks reaching from central policy-makers down to local administrators. Some questions that are left unanswered in these cases are: why would the officials that copied successful policies from others regions get better evaluations? What if they would fail: is it possible that a policy success was caused by something not even considered in the model?

5. The politics of self-censorship

Officials within Chinese government agencies who are opposed to a given policy are able to voice their opposition in part because their policy portfolios give them a degree of political cover.

However, it is important to consider: 1. The politics of self-censorship: a little bit of coercion produces a great deal of fear. 2. Uncertainty about the boundaries of permissible political action & limits of state tolerance. Lawyers and journalists frequently self-censor, effectively controlling themselves. 3. Uncertain control parables shift blame away from the political system to local cadres (Stern, Hassid 2012).
2.3.5 What has happened in practice?

Leaving the measurement problems aside, a detailed 2012 study conducted by scholars in the United States and China found no evidence of a correlation between rank in the Communist Party hierarchy and success in delivering “exceptional economic growth”—a strong indicator of professional competence. The authors did, however, find that the party awarded promotions based on factional ties, familial ties to senior leaders, and educational qualifications (Shih, et al., 2012). "Princelings" are particularly prominent at the highest levels of the Chinese political system, making up 4 out of 7 members of the Politburo Standing Committee (Lawrence & Martin, 2012). If their main evaluation criteria are flawed, their whole legitimacy can be questioned. However, Chinese government officials have been very good at playing the credit claiming and blame avoidance strategies.

The weak rule of law makes it clear that even the top leadership can change their rhetoric according to the circumstances, making it hard for bureaucrats and politicians to know which order to follow. For example, Xi Jinping has made contradictory statements, making his attitude toward political reform unclear: In December 2012: "No organization or individual has the special right to overstep the Constitution & Law". In January 2013 he urged party members to abide not by the state constitution, but rather by the party's constitution. He supports rule by law using it as a tool for governance. The party holds itself above the law when it insists that judicial authorities cannot investigate party members without the party's consent (e.g. Bo Xilai).

Provincial leaders share at least the same bureaucratic rank as central government ministers. The Party's Organization Department in Beijing manages the appointments and promotions of all provincial Party Secretaries and Governors, and rotates them to ensure they do not build up regional powerbases. SOE bosses are able to influence policymaking and agenda-setting by virtue of their bureaucratic rank, technical knowledge of their industries and global markets, and the economic might of their firms. They are expected
to advance the party's interest. They can form powerful special interest groups (e.g. real estate: blamed for resisting policies to prick the housing bubble).

There is unproductive competition among official entities because of bureaucratic competition: individual ministries and other hierarchies share information up and down the chain of command, but not horizontally with each other. “Leading Small Groups” at the top of the party and the state seek to bring together representatives from multiple agencies to coordinate and build consensus around policy in specific areas, but have small staff numbers, vary widely in their level of activity, and are usually unwilling to get involved in forcing day-to-day coordination among their member agencies. It is not uncommon in China for multiple entities to assert jurisdiction over the same issue, competing with each other for scarce budget resources, power, and recognition from higher government officials (Lawrence & Martin, 2012). There is the distorting influence of bureaucratic rank. Chinese political culture features carefully observed systems of rank. Rank consciousness affects the way that officials and their agencies interact with each other. It contributes to the system’s difficulty in achieving successful inter-agency coordination and frequently undermines lines of authority. Entities of equivalent rank cannot issue binding orders on each other.

Moreover, Timothy Garton Ash’s response to Daniel Bell is important to consider. “He (Bell) describes a meeting with the minister responsible for the organization department of the Central Committee of the Chinese Communist Party (CCP), who describes the selection process for the secretary general of that important department. Nominations from all sides. Examinations. Examinations put out in the corridor for public scrutiny. An inspection team. Finally a vote. A wonderful meritocratic process. Now, neither Daniel nor I were actually behind those closed doors, but we know a lot about how the CCP works - and it doesn’t work like that. There is massive factionalism, factional struggle, clientelism, patronage, and corruption. We know that from numerous studies of the party, and indeed from books the party itself has published. So we know that the selection of that very important person was not the glorious theory described by the ministry of the organization committee” (China File, 2015).

Today, one of the major problems China faces exemplifies some of the main issues that have been discussed in this paper: their environmental policy. Faced with risks of weakening economic growth and declining legitimacy (that is, perceived risks to party-state hold on power) from environmental and energy problems, Chinese authorities
responded by joining traditional cadre management tools with environmental protection policies in a way not seen anywhere else in the world. Chinese authorities have embraced environmental cadre evaluation as a tool for limiting risks to the party-state’s hold on power, using environmental protection in an unexpected way to deliver economic growth and social stability. Environmental objectives have been elevated, but primarily to the extent that they support these other values as well. However, this might be pure rhetoric. Implementation problems inherent to this top-down approach abound. Local agents falsify information and shut down pollution control equipment. Closed factories are secretly reopened. These problems create an imperative for reform. Of the initiatives already under way, governance reforms that strengthen public supervision have particular advantages for resolving institutional pathologies that limit the effectiveness of China’s environmental efforts (Wang, 2013). These reforms must come with a good set of enforcement mechanisms otherwise their effectivity will be severely diminished. Due to blame avoidance mechanisms several people responsible for this problem will be found without actually solving the issue, passing the cost of the allocative inefficiency of the political monopoly to their citizens.

2.3.6 China’s Energy Security Dilemma

China needs energy in order to continue its development path. This is what grants NOCs so much power and therefore perpetuates the rational dilemma the government faces trying to control them. Although energy security might acquire a variety of meanings conditional on the country’s context (Müller-Kraenner, 2007), according to the International Energy Agency, energy security is defined as “the uninterrupted availability of energy sources at an affordable price”. For countries that rely mainly on imports, like China, this can be thought of as the measures taken against the risks of import interruptions especially to prevent losses of economic welfare (Lesbirel, 2004). Consequently, the government objective is to improve its energy security by the conservation of a stable
supply of energy resources at an affordable price to maintain its nation's economy and industry (Dorian, J.P., et al., 2006).

China, one of fastest growing economies in the world, has over the past decades risen to the top ranks in global energy demand. In 2010, China became the largest global energy consumer (EIA, 2015). A recent report conducted by BP projects found that by 2035 China will become the world’s largest energy importer, overtaking Europe, as import dependence rises from 15% to 23% (British Petroleum, 2015). The following chart presents China’s key energy statistics showing how important energy security has become.

<table>
<thead>
<tr>
<th>China’s Key Energy Statistics</th>
<th>world rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Primary Energy Consumption 2013</td>
<td>1,146.22 Quadrillion Btu</td>
</tr>
<tr>
<td>Primary Coal Production 2015</td>
<td>4,374,940 Thousand Short Tons</td>
</tr>
<tr>
<td>Total Electricity Net Generation 2012</td>
<td>4,768 Billion Kilowatthours</td>
</tr>
<tr>
<td>Total Electricity Net Consumption 2012</td>
<td>4,468 Billion Kilowatthours</td>
</tr>
<tr>
<td>Total Electricity Installed Capacity 2012</td>
<td>1,174 Million Kilowatts</td>
</tr>
</tbody>
</table>

Energy security has escalated in the party’s political agenda because of the growing domestic demand for energy and resources to maintain China’s rapid economic development. Access to energy resources are directly linked to a nation’s security interest and survival. The regime legitimacy depends to a certain extent on the ability to secure resources for the state. Since the beginning of the 1990s, national consumption has exceeded its national production making the Chinese economy more dependent on foreign imports as the following graph shows.

4 http://www.eia.gov/beta/international/country.cfm?iso=CHN
Even if individuals may be influenced by a logic of appropriate behavior, so many actors of the state are involved in negotiations, making the process hard to control. With limited control mechanisms abroad, this helps to validate the argument that NOCs or their managers are able to close deals that benefit them instead of the state, regardless of the original desire of the Chinese leadership. Given the importance of this particular issue, the next section will show the historical rise of the NOCs in the Chinese state.

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3. The history of the rise of Chinese Oil Companies within the Chinese bureaucracy

In order to understand the current status quo, a historical understanding of the NOCs strategic creation, function and rise to the top sphere of Chinese political influence is fundamental. Today there is no real threat to their power, as they have even been able to avoid the recommencement of other ministries being not just “market participants”, but also to function as “market regulators” (Kong, 2010). China faces a “strong industry, weak government” phenomenon, with a central government increasingly dependent on NOCs to govern the petroleum sector (Kong, 2010, p. 4).

Even if there have been several efforts to control them, these have not been successful due to the government’s constraint to safeguard their high levels of energy security for consumption, investment and growth in order to maintain their legitimacy.

3.1 The Maoist Era (1950-1978)

This era can be characterized by “Self-Reliance”. In 1950, the first National Petroleum Congress was assembled, establishing the Ministry of Fuel Industry, which marked the birth of China’s oil industry (Naughton, 2007).

In 1955, under the directions of the State Council, the Ministry of Petroleum Industry (MPI) was founded and assumed primary responsibility for China’s oil sector (CNPC website).

As time progressed, it became apparent that Mao’s ideological inclination for self-reliance and economic autarky was unsustainable. The combination of the GLF and the Cultural Revolution meant that by mid-1970s, the Chinese economy was on the brink of collapse. The petroleum industry was not immune to the economic decline due to two main reasons. First, China did not have the required technology for further production once all the
readily accessible deposits were extracted. Second, there was a flaw in the command-control governance system where all decisions are controlled by the central petroleum bureaucracies (Naughton, 2007). The party-state’s response in face of these difficulties was to reform and open up the country so that market mechanisms would play a larger role in guiding economic allocation.

3.2 The Deng era (1978 and 1998)

In this time there was decentralization and corporatization to reform the petroleum sector. China’s transition from a planned economy to market economy in the context of globalization resulted in multiple rounds of reforms that followed a decentralization and recentralization cycle. However, decentralization, which was the main theme of early reforms, resulted in diverging consequences. For the petroleum industry, administrative and production decentralization transformed the role of the government and consequently the relationship between state and NOC. Ultimately, the result was a “strong industry, weak government” phenomenon, where the central government was increasingly dependent on NOCs in governing the petroleum sector (Kong, 2010, p.4) as attempts at recentralization through energy governance restructures have not been wholly successful.

The rationale behind the creation of strong NOCs can be best conveyed by the idea of governments wanting to control what they deem as key elements of their economies. The concept of commanding heights was first used by Lenin to describe the Communist Party’s monopoly over political power and control over critical enterprises and sectors that dominated economic activity (Wesson, 1978). The strategic importance of industries and sectors, such as energy, telecommunication, and transportation, makes reliance on private interests impractical and involvement of foreign capital involvement a threat to national sovereignty (Waterbury, 1993). In China, the commanding heights model was first introduced and adopted by Deng Xiaoping and Chen Yun in the reform era when the country underwent its transition from a planned economy to a market economy. Since oil
is a strategic commodity crucial to a nation’s economy and it can be used to foster strategic relationships with other nations, China’s NOCs remained under the hold of the state.

For a detailed history of this period go annex 1.¹

It should be noted that these three companies - China National Petroleum Corporation (CNPC), China National Offshore Oil Corporation (CNOOC), and China Petroleum and Chemical Corporation (Sinopec) - differ from the standard SOEs; having taken up the administrative and social functions of their predecessor line ministries, they are able to directly influence central government policies. As Kong points out, having been granted bureaucratic rank entails that they are not just “market participants”, but also function as “market regulators”. This is especially true subsequent to Deng’s famous southern tour in 1992, which brought about a second wave of reform. Prior to the 1993 administrative reform, there continued to be a central line of ministry, such as the MPI, or the Ministry of Energy, which was vertical in hierarchy, directly responsible for the petroleum industry. However, since then, many of the administrative functions including the formulation of environmental protection policies and industry development coordination were transferred to the three NOCs and the ministries were abolished (Lewis, 2007).

Furthermore, NOCs’ ability to influence decision-making also prevented the resumption of the Ministry of Energy, which was dismantled in 1993.

3.3 Chinese access to the WTO

1998 marked an important year for the petroleum sector as it underwent a further round of restructuring, a move that was also motivated by China’s accession to the World Trade Organization (WTO) (Sepulchre, 2004) and the necessity to establish Chinese SOEs as national champions in preparation for global competition against other NOCs and IOCs.
The restructuring witnessed Sinopec and CNPC undergo substantial asset swaps that created two vertically integrated oil and gas companies operating in separate regions of the country. These companies were further listed in foreign stock markets. The market structure was designed to simultaneously promote and limit competition between these NOCs in order to fulfill the objectives of raising revenue, transforming management incentives, improving the overall commercial performance, and creating the basis for international expansion. As a result, the reforms took no steps to develop competition within the domestic oil and gas markets, and drove many local oil refiners and retailers out of business (Andrews-Speed & Dannreuther, 2011). Administratively, the State Petroleum Chemical Industry Bureau (SPCIB), under the State Economic and Trade Commission (SETC), was constructed to fill the administrative void that was left behind from the transformation.

After the 1998 reform, each of the large NOCs remained dominant in their original functional sectors in the oil market (Andrews-Speed, 2000). With vertical integration, these NOCs became highly integrated and centralized, managing state petroleum assets and unifying subsidiaries under them. The deficiency of an authoritative, overarching, administrative entity further enforced these NOCs’ dominance. The SPCIB had neither the bureaucratic weight nor sufficient staff to achieve the task of strategizing for the industry, especially since the NOCs still retained their ministerial ranks while SPCIB was only a bureau level agency (Kong, 2010). Moreover, the bureau was only a temporary entity and was soon abolished in 2001.

Such deregulation persisted until 2003 when Premier Wen Jiabao announced another round of reform. The SETC was removed and its functions transferred to three institutions: the National Development and Reform Commission (NDRC), the State Assets Supervision and Administration Commission (SASAC), and the Ministry of Commerce (MOFCOM).
In 2005, the Energy Bureau was instituted under the NDRC to control the petroleum industry. Nonetheless, the issue of insufficient oversight and regulation prevailed. Bureaucratic fragmentation was another issue preceding the 1998 reform. Out of the 28 bureaus under the State Council, 6 had responsibilities pertaining to the oil industry. Even though the Energy Bureau is the primary bureau accountable for petroleum, its responsibilities did not extend beyond upstream E&P (Arruda & Li, 2003).

The complicated horizontal division of authority diluted central power and led to multiple voices regarding the petroleum industry. In an attempt to reconcile such incongruence and facilitate cohesion amongst the multiple ministries, the National Energy Leadership Small Group (NELG) was created to strengthen the central government’s power over oil and gas policies. Yet, its failure can be explained by two reasons. First, based on the mandate, the group functioned more like a high-level research group rather than a driving force of policy-making. Further, the day-to-day functions acquired overlapping features with NDRC, weakening the power of the NELG (Kong, 2010).

Such dysfunction in turn prompted much debate about the need for a more authoritative ministry to handle energy policies, but this was met with intense internal opposition. In the end, the NELG was promoted to a vice-ministerial rank and the National Energy Administration (NEA) was formed at the First Plenary Session of the 11th National People’s Congress in March 2008. Nonetheless, the full ministerial rank that the NOCs continue to hold, the industrial expertise they possess, and the economic power accumulated from the vertical integration process, rendered the NEA another empty shell of a regulatory agency over the NOCs (Downs, E.S. & Meidan, M., 2012).

A further effort was pushed forward in 2010, when the National Energy Commission (NEC) was created as a “super ministry” and headed by Premier Wen Jiabao and Vice Premier Li Keqiang alongside 21 ministers to give the NEA more administrative authority. Outsiders have regarded such a move as a sign of the prominence energy issues have gained in the central government’s political agenda, whereas skepticism continues to
linger from within since the NEC is still more inclined towards policy-coordination rather than strategizing for the industry.

3.4 What is the situation today?

The following tables demonstrate just how complicated the power structures are in Chinese governance. The SOEs are subjected to regulation and oversight from a number of different agencies and organizations, often with vastly different incentives and amounts of influence.

Table . Who’s in charge?
“Internal affairs also have tangled webs of power. Central ministries rank equal to provincial governments. So do many large state-owned enterprises (SOEs), a fact which, according to a study by America’s Congressional Research Service, leads to vast regulatory difficulties. SOEs, it said, sometimes outrank party and state leaders in their locales, and so are not bound by their orders. China’s five largest banks have comparable rank to the banking regulator, allowing them to resist oversight.

Jean-Pierre Cabestan of Hong Kong Baptist University says the same problem plagues sectors like oil, gas and heavy industry, where SOE leaders enjoy the rank of minister-level officials. Some, he says, also serve on the powerful party Central Committee. “These SOE leaders belong to the nomenklatura. They are aristocrats, or promoted through connections,” he says. For the party-state apparatus, Mr Cabestan adds, it is vital that the most important positions stay in the hands of people who can be trusted.” (The Economist, 2012)

Table 2. Relations between state-owned enterprises and government in China

(Jiang & Sinton, 2011)
The latest maneuver occurred in 2013 by Premier Li Keqiang, where the NEA underwent restructuring to ensure better coherence of energy policy (Xinhua, 2013). Nevertheless, the struggle to build a strong independent regulatory body is still an ongoing one. Therefore, the following chapter will be used to understand why despite being state-owned enterprises, there has been a lack of success in fully regulating these agents and industries.
4. Benefits and problems of Chinese Loans

In 2001, Premier Zhu Rongji initiated the going out strategy. This policy had two main characteristics. First, it gave priority to investments overseas by signing bilateral treaties for investment. Second, it regulated outgoing FDI. This strategy is still relevant in today’s Chinese economic policy (Shambaugh, 2013). Therefore, it could be argued that the loans offered by the Chinese government allow the promotion of its own companies overseas, especially as Chinese banks almost always tie their loans to the acquisition of Chinese goods. With the exception of few loans-for-oil and smaller loans with scant details available, we can find conditions in every Chinese loan demanding its borrower to purchase Chinese construction, oil, telecommunications, satellite, and train equipment.

According to Deborah Bräutigam, Chinese lending in Africa follows the nation’s Five Principles of Peaceful Coexistence, which prohibit meddling in other countries’ domestic affairs (Bräutigam, 2010, p. 24). She argues that Chinese loans actually constitute a different philosophy of development assistance. Rather than forcing the borrowers to comply with Western norms, Chinese partners treat them as equals and simply seek to do business with them (Bräutigam, 2010, p. 10).

4.1 Benefits

The main benefit of Chinese loans includes access to funding for development projects without being held hostage by the same set of conditions the western counterparts try to impose, without having China mingling in the recipient country’s internal affairs. Moreover, these loans may go where other countries or institutions find it riskier to invest. However some western analysts advocate that by doing this they help badly perceived governments legitimate themselves. This is why it also increases the negotiation power for Latin American countries with the traditional Banks.
4.1.1 China supports development

As Deng says in “Reputation and the Security Dilemma: China reacts to the China threat theory”, in order to counterbalance the ‘China as a threat’ description, China has gradually tried to position itself as a ‘responsible power’ in the international system. For example, in September 2015, Chinese President Xi Jinping announced to the United Nations that China will provide 2 billion U.S. dollars to support South-South cooperation, and called for an equitable development path for all countries (Xinhua News/Ma Zhancheng, 2015).

Furthermore he announced that China will support South-South cooperation and assist developing countries in implementing their post-2015 development agenda and that China will also do its best to raise its investment in the least developed countries (LDCs) to 12 billion dollars by 2030. In addition, China exempted the debt of the outstanding intergovernmental interest-free loans that were due by the end of 2015 by the relevant LDCs, landlocked developing countries, and small island developing countries.

4.1.2 Investment in riskier countries

If we observe the evolution of the magazine, the Economist, its view about African development has drastically changed over time. China has had a major influence on that. As Isaac Kwaku Fokuo, founder and board chairman of the Sino-Africa Centre of Excellence (SACE) Foundation stated: “If you look at the effect of Chinese foreign direct investment in Africa over the last 20 years, even the most skeptical of critics will agree, the effect on the ground has been quite profound. Look at countries like Kenya, Angola, Ghana, Sudan and Nigeria. The infrastructure that Africa has lacked for many years is being built by the Chinese and that is a good thing.”
China has been willing to invest in nations with high country risk. Country risk defined by the OECD under the Participants’ system, is composed of transfer and convertibility risk (i.e. the risk a government imposes capital or exchange controls that prevent an entity from converting local currency into foreign currency and/or transferring funds to creditors located outside the country) and cases of force majeure (e.g. war, expropriation, revolution, civil disturbance, floods, earthquakes) (OECD, 2015).

This is consistent with the China-Global-Investment-Tracker-January-2016, compiled by the American Enterprise Institute and The Heritage Foundation. The China Global Investment Tracker (CGIT) is the only comprehensive data set covering China’s global investment and construction activity. Inaugurated in 2005, the CGIT includes to this date approximately 1,750 large transactions across energy, real estate, high-tech, and other industries, as well as more than 170 troubled transactions. The full list of transactions, including the amount, the parent investor, the host country, and the sector, is available for public use with the proper citation. The tracker is published by the American Enterprise Institute and the Heritage Foundation (American Enterprise Institute, 2016).
4.1.3 Increases negotiation power for Latin American countries with the traditional Banks.

Having China as a strategic partner and creditor is not only beneficial because of the funding Latin America receives from them, but also because having other options of credit allows Latin American countries to have better conditions, options, and leverage to negotiate with the traditional Banks like the World Bank and the IMF.

The recent announcement of the development and growth of the Asian Development Bank with its European participation (leaving out the US and Japan) has become a direct competition for the World Bank (Huffington Post, 2016). Its creation was announced in 2013. The following year the World Bank doubled the line of credit available for Ecuador (Correa, 2014). This is not a surprise after the 2013 announcement was made in order to not lose influence in the region whereas in the past the WB and the IMF were able to set the conditions of several credit lending deals in the region.

4.2 Problems

However, it is important to challenge this optimistic view for the following reasons that may not only apply to the Latin American Loans but to the African ones analyzed.

4.2.1 Lack of transparency

Study of PRC international influence is disadvantaged by a lack of reliable data on Chinese foreign aid and by lack of transparency on whether and how the PRC makes and implements large, high profile investment agreements. According to one 2007 study directed by the International Monetary Fund (IMF), China’s outward foreign direct
investment (FDI) in 2005 was five percent of the United States, with eighty percent apparently going to the tax havens of Hong Kong, Cayman Islands, and the British Virgin Islands, and its final destinations impossible to trace (Morck, et al., 2007). Scholars may say it is in the IMF’s interest to publish these sorts of studies. However, this lack of transparency from the Chinese government makes it very hard to question them with relevant data. Using whatever the government may say as a source of authority to prove their arguments is not methodological, directly putting Chinese intentions in doubt.

4.2.2 Conditionality

The majority of the loans provided come with the condition that it is spent on Chinese services or products; some loans are (partly) denoted in RMB. Much of what appears to be the PRC’s investment and assistance may be “round-tripped” or even returned back to China as foreign investment (Lum, et al., 2008). Such conditions ensure that parts of the funds never leave China at all and can therefore not be easily measured by looking at the receiving country.

Chinese loans may not come with Western-style policy conditionality, but they attach other strings in an effort to mitigate loan risks, defending and promoting their national companies in the way. Some loans set aside only a small portion of tied funds, while others are set aside in totality. In Ecuador for example we find the CDB’s $1 billion loan-for-oil to Ecuador in 2010, which mandated 20 percent Chinese purchases. At the other extreme, China Ex-Im Bank gives 100 percent export credits, like a $1.7 billion loan to pay a Chinese company to build the Coca-Codo Sinclair hydroelectric dam in Ecuador in 2010. (Gallagher, et al., 2012, p. 19).
4.2.3 Environmental cost

Major infrastructure and heavy industry projects have the potential to create environmental problems in Latin America. In response to civil society efforts to “green” the development banks, many Western banks now have significant environmental guidelines. China has developed similar environmental guidelines for its development banks. However, comparison of those guidelines finds that, despite significant progress in the past decade, China’s guidelines do not yet match those of its Western counterparts. Environmental advocacy organizations have expressed concern about the potential for Chinese firms to transfer their lack of adherence to domestic environmental regulation to construction projects in Latin America and Africa. Within China, environmental regulations are constantly circumvented.

In 2009, the Ministry of Environmental Protection reported that 15.5 percent of projects started construction without approval, 9.6 percent of enterprises that were closed for environmental reasons resumed production without permission, and 25 percent of the main sources of pollution were not operating properly (McElwee, 2009) cited by (Gallagher, et al., 2012)). To add to this concern, a majority of Chinese loans are in environmentally sensitive industries, such as mining, or on infrastructure projects in developing countries with low environmental standards (Gallagher, et al., 2012).

4.2.3.1 Poor enforcement and respect of credit lines

China issued its first green banking policy in 1995. Since then, the government has continued to develop a broad policy framework on sustainable finance, which has become one of the most innovative in the world. Most notably, in 2008, China’s Banking Regulatory Commission announced the Green Credit Guidelines, which were intended to guide and promote sustainability in the banking sector. The guidelines set a precedent in financial policy for tying the extension of bank credit to a client’s environmental and social performance. When the policy was updated in 2012, a new article obligating banks...
to abide by international norms for overseas investments was added. Although there is no formal mechanism for enforcement, banks are expected to implement it.

Although there have been analyses published by Chinese government agencies on the implementation of the Green Credit Guidelines, no study on GCG’s implementation abroad exists. The NGO Friends of the Earth and the Bank track issued a report which examines the extent to which Article 21—which requires banks to uphold international norms and host country laws—has been implemented by Chinese banks overseas (Friends of the Earth & Bank Track, 2014).

Article 21 states:
Article 21: Banking institutions shall strengthen the environmental and social risk management for overseas projects to which credit will be granted and make sure project sponsors abide by applicable laws and regulations on environmental protection, land, health, safety, etc, of the country or jurisdiction where the project is located. The banking institutions shall make promise in public that appropriate international practices or international norms will be followed as far as such overseas projects are concerned, so as to ensure alignment with good international practices.


Non-governmental organizations sought information from the banks about transactions in five of the seven cases, but there is inadequate publicly available information and transparency to determine whether the banks conditioned their loans in a way to spur better corporate environmental performance, which is the ultimate promise of the GCG as a
sustainability policy. Furthermore, evidence suggests that widespread problems in bank compliance with Article 21 of the GCG exist. In almost all these cases, there are clear breaches of applicable environmental regulations and failures to uphold good international practice, particularly the right of indigenous communities to free, prior and informed Consent. The case studies indicate that Chinese banks lack transparency and sufficient methods of engaging with the public, and with practices that reduce their access to beneficial information and input that could improve their GCG compliance. Compared with lending within China, as was the GCG’s original focus, it is relatively difficult for Chinese banks to conduct robust due diligence on borrower compliance with the range of regulations that affect overseas transactions. Similarly, it can be challenging for banks to stay abreast of ever-shifting environmental and social norms that constitute “good international practice.”

*The role of Chinese embassies in implementing Article 21 of the Green Credit Directive*

The Guidelines are issued and enforced per the authority of the China Banking Regulatory Commission. Yet due to the lack of overseas CBRC offices, other overseas-based Chinese government agencies, such as embassies or overseas representatives of the Ministry of Commerce, could play an important role in helping to uphold Article 21. These agencies could inform Chinese companies and banks about the obligations of the Green Credit Directive, current host country conditions, relevant environmental and social laws and other important issues.

In the case of *El Mirador*, the Chinese Embassy played a decidedly unhelpful role. Since 2012, Ecuadorean NGOs have repeatedly informed the Chinese Embassy in Quito of *EcuaCorriente’s* multiple legal violations; however, the Chinese Embassy has not officially responded to requests for information and intervention. In March 2012, for instance, a nationwide march against mining in *El Mirador* culminated in the delivery of a letter from civil society to the Chinese ambassador. After waiting several hours to
address the ambassador, Ecuadorean activists were evicted from the embassy by police. Later in 2014, the Chinese Embassy provided Ecuadorean NGO Acción Ecológica with a phone number to obtain more information regarding the project; however, over the course of one and a half months, the NGO reported that no person has ever answered the line.

4.2.4 Several entities inside the Chinese government makes foreign assistance less efficient

The PRC does provide assistance to other countries, aid that comes from multiple government agencies with little or no apparent oversight. Moreover, this aid does not appear to be tracked or monitored by one single government entity. Many forms of PRC foreign assistance — loans, debt forgiveness, the building of large public facilities, and trade and investment agreements — do not meet the traditional definition of “overseas development assistance,” which is how most of the world’s donor countries provide aid.

4.2.5 Dependent on Beijing diplomatic priorities

PRC assistance is not provided in regularized annual allotments, but appears to follow a funding schedule determined by Beijing’s diplomatic priorities. As was seen in the political utility section, this may be used to counteract some of the western policies.

A functionary of a Latin American Embassy in Beijing who prefers not to reveal its identity told me that there have been negotiations to access a big Chinese Loan package for years. These loans have not been given because the bureaucrats have been waiting for the Chinese president to announce an official visit to the country so that he can offer something substantial to his Latin American counterpart even if the deal has been ready.

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6 Ministries involved in the PRC’s foreign aid structure include the Ministry of Commerce, Export-Import Bank, Ministry of Finance, and Ministry of Foreign Affairs.
for years. There are two conflicting questions that come from this example: are the bureaucrats deferring the loans to be seen with better eyes from the leadership or is the leadership aware of the situation and utilizing it for his own benefit? According to our source, the former reason is the cause. However, given the lack of transparency and trust there might be reasons to believe the leadership is fully aware of the situation and utilizing a blame shifting strategy. This performance based identity, and political twists following a constructivist perspective, determines why the rational choice of granting the loan have not yet been fully followed.

4.2.6 Security Council diplomacy

When a country is a member of the Security Council, it is significantly more likely to receive project funding from the World Bank than when it is not, making the World Bank a kind of foreign policy tool (Dreher, et al., 2008). A recent episode proves that China also has influence in the voting patterns of some of the Security Council members: China’s support and protection of North Korean leaders. North Korea's longtime ally has never wavered in its support for Pyongyang leaders. China is even likely to use its veto as its officials have repeatedly said efforts to send North Korea's leadership to the International Criminal Court "won't help improve a country's human rights condition" (Sanchez, 2014).

But there are further reasons for this protective voting pattern. If the ICC would sanction the North Korean leaders that would set a dangerous precedent for the Chinese Leadership of being accused of human rights violations for the way the 1989 Tiananmen movement was handled (Jativa, 2014). That is why Beijing uses all of its capacity of soft power to mobilize its allies. Among them, Latin American countries like Ecuador, Venezuela, Bolivia and Cuba in order to block sanctions to North Korea.
In international politics one of the principles that has been maintained over the centuries is reciprocity. The cooperation of a big nation like China towards a smaller one must be reattributed sooner or later. That explains for example why a nation like Ecuador, usually advocating for the Human Rights doctrines, voted against a motion that would condemn North Korean leaders (Jativa, 2014). The excuse given by the president Rafael Correa was a procedural one “A long time ago conducting Human Rights general reports was established, not those selectively chosen which are a preamble for invasions, bombarding, etc. We have not justified the North Korean facts” (Estefanía Celi, 2014). However the voting was done in favor of North Korea allowing China to exchange political benefits for economic investments in the country. This created a huge controversy nationally and this explains why in 2015 Ecuador abstained while Bolivia, Cuba and Venezuela kept the same voting record as we can see in the following images.

2014 Resolution:
2015 Resolution:

On December 17, 2015, 119 countries voted to pass a resolution condemning “long-standing and ongoing systematic, widespread and gross violations of human rights” in North Korea. The resolution came a week after an important UN Security Council debate on December 10, in which several countries voiced support for a debate on referring North Korea to the International Criminal Court (ICC). The nineteen countries that voted against the resolution were Algeria, Bolivia, Burundi, Laos, Oman, Zimbabwe, Vietnam, Venezuela, Uzbekistan, Syria, Sudan, Russia, Burma, Iran, Cuba, Belarus, Egypt, China, and North Korea (Human Rights Watch, 2015).

Moreover, China does not only challenge or protect against any measure that could affect them in the future but also challenge the frame on which they are accused. Any attempt at political persuasion contains two parts. First, a frame that characterizes an issue, and second, a set of implications that come from that frame (Jackson & Krebs, 2007, p. 43). China says every country should handle their own matters. Like this they try to change...
the focus of the discussion by not allowing other countries to mingle in their internal affairs and not engaging in the conversation several NGOs are trying to make them engage with.

For example, in April 2016, the US issued a report on the human rights situation in 199 different countries while being silent about its own human rights violations. China's Information Office of the State Council published a report the following day concentrating on US human rights problems, such as gun-related crimes and abuse of power by US law enforcement.

"Since the US government refuses to hold up a mirror to look at itself, it has to be done with other people's help," stated the Chinese report, entitled "The Human Rights Record of the United States in 2015" (CCTVNEWS, 2016).

China strongly replied to the US annual human rights report on countries and criticism, warning the US not to use the issue of human rights to interfere in China's domestic affairs. "This 'human rights report' overlooks China's human rights achievements," China's Foreign Ministry spokesman Lu Kang said in a ministry briefing. Lu noted that anyone with a real interest in China's human rights situation would not deny the remarkable improvements since "the reform and opening-up" drive began more than three decades ago. "Attempts to politicize the issue of human rights to disrupt China's stability and development will prove to be futile," Lu cautioned. Lu said China is willing to work together with other countries to improve human rights, but countries should not use human rights to interfere in the internal affairs of others.
4.2.7 Different Management style

Paternalistic leadership (PL) is the prevalent leadership style in Chinese business organizations. This may be a source of conflict because of other perceptions of leadership and management in the western tradition. This tradition ranges from traditional leadership style theory which tends to interpret the leader’s role as transactional simply to manage subordinates by clarifying their job roles and tasks to achieve goals, to transformational leadership style where the leader shows personal charisma and intellectual inspiration (Bass, 1985 found in (Cheng, et al., 2004)). In a comprehensive review of leadership theories in the West, transformational leadership was identified as the most highly valued (Yukl, 2002, found in (Cheng, et al., 2004)).

With an approach similar to patriarchy, PL entails an evident and powerful authority that shows consideration for subordinates with moral leadership, strong discipline, authority fatherly benevolence, moral integrity, and personal approach (Cheng, et al., 2004). A paternalistic leader displays authority, control, and image building (Farh & Cheng, 2000 found in (Cheng, et al., 2004)).

These two leadership styles do have something in common. Transformational leadership includes a style of individualized care that is similar to benevolent leadership. Consistent with an old Chinese saying: ‘Similarity exists in dissimilarity and vise versa’, transformational leadership from the West and Chinese paternalistic leadership may contain general transnational behaviors that are applicable across cultures, as well as emic behaviors that are unique and are only applicable in a particular cultural setting (Yang K. S., 2000 found in (Cheng, et al., 2004)). Hence, it is essential to understand which are universal and which are culture specific when transplanting a Western/Chinese leadership model to Chinese/Western business organizations. Leadership behaviors with cultural generality will be more effective, while those reflecting indigenous Chinese behaviors will be less effective in the Latin American context, which is deeply influenced by western literature. In other words, leadership behaviors conforming to western cultural
characteristics will be more effective, and those conflicting with western cultural features, less effective.

While authoritarian leadership of PL is losing its influence, benevolent and moral leadership styles are influential, and may even become more important.

(Cheng, 2006).

However, it is also important to notice there is a generational shift of values among the Chinese society from following the social norms to following their own will among the Republican, the consolidation, the Cultural Revolution, and the social reform generations (Egri & Ralston, 2004). Since the opening reform of 1978, more and more Chinese students go abroad to study and more and more western students come to China. This does not necessarily means that Chinese values will have to abide to western norms but there will be a process of continuous adaptation of identity with more and more western influence in China and more and more Chinese influence abroad. China is advocating for
a multipolar world (Dai, 2016) but all the institutions are still set to protect the western countries’ interests. This is why creating a new set of institutions like the Asian Development bank and the expansion of the Confucius Institutes abroad is important. However, there is still a long way to go. A clear example is how many western movies are known in China and on the counterpart how few Chinese movies are known in the west.

4.3 Myths of Chinese Loans that distract from the real issues.

Professor Deborah Brautigam challenged five common myths associated with Chinese foreign investments in Africa. This serves as an example for myths that may appear or already exist in Latin America. It is important to avoid myth-making because it makes it harder to focus on a number of very real problems that exist. For example, in regards to China-Africa engagement, there are problems such as resource transparency, sustainable timber certification, and the protection of endangered species. Distracted by imaginary problems like the ones outlined above, China-U.S. cooperation in relation to Africa has moved at a glacial pace. Therefore it is important to know these myths, and to prove how wrong they are, in order to engage and discuss about the real issues.

The first myth is that China is in Africa only to extract natural resources. Other companies have also gone to Africa and have invested. Technology companies have also done much to accelerate local development.

A second myth centers around the extent of Chinese involvement in the continent. Observers often dramatically overstate the scope of Chinese official finance — loans and aid — pledged to Africa and other developing countries. Beijing does, however, publish aggregate figures every few years — and they are lower than some of the breathless reporting would suggest.
A third persistent myth is that Chinese companies employ mainly their own nationals. In a small group of oil-rich countries with expensive construction sectors — including Algeria, Equatorial Guinea, and Angola — governments do allow Chinese construction firms to import their own workers from China. However, elsewhere in Africa the research is clear: the vast majority of employees at Chinese firms are local hires.

A fourth myth that won’t go away is that Chinese aid and financing is itself a vehicle for securing oil concessions and mining rights. Yet earlier this year, a group of researchers who actually tracked Chinese aid commitments reported that natural resource acquisition did not explain the pattern.

The fifth and final myth is that China has an insatiable appetite for African land, and perhaps even a plan to send groups of Chinese peasants to grow food in Africa that will then be shipped back home. The professor’s team spent three years doing fieldwork and conducting interviews in over a dozen countries to check the facts — and out of nearly 15 million acres that Chinese companies reportedly acquired, they found evidence of fewer than 700,000 acres. None were growing food for export to China.

Moving beyond mythology might make for a slower news day but it will help create a better informed basis for Western engagement with China — in Africa and elsewhere (Brautigam, 2015).
5. DATA and Findings

5.1 Hypothesis:

The amount of money of Chinese Loans to Latin American countries has an association with the level of corruption of a country, its development index, and the recipient’s country’s access to resources.

Dependent Variable:

The amount of money of Chinese Loans to Latin American countries.

Independent Variables:

In attempting to understand some relevant causes, I hypothesize that Chinese loans to Latin America are related to 3 main reasons:

1) First, bureaucrats in charge of the negotiations close deals that benefit themselves personally. This could be a consequence of the performance based identity of Chinese NOCs managers, hoping either to improve their short-term performance indicators in an effort to promote their own careers or making decisions that sacrifice the long term interest of the state for their own financial benefit. Therefore, the Corruption Index of the Latin American countries will be used to test this hypothesis as it is expected the more corrupt a country is, the more likely the bureaucrats are to participate in this type of negotiations, all else being equal.

Due to the strategic needs of China, these agents are able to manipulate the decisions of the state that in return seeks economic and political utility. I believe this is a clear example of the principal agent problem and lack of control of Chinese Oil Companies that go
abroad and seek to invest in countries where it is easier for the bureaucrats to get benefits from these negotiations.

2) Second, the Human Development Index (HDI) of the Latin American countries, where the money would serve to help developing countries receiving the investment to finance projects that will help develop the country. So, the lower the development index of country, the more likely it would be to get loans because of the need to finance different and new development projects, all else being equal.

As observed, Chinese President Xi Jinping announced to the United Nations that China will provide 2 billion U.S. dollars to support South-South cooperation, and called for an equitable development path for all countries (Xinhua News/Ma Zhancheng, 2015).

Other idea covered here is the Chinese view of how China should behave as a new founded great power. In order to counteract the ‘China as a threat’ narrative, China has increasingly tried to position itself as a ‘responsible power’ in the international system (Deng, 2006). The view of the responsible power stems from what Jiang calls the ‘Great Power Style’: such Great Powers are to behave responsibly, generously and loyaly, and should lead by example (Jiang, 2011).

3) Finally, countries with natural resources would be more likely to receive those loans all else being equal. This can be explained by the dependence on foreign commodities and the Chinese need to protect their supplies to secure growth as was explained in the energy security section. Moreover the historical rise and power of NOCs helps us understand why this is the case as they are able to set important negotiations in the Chinese political agenda.

The data comes from several sources. First, access to these loans information is hard to obtain. For this we used the China-Latin America Finance Database7 (Gallagher & Myers, 7http://www.thedialogue.org/map_list/)
that has information about Chinese loans in Latin America from 2005 to 2014. The corruption index was an average of 2014 to 2012 corruption indexes found in the transparency international site (Transparency International, 2015). To determine the country’s development, I used the 2015 Human Development Index (United Nations Development Programme, 2015). To analyze the third variable, I presented it as a dummy variable to know whether the country is an OPEC member (1) or not (0) (OPEC, 2016).

The model is the following:

\[ Y_{\text{amount Loans}} = \beta_1 \times \text{corruption index} + \beta_2 \times \text{development index} + \beta_3 \times \text{country member of OPEC} (0 \text{ or } 1 \text{ as it is my dummy variable}) + \text{Constant} + E. \]

5.2 Loans data limitations

It is difficult to come to a close estimate of Chinese foreign investments and loans outside China for several reasons, especially those highlighted in the Issues in Section 4 above.

Beijing reportedly is reluctant to officially reveal the totals of its foreign assistance for a variety of reasons. First, it is in the interest of the government to stay vague about this in order to alleviate doubts that it is spending more money on others than on its own citizens. Second, an estimate of the funds received will not approximate the real number, because large amounts stay in China. In sum, the extent of PRC foreign assistance to other countries cannot be determined accurately (Dumbaugh, 2008).

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8 http://www.transparency.org/research/cpi/overview
5.3 Corruption Index limitations

Real corruption is different from perceptions of corruption. Generally, observing Transparency International indexes, we would agree that the US is less corrupt than Bolivia. However, perceptions can easily be influenced. A citizen will perceive more corruption if more policemen are asking him for money, even if, collectively, all these bribes would not even come close to the amount of money a lobbyist is able to get from constituents to bail out a bank without the knowledge of the citizen. In reality, relatively few people get punished for corrupt acts. To prove a corrupt act is tedious. The process is long and to find incontestable evidence is hard. Potential accusers are hesitant to spend the time and effort necessary to punish someone. Even if they pursue this, the insecurity they might face by denouncing someone might be enough of an incentive not to do it.

Real corruption experience is a weak predictor of reported corruption perception, and some of the factors commonly found to “reduce” corruption, such as economic development, democratic institutions, or protestant traditions systematically bias corruption perception indexes downward from corruption experience (Donchev & Ujhelyi, 2014).

Also the terminology defines what some people define as corrupt even when the goal is the same, “Tax avoidance is a practice of using legal means to pay the least amount of tax possible. This is different from tax evasion which is the practice of using illegal methods to avoid paying tax” (Anon., 2015). The legal one would not be considered as corrupt. How we define terms makes a difference. For example: A “commission” to get a contract is a euphemistic way of saying that bribing was involved in the contract (Tanzi, 1998, p. 563). These definitions shape the answers.
5.4 Results:

<table>
<thead>
<tr>
<th>Country</th>
<th>No of Loans</th>
<th>Amount</th>
<th>CorruptionIndex</th>
<th>Development index2015</th>
<th>Opec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>16</td>
<td>56300</td>
<td>19,33</td>
<td>0,762</td>
<td>1</td>
</tr>
<tr>
<td>Brazil</td>
<td>10</td>
<td>22000</td>
<td>42,67</td>
<td>0,755</td>
<td>0</td>
</tr>
<tr>
<td>Argentina</td>
<td>10</td>
<td>19000</td>
<td>34,33</td>
<td>0,836</td>
<td>0</td>
</tr>
<tr>
<td>Ecuador</td>
<td>12</td>
<td>10800</td>
<td>33,33</td>
<td>0,732</td>
<td>1</td>
</tr>
<tr>
<td>Bahamas</td>
<td>3</td>
<td>2900</td>
<td>71,00</td>
<td>0,79</td>
<td>0</td>
</tr>
<tr>
<td>Mexico</td>
<td>3</td>
<td>2400</td>
<td>34,33</td>
<td>0,756</td>
<td>0</td>
</tr>
<tr>
<td>Peru</td>
<td>4</td>
<td>2300</td>
<td>38,00</td>
<td>0,734</td>
<td>0</td>
</tr>
<tr>
<td>Jamaica</td>
<td>8</td>
<td>1400</td>
<td>38,00</td>
<td>0,719</td>
<td>0</td>
</tr>
<tr>
<td>Bolivia</td>
<td>3</td>
<td>611</td>
<td>34,33</td>
<td>0,662</td>
<td>0</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>2</td>
<td>401</td>
<td>53,67</td>
<td>0,766</td>
<td>0</td>
</tr>
<tr>
<td>Honduras</td>
<td>1</td>
<td>298</td>
<td>27,67</td>
<td>0,606</td>
<td>0</td>
</tr>
<tr>
<td>Chile</td>
<td>1</td>
<td>150</td>
<td>72,00</td>
<td>0,832</td>
<td>0</td>
</tr>
<tr>
<td>Guayana</td>
<td>1</td>
<td>130</td>
<td>28,33</td>
<td>0,636</td>
<td>0</td>
</tr>
<tr>
<td>Colombia</td>
<td>1</td>
<td>75</td>
<td>33,33</td>
<td>0,72</td>
<td>0</td>
</tr>
<tr>
<td>Uruguay</td>
<td>1</td>
<td>10</td>
<td>72,67</td>
<td>0,793</td>
<td>0</td>
</tr>
</tbody>
</table>

It is important to consider that I am analyzing several aspects of the loans that are a product of a 10-year compilation, comparing it with other variables from other years. The Corruption Index is an average of the years 2012-2013-2014. The Development index is of 2015 and the membership of OPEC is also dependent on political will. As an example, Ecuador suspended its membership until 2007, when it returned to the group. This is important to consider when we conduct this study. Additionally, there are only 14 countries featured in the regression, because this is the population of Latin American countries that have received loans according to the available data.
The adjusted R Square found is 0.576 and the F test shows the results are significant with the 0.006. This means 0.576 of our model can be explained by these three variables. The other part is uncertain.

1) Corruption index: the variable is significant in order to better understand the amount of loans a country receives. The high t-score (-2.277) and p-value <0.05, allows me to reject the null hypothesis of no association at this level of significance. Beta \(_{\text{Corruption Index}} = -484.438\). It has a negative value that represents a negative association between the corruption index and the amount of loans. Indeed, the lower the corruption index is (which means that the country is more corrupt), the higher the amount of the loan will be.

2) Development index: the variable is significant in order to better understand the amount a country would receive. The high t-score of (2.367) with a p-value <0.05 which, allows me to reject the null hypothesis of no association. Beta \(_{\text{development index}} = 124'081.806\). There is positive association between the development index and income. This is unexpected. According to the data the more developed a country is, the more likely it is to receive bigger amounts of loans from China. However, one thing to consider is that the range

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-66076.546</td>
<td>33438.179</td>
<td>-1.976</td>
<td>.074</td>
</tr>
<tr>
<td>CorruptionIndex</td>
<td>-484.438</td>
<td>217.561</td>
<td>-.546</td>
<td>.048</td>
</tr>
<tr>
<td>Development Index2015</td>
<td>124081.806</td>
<td>52417.373</td>
<td>2.367</td>
<td>.037</td>
</tr>
<tr>
<td>Opec</td>
<td>19694.310</td>
<td>8621.652</td>
<td>.457</td>
<td>.043</td>
</tr>
</tbody>
</table>
between the most developed country, Argentina (.836), and the least developed one, Honduras (.606), is 0.23. Whereas the range between the most corrupt country, Venezuela (.193), and the least corrupt country, Uruguay (.727), is .53.

If I would transform the corruption index that ranges on the scale from 0 to 100 to a scale 0 to 1 it would allow me to compare the corruption index with the development index. Rerunning the regression transforming the data gives me a Beta_{Corruption Index} = -48'443.8. Beta_{development index} = 124’081,806.

This shows that the development index has more weight in the access to loans than the corruption index. However, it is important to remember I am comparing two elements that are incomparable, I am just stating which one has more influence in determining the amount according to our data.

3) *Country with natural resources:* This third variable would be expected to have the heaviest weight to fulfill China’s security energy. Actually, it is our smallest beta.

This is actually not a surprise as the region is not the biggest supplier of oil for energy security.

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Going beyond the data, when we change the dummy variable to include Brazil\(^{12}\) (not an OPEC member, but has received Chinese loans for oil and mining purposes) I get even smaller p-values and similar values for the ones without Brazil.

\[
\text{Beta Corruption Index} = -484,438 \quad \text{Beta Development Index} = 124'081,8 \quad \text{Beta Opec} = 19'694,31
\]

After Scaling corruption index to a 0 to 1 scale:

\[
\text{Beta Corruption Index} = -48'443,8 \quad \text{Beta Development Index} = 124'081,8 \quad \text{Beta Opec} = 19'694,31
\]

With Brazil:

\[
\text{Beta Corruption Index} = -471,975 \quad \text{Beta Development Index} = 117'319,1 \quad \text{Beta Opec+Brazil} = 19'650,91
\]

After Scaling corruption index to 0 to 1 scale:

\[
\text{Beta Corruption Index} = -47'197,5 \quad \text{Beta Development Index} = 117'319,1 \quad \text{Beta Opec+Brazil} = 19'650,91
\]

5.5 What will the situation in the future be?

The Oil Giants were less aggressive with foreign purchases last year. The Big Three cut spending by nearly 90 percent in bid to improve asset quality and efficiency, CNPC researchers say (Kaixi, 2015).

---

\(^{12}\) Loans to Brazil

<table>
<thead>
<tr>
<th>DATE</th>
<th>TYPE</th>
<th>PURPOSE</th>
<th>FINANCER</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2005</td>
<td>Mining</td>
<td>Steel mill equipment</td>
<td>ICBC</td>
<td>$201M</td>
</tr>
<tr>
<td>December 2007</td>
<td>Energy</td>
<td>Gas pipeline</td>
<td>China Development Bank</td>
<td>$750M</td>
</tr>
<tr>
<td>February 2009</td>
<td>Infrastr.</td>
<td>Expand teleman network</td>
<td>China Development Bank</td>
<td>$300M</td>
</tr>
<tr>
<td>May 2009</td>
<td>Energy</td>
<td>Proceed oilfield development</td>
<td>China Development Bank</td>
<td>$100D</td>
</tr>
<tr>
<td>September 2009</td>
<td>Mining</td>
<td>Ships to transport iron ore to China</td>
<td>Bank of China and China Ex Im</td>
<td>$1,7B</td>
</tr>
<tr>
<td>November 2011</td>
<td>Energy</td>
<td>Refinery operations, Sinopec</td>
<td>Sinopec</td>
<td>$900M</td>
</tr>
<tr>
<td>April 2012</td>
<td>Infrastr.</td>
<td>3G network</td>
<td>China Development Bank</td>
<td>$500M</td>
</tr>
<tr>
<td>July 2014</td>
<td>Other</td>
<td>Finance Vale purchase of equipment &amp; services</td>
<td>China Ex-Im Bank</td>
<td>$58</td>
</tr>
<tr>
<td>July 2014</td>
<td>Energy</td>
<td>Finance Vale purchase of financial services</td>
<td>Bank of China</td>
<td>$250B</td>
</tr>
<tr>
<td>July 2014</td>
<td>Energy</td>
<td>Finance Schaeffin Group lease of drilling rigs</td>
<td>ICBC</td>
<td>$1,4B</td>
</tr>
</tbody>
</table>

59
“The Big Three state-owned oil giants invested less than US$ 3 billion on overseas assets last year, down nearly 90 percent from 2013, according to a report published on January 28 by a research institute at China National Petroleum Corp. (CNPC).

The lack of activity by CNPC, China National Offshore Oil Corp. (CNOOC) and China Petroleum & Chemical Corp. (Sinopec) contrasts with a rise in deals by foreign companies, as crude oil prices slumped from US$ 115 per barrel in June to below US$ 60 in late December.

The total value of mergers and acquisitions around the world last year stood at US$ 210 billion, up 54 percent from a year earlier, the report said.

Chinese oil companies were major buyers in 2012, when outlays totaled US$ 34 billion, and in 2013, when they spent US$ 22.2 billion, said the report.

The Big Three are restructuring their overseas asset portfolios, the report by the CNPC researchers said. CNPC got better control of investments and costs regarding unconventional oil and gas projects in Australia, and CNOOC was planning to sell shares in a subsidiary of Argentine energy company Bridas Energy Holdings Ltd. because of risks.

An anti-corruption campaign launched by the Communist party in late 2012 that focused on overseas deals by oil companies was one reason for the decline in investment, an analyst who declined to be named said.

Bo Qiliang, general manager of China National Oil and Gas Exploration and Development Corp., a subsidiary of CNPC, and the deputy general manager of CNPC’s listed arm, PetroChina, came under investigation in May. The inquiry into Bo delayed CNPC's purchase of the Dover oil sands project in Canada from June to the end of August.

The country's oil giants are rethinking past overseas purchases, said Zhu Hansong, a director at Goldman Sachs Asia-Pacific. CNPC and Sinopec need to lower their debt levels, and CNOOC had to finish integrating its Nexen Inc. purchase into the company. CNOOC finished its US$ 15.1 billion takeover of the Canadian oil and gas firm in early 2013.”

In January 2016 the oil price hit 33.65. It was observed that China has bigger investments in countries from which they need resources. However, worldwide more and more sources of energy are being developed. Fracking has been started to be used in the US. There is exploration in search for oil in nontraditional areas such as the Artic and outside the coasts of Brazil. Iran prepares to increase its production as their European and US sanctions have been lifted. How China will invest when more energetic sources are offered in the market
is yet to be seen. Will China’s economic deceleration create less demand for oil perpetrating a vicious circle of less investment affecting China and its commercial allies?
6. Conclusions

The evidence suggests that there is a clear principal agent dilemma present between the NOCs and the Chinese State in the Latin American context. As was presented in the constructivist approach, states do not take decisions as if they were rational unified actors and there are behaviors within state organizations that may affect national decisions (Allison, 1971). In a fragmented authoritarian regime with no transparency of information, with several private and national state owned enterprises investing abroad in several countries with different regimes, and with a high national enforcement problem, may explain why the Chinese National Oil Companies have gained so much influence within the Chinese State while their leaders try to present the China dream to the world.

The data presented establishes a statistically significant association between the levels of corruption and access to Chinese loans controlling for the level of the borrowing countries’ development and access to natural resources. The rationalist perception assumes that states are utility-maximizing unitary actors with clear preferences and that they have access to limited information. The rationalist approach limitation assumes that the actors under analysis are unitary. This is not what our evidence suggests, having several actors involved in the process. Therefore a constructivist approach allows us to better understand Chinese loans in Latin America.

The fight against corruption in mainland China gives an incentive for corrupt bureaucrats to go abroad where they are subject to fewer regulations to close deals that would personally benefit them. From a constructivist perspective we could also explain this phenomena especially if we consider the NOCs bureaucratically-shaped identity seeking to get either economic personal profit where they can close negotiations that benefit them or by conducting negotiations to close deals that give them a better opportunity to get noticed and highly evaluated by the Chinese leadership. If we define corruption as the abuse of public office for private gains (The World Bank, 1997, p. 8), both actions perfectly fit within this definition.
Even if individuals may be influenced by a ‘logic of appropriateness’, having so many actors of the state involved in these negotiations makes the process hard to control. This helps to validate the argument that NOCs or their managers are able to close deals that benefit them instead of the state, regardless of the original desire of the Chinese leadership.

Another possible hypothesis is that Chinese Communist Party Leadership is aware of this issue and does not do anything to correct it for the purposes of either using it as a blame shifting strategy or to benefit their political allies that otherwise could become a threat to them. Following a constructivist perspective, this performance based identity and use of political twists determines why the rational choice of granting the loans has not been followed. However, further investigation is needed to assert this hypothesis. The lack of transparency of the Chinese system would still limit this investigation.

The data presented in this paper suggest the following findings:

1) The lower the corruption index is, which means that the country is more corrupt, the higher the amount of the loan will be, ceteris paribus. A possible reason could be that the bureaucrats in charge of the negotiations close deals that benefit their own personal interests, hoping either to improve their short-term performance indicators in an effort to promote their own careers or making decisions that sacrifice the long term interest of the state for their own financial benefit. Another possible explanation could be that China invests in these countries because it is willing to take the risk, thereby making the loans more profitable, whereas other organizations or states prefer safer investments and the high corruption levels inherently increase these risks. Moreover, this low supply of loans makes the interest level rise, given the demand of money Latin American countries have ceteris paribus. This allows LA countries to secure their projects and state budgets, given their dependency on the price of commodities. All this makes granting loans for China even more profitable.
2) The more developed a country is, the more loans it would receive, challenging the view that China is giving loans just as development assistance. On the contrary, China stabilizes its soft power expansion plan while assuring its investments are not affected. The Development Index 2015 association with access to loans does not fit with my original expectation. In reality, the more developed the country is, the more likely it is to receive loans. This could be happening because these loans could be designed to invest in big projects that less developed countries may not have that state capacity to initiate.

3) Being a member of OPEC or having natural resources like Brazil does have a positive association with the loans granted. This was expected to secure China’s needs for energy.

It would be interesting to study what would happen if all the countries that have received Chinese loans would go through a similar examination.

Last but definitely not least it is important to recall the following points for further future analysis. The complexity of the Chinese political system, the lack of understanding of Chinese culture and norms by Latin American countries, and the ever-changing Chinese identity process especially since the reform in a dynamic world political economy are some of the factors that help us to understand the unfolding of events related to these loans in a world where information asymmetries abound.

It is important to remember that in the most famous corruption scandal to date, the Bo Xilai episode, several NOCs were involved. According to Andrew J. Nathan, "the risk for China is that this scandal could taint everyone in power and challenge the legitimacy of the regime". Furthermore, he said, “All the worst things you ever imagined are actually true” and “It’s not like nobody knew about this stuff, but now they know that it really is true and it’s as bad as it can possibly be.” It is fundamental for those willing to do research
in the subject and especially for those policy makers willing to become involved in negotiations with NOCs, to keep in mind these diverging interests between the NOCs and the Chinese State in order to discover relevant possible answers and especially to understand the gap between the Chinese leadership rhetoric and the “reality”.

Further analysis is needed to evaluate the degree to which China invests and gives loans to countries that rank low in terms regulatory quality, political stability, and rule of law considering country government level of political power centralization.
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The first round of reforms began in 1978, throughout which a division of functions within the industry was brought about (Kong, 2010). In this context, the main theme for the oil sector was administrative decentralization of petroleum production.

In March 1978, the MPI was reestablished and separated from the MCI; the former became responsible for upstream exploration while the latter for downstream production.

In 1980, the State Energy Commission was established to manage the MPI, MCI, and Ministry of Electrical Power (Arruda & Li, 2003). The division of functions was aligned with a surge in interest in offshore exploration and development. Although at the time China’s key reform for most sectors was the separation of government from enterprises, the petroleum sector was distinguished due to its perceived strategic nature. On one hand, the party-state recognized the need to withdraw from direct management of the petroleum

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industry; but on the other, it wanted to ensure that there was enough oil to meet the country’s demand as well as preserve and enhance the value of state-owned assets. Ultimately, the solution was the creation of NOCs: China National Petroleum Corporation (CNPC), China National Offshore Oil Corporation (CNOOC), and China Petroleum and Chemical Corporation (Sinopec), as agents that would operate under the laws of the market.

In addition, the petroleum industry was fragmented among varied ministries and was in such disarray that the NOCs were also seen as a means to consolidate it. The role of the government thus increasingly transformed from direct management to ownership and personnel appointment. CNOOC was the first NOC to be established.

In 1982, it was authorized by the State Council to handle all offshore explorations and joint contracts with foreign oil companies (CNOOC website). The NOC was granted vice-ministerial rank, which was higher than a bureau but lower than a ministry. Nevertheless, in spite of possessing bureaucratic rank, the MPI and State Council still accounted for fundamental strategic direction and policy-making, as opposed to CNOOC, which was responsible for technical and operational issues.

In 1983, the Sinopec Group, which held ministerial rank and operated directly under the State Council, was formed to consolidate the processing and distribution of petroleum products (Sinopec website). Since MPI was stripped of its downstream functions, Sinopec took on the responsibility of formulating policies for downstream petroleum activities. The remaining onshore exploration responsibilities of the MPI were restructured into CNPC in 1988, which also had ministry rank, and was also given the right to oversee international cooperation in developing China’s onshore resources.