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Chinese Influences and the Governance of Oil in Latin America the Cases of Venezuela, Brazil, and Ecuador

Barbara Hogenboom

1 Introduction

Shortly after oil prices dropped to half their previous prices, China offered the Latin American countries a helping hand with which it had established strong oil relations in previous years: Venezuela, Brazil, and Ecuador. In January 2015, President Nicolas Maduro announced \$20 billion in Chinese loans for energy, social, and industrial projects in Venezuela, and President Rafael Correa announced \$7.5 billion Chinese loans for infrastructure, education, and sanitation programmes in Ecuador. A few months later, Brazil's state-owned oil company Petrobras also received some large Chinese loans. Especially the massive funding to Venezuela raised even Chinese eyebrows because of Venezuela's poor debt-ratings and its deep financial, economic, and political crisis. However, alongside a long-term Chinese strategy to maintain good relations with the nation that holds the world's largest proven oil reserves, offering a lifeline could also be in the interest of the Chinese banks and oil companies that in previous years had become actively involved in Venezuela.

Oil is a key commodity in China's relations with Latin America. With its strong economic growth and expanding export production since the 1980s, China has become a major importer of natural resources and commodities. In 2014 China replaced the United States as the world's largest importer of crude, and Latin America accounts for around 10 percent of China's massive demand for imported oil. The region holds substantial oil reserves, especially Venezuela, Mexico, and Brazil, and to a lesser extent in countries like Ecuador, Colombia, and Argentina.¹ In the first decade of this century, Chinese oil companies rapidly emerged as investors in Latin America. Besides these companies' new objective to become global market leaders, this development was

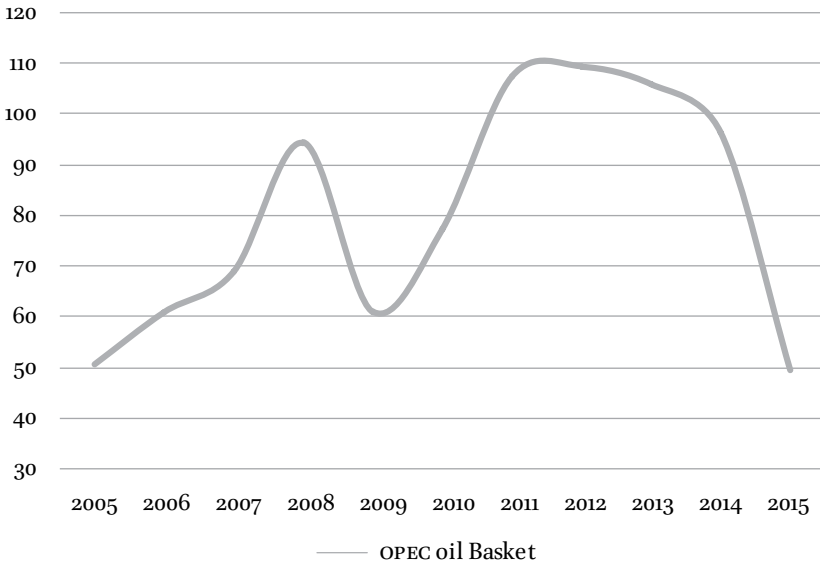
1 China's oil-related imports, investments, and loans are predominantly directed toward South America. Mexico holds large oil reserves, but until recent constitutional reforms its oil policies on foreign involvement were very restrictive.

driven by policies of the Chinese government to secure and diversify future oil imports. In addition to trade and investment, since the late 2000s Chinese banks have been lending large sums to the region's oil-rich countries.

China's search for energy security coupled with its large financial reserves and its 'go global' strategy for state-owned companies happen to coincide with Latin America's resource wealth and its need for foreign capital to exploit it. As Amineh and Yang (this volume) argue, energy security concerns much more than physical supply, ranging from wider economic and political to social and environmental issues. Whether the attitude of the Chinese government toward energy security is more politicized than that of other large oil-importing countries, as some have claimed, is hard to say. Nevertheless, energy security is clearly a top political priority. According to Lee (2012: 77–78), "Beijing considers not just reliable and uninterrupted but also cheap supply of energy as essential to its national and domestic political interest", and beyond economic reasons, "securing such access is also essential for mitigating risks to the survival of the regime in China". Or as a Chinese official mentioned in an interview: "Oil is blood". Likewise, political regimes in Latin American oil countries are highly dependent on this commodity for exports, economic growth, and public sector revenues. While good economic relations with China have become a top priority for all Latin American countries, governments of oil-producing countries like Venezuela, Argentina, Brazil, and Ecuador have also angled to gain access to Chinese oil investments and development loans, and have been quite successful. Indirectly China's expanding demand was beneficial in pushing world market oil to great heights.² As Figure 6.1 shows, from 2008 to 2013, on average international oil prices were three times as high as in the early 2000s. However, in 2015 the value of crude oil was back to where it had begun ten years before. Alongside other elements, including the growing availability of non-traditional energy resources, the slowdown in China's economy has been a key explanatory factor.

Despite transnational investments and powerful corporations, the global oil sector is known for an exceptionally high degree of state interference, and most (80 to 90 percent) reserves are under control of state-owned companies. As countries still depend heavily on oil as energy source, oil prices dictate economic performance and control over oil continues to be a major issue in

2 Especially when Europe and North America were struck by an economic crisis, on-going high performance in China helped to sustain high prices and consequently Latin America's commodity exports and economic growth. In Latin America, this 'China effect' on global prices resulted in even greater extra revenues from mineral exports than the direct effect of increased export volumes to China (Jenkins, 2011).



OPEC basket price per barrel in US\$

FIGURE 6.1 *Crude oil prices in USD\$ (2005–2015).*

SOURCE: OPEC, 2014

(military) security and geopolitics. Oil is generally much more embedded in state structures than other commodities, as Bridge (2008) shows. In global production networks states take on various roles in upstream (exploration and extraction) and downstream (refining and distribution) activities. The state is usually the primary owner of the resource, many operators are state-owned companies and states are key regulators of the production chain, including taxation schemes, safety, and environmental legislation. Therefore eventually they also heavily influence the prices for consumers through policies and taxes. The trajectory of China's transnationalization of oil companies also reveals that the role of state-owned banks, through providing loans to oil countries and oil companies, should be added.

In Sino-Latin American oil relations, the prominence of the state and state-owned entities is evident. Latin American countries with oil reserves have large state-owned companies. In fact, the region's three largest companies are the state-owned oil companies Petrobras (Brazil), Pemex (Mexico), and PDVSA (Venezuela). Throughout most of the twentieth century, state ownership and sovereignty over national oil reserves have been a major issue in Latin American politics and international relations, especially with the

United States.³ Since the beginning of this century, political discourses and policy reforms have reiterated the role of oil as a strategic resource that requires particular state control. At around the same time, China's large oil companies, that still operate with little competition in the protected domestic oil sector, began to transnationalize through overseas investments in which they operate as commercial entities and face international competition.

This chapter describes the ways in which oil relations with China have emerged and expanded in Latin America in parallel with shifting oil politics in the region, and then analyzes how these two trends have affected the governance of oil in the cases of Venezuela, Brazil, and Ecuador.⁴ The concept of governance might produce some confusion as it has been used in different ways, both in policy and academic publications. It became widely known, and especially in Latin America was also very influential, when the World Bank introduced "good governance" as a guiding principle of its policies and loans in the 1990s, beginning with the 1992 seminal report *Governance and Development*. The World Bank's advice to developing countries consisted of profound restructuring: a small state through deregulation, market incentives, the privatization, and liberalization as well as participation through decentralization and non-state institutions. This governance recipe represented a technocratic approach to and a normative perspective on the need for lean and effective state institutions to achieve development in a global context of liberalized markets (Demmers, Fernández Jilberto & Hogenboom, 2004). Alternatively, in academic publications the concept of governance has been applied to the study of complex social actions and interactions, including the role of formal as well as informal institutions, their historical evolution, and processes on and across all scales. Environmental governance, for instance, has been reworked by social scientists to propose new institutional perspectives on natural resource management (Kooiman et al., 2005). From this perspective, governance is about the complex interaction of multiple actors, interests, values, and processes that shape the organization of society, including its economic and political structures and the ways in which natural resources are used (Castro, Hogenboom & Baud, 2016).

3 Although the strengthening ties between China and Latin American oil-producing countries affect (geo-)political relations with the United States; this important connection is an extensive topic in itself, that is beyond scope of this article.

4 The analysis focuses on the period 2005–2015, but some data from the first half of 2016 are included.

Assessing the development of China-Latin America oil relations and the governance of oil in Latin American countries involves a study of the interactions between specific actors and processes, and how these are embedded in the broader economic and political context. The key actors are oil companies, governments, and banks. The main processes and interactions concern diplomatic relations, trade flows, direct investments, and loans. Domestic contextual conditions that might enable or complicate such interactions primarily consist of resources and institutions. The first includes natural resources such as oil reserves, but also economic and social conditions such as the level of economic development and infrastructure and the level of social development and security in a country. The second covers formal as well as informal institutions, ranging from oil policies and the ways in which a share of the oil revenues are appropriated and spent by the public sector, to the influence of political culture (e.g. corruption) and public opinion.

By looking into the cases of Venezuela, Brazil, and Ecuador, we shall see that besides some regional trends there are also important national differences and that domestic resources and institutions affect oil relations with China considerably. This study of regional and national trends is based primarily on a review of academic literature, reports by policy-advising institutions, and media reports. The presentation and elaboration of data from national and international sources demonstrate some overall trends but also some differences between the three countries studied. Finally, interviews with representatives from government, companies, and civil society organizations from China and Latin America, and conversations with academic experts have helped to contextualize and triangulate information.⁵

The first step in this chapter is to look at key Chinese actors: the oil companies as well as the government and banks. The next is to review the phases and areas in which China and Latin America have developed closer relations. In the subsequent three sections we analyze the oil relations between China and Venezuela, Brazil, and Ecuador. Finally, we draw some conclusions on the ways in which Chinese actors are involved in the governance of oil in Latin America.

5 Semi-structured interviews and conversations took place during visits to Beijing (2013 and 2015), Brazil (2012), and Ecuador (2010 and 2013). Supervision of several MA and PhD students working in China-Latin America issues has provided some useful insights and information, and Paola Gutierrez assisted with the analysis of quantitative data during her internship at CEDLA in 2016. The author received useful feedback on previous versions of this study in several international panels and workshops and in the project meetings with the Chinese-Dutch consortium. The author is grateful for the support from all individuals and institutions, but of course she bears the sole responsibility for this text.

2 Chinese Oil Giants Stepping Outside

As a latecomer to global markets, it is said that China and Chinese companies have taken a great deal on board and make room for themselves. Indeed, as Latin America recently experienced, substantial Chinese investment only recently reached the region. In 2010, it suddenly peaked to \$14 billion (CEPAL, 2013). Three-quarters of this came from huge investments by Chinese oil companies: Sinopec and Sinochem in Brazil, and the CNOOC and Sinopec in Argentina. While North American and European transnational companies (TNCs) do remain key foreign investors in the Latin American oil sector, companies from China are rapidly increasing their involvement in extraction in the region. This began slowly in the mid-1990s when the CNPC began to transnationalize by investing in the Americas, initially in Peru and Canada.⁶ In 1997, the CNPC became active in Venezuela and in 2003 in Ecuador also, launching joint ventures with the national state-owned oil company or concessions. Sinopec became active in Latin America in 2006, in Colombia, and since then predominantly drills in Brazil in joint ventures with Repsol and Galp, and in Argentina. Sinochem also commenced its Latin American activities in Colombia, in 2009, but its largest investment is in Brazil. Finally, the CNOOC has invested substantially in Argentina and, like Sinochem, has used joint ventures and the acquisition of assets from other firms (ECLAC, 2013b). Since their first global expansion, and lessons learned, the COCs have now entered into a stage of transnationalization in which they are becoming more selective of where and how to invest. Alongside issues like operational and political risks, and profitability, prestige also plays a role. While their prices remain relatively low, the quality of their operations and products has been improving. Nevertheless, they still lack the experience and sophisticated strategies of more established oil companies; a situation that occasionally results in negative news or sentiments about Chinese investments or loans.⁷

To understand the path, pace, and nature of the transnationalization of Chinese oil companies, we shall briefly assess the role of several actors: the companies themselves, the Chinese government that owns the companies (as well as the banks), the banks that have provided large loans, and finally organizations from civil society. Relation between Chinese oil companies (COCs)

6 While the Peruvian project worked out a bit better than the Canadian one, it was only later in Kazakhstan and Africa that the CNPC's overseas operations really became successful.

7 In Costa Rica, for instance, a weak feasibility study and omitting to consult local institutions gave rise to a critical debate about Chinese plans for the Limón Refinery Project, that was cancelled by Costa Rica in 2016.

and the Chinese government has been the subject of a range of academic studies. As we shall see, both are powerful entities, and the question of who is controlling who is not easy to answer. Moreover, we take a brief look at the issue of the image of COCs, especially in relation to corporate responsibility and corruption.

The recent rise of Chinese oil companies as global players has been very sudden. Following economic reforms and 'Go Global' policies, in the decade from 2003 to 2013, overseas investments by all (oil and non-oil) Chinese companies increased from \$3 billion to \$101 billion. In the same period, China's net oil imports doubled and oil extraction abroad by Chinese oil companies expanded. In 2003, Sinochem was the only Chinese company on the list of the 50 largest non-financial TNCs from developing countries ranked by overseas activity.⁸ By 2013 the list held four: the investment company CITIC at number 2, and the oil companies the CNOOC, the CNPC and Sinochem at numbers 10, 14, and 34.⁹ On Fortune's 2015 list of 'Global 500 largest companies', ranked according to total revenues, COCs have reached impressively high positions: Sinopec as number 2, the CNPC as number 4, the CNOOC as number 72, and Sinochem as number 105. As Table 6.1 shows, measured by revenues and sales, Sinopec, the CNPC and the CNOOC are among the world's largest oil companies, but their level of profits is rather low and their number of employees is high.

A typical feature of China's oil sector is that it basically consists of three large state-owned companies.¹⁰ Sinopec, the CNPC (especially its listed branch PetroChina), and the CNOOC and these serve as important instruments on the government's agenda of energy security. Overseas investments of the COCs began in the early 1990s, and greatly expanded in the late 2000s. Buying oil in the international market and even large, long-term supply contracts were deemed insufficient, and the government made the 'big three' invest and operate abroad, often involving great risks and uncertain profitability. The Chinese government had originally created COCs as state monopolies for the domestic market and, within that socialist context, they were growth-oriented instead of profit-oriented. In the domestic market, that is still protected against foreign

8 The list is published annually in UNCTAD's *World Investment Report*. On the 2003 list, Sinochem still appears as China National Chemicals (CNC), but the company was renamed Sinochem in that same year.

9 In 2013, two oil companies from Latin America also held a prominent position at this list: Venezuela's PDVSA (no. 13) and Brazil's Petrobras (no. 18).

10 Although Sinochem began as a state-owned trading company, it gradually incorporated (petrochemical) production activities and currently also explores and produces oil (but is often not included in academic studies on Chinese oil companies).

TABLE 6.1 *Attributes of Chinese oil companies compared to selected other oil companies (revenues, profits, and assets in USD\$ millions)*

Company	Ranking	Country	Revenues	Profits	Assets	Employees
Sinopec	2	China	446,811	5,177	359,183	897,488
Shell	3	UK/NL	431,344	14,874	353,116	94,000
CNPC	4	China	428,620	16,359	634,811	1,636,532
ExxonMobil	5	US	382,597	32,520	349,493	83,700
Petrobras	28	Brazil	143,657	7,367	298,687	80,908
PDVSA	39	Venezuela	128,439	7,386	226,760	152,072
CNOOC	72	China	99,262	8,592	180,427	114,573
Sinochem	105	China	80,635	562	57,278	54,742

SOURCE: FORTUNE'S GLOBAL 500, 2015

competition, they hardly ever compete among each other and each has their own functional focus: Sinopec in upstream activities, the CNPC in refining and petrochemicals, and the CNOOC in offshore drilling. However, in the overseas activities of their commercial branches, this division of labour has been loosened up and profitability has begun to matter more, although they generally still overpay in foreign acquisitions. The companies invest, operate, and expand trade simultaneously, and the quality of their overseas operations and management have greatly improved. Depending on the national context and sort of transaction, they use a wide variety of business arrangements. Furthermore, while their commercial branches listed on foreign stock markets (with the mother company still holding a large stock) are the contracting partners, various government-to-government deals are also quite common.¹¹ If need be, the Chinese government also helps to remediate the security and political risks to which these companies are exposed (Vermeer, 2015).

Chinese state-owned banks have offered indispensable aid to facilitate the transformation of Chinese oil companies into global players. Apart from the weakness of China's financial markets, it is the preference of the Chinese state that explains this predominance of state financing in the transnationalization

11 Although the Chinese government seems to be doing business for its companies and helping them to transnationalize without much effort, these deals can also include investments that carry more political risk than a company would normally assume in a purely commercial deal.

of COCs. Moreover, the Chinese state controls as well as aligns the energy and finance sectors by appointing the top executives of state-owned companies and banks (by the CCP), and by coordinating between the sectorial bureaucracies. Most of the support to COCs has come from the China Development Bank (CDB) and the Export and Import Bank of China (ExIm Bank). The first focuses on loans to foreign countries and companies, and the second mainly provides COCs with concessional loans, export credits, and credit guarantees. In addition, the CDB offers COCs financial advice and occasionally even assists the companies and the Chinese government in negotiations on overseas loans. While most of its loans have commercial rates, in 2009 the CDB signed a strategic agreement for cooperation with the CNPC that included a discounted rate for a credit for overseas expansion. These and other forms of active support from the Export and Import Bank of China and the China Development Bank indicate a state-led synchronization of COCs and Chinese banks (Kong, 2010: 67–69; Kong & Gallagher, 2016).

Despite the growing body of literature on the nature and governance of COCs,¹² the power balance between the state and the giant state-owned oil companies remains a puzzling affair. In recent years, formally state-owned companies have commenced to operate independently, under the (limited) supervision by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC). Hence, the Chinese state no longer controls the ‘small kingdoms’ of state-owned companies and banks centrally, but it does guide them beyond ways seen in Europe and the US (Brødsgaard, 2012). Besides the government’s influential five-year development plans, the Communist Party apparatus appoints all the CEOs, who might be someone with a background in that sector or perhaps a person from the political top. As the energy agenda is highly politicized, ultimately COCs remain instruments of the Party (Lee, 2012). Conversely, however, Jiang and Sinton (2011) claim that especially the CNPC and Sinopec have become economically and politically very powerful. They are ranked at ministry level (as is the SASAC that is supposed to supervise them) and their top executives “must wear two hats, as leader of major commercial enterprises and as top Party operatives” (Jiang & Sinton, 2011: 26). Their business leadership is a step on the ladder in their political career, but this career is also based on their corporate achievements. The

12 See Kong (2010) for a very detailed and well-documented analysis.

Party and government do grant them substantial freedom to reach the dual aim of COCs: being commercially successful while also securing supplies.¹³

This particular state influence has turned Chinese oil companies into hybrid institutions that have a double face, because of the different roles they perform at home and abroad.¹⁴ In China, the CNPC and Sinopec are the only companies that are allowed to import and sell oil, and even the CNOOC has to sell its crude to these companies at the price set by the government. Together, “the three petro-oligopolies tightly control the domestic oil market on behalf of the government in the name of ‘energy security’ and at the cost of consumers” (Chen, 2013: 12). Interestingly, only a fraction (10 to 15 percent) of the oil produced abroad by Chinese state-owned enterprises is shipped to China; most is sold on the global market. If the primary goal of the government’s ‘Go Global’ strategy for Chinese state-owned oil companies is to secure supply, this is “primarily done through increased participation on the global oil market” (Graaff, 2013:164). Evading lengthy transport and selling at the best price, maximizes the COCs’ revenues, that is also in the interest of the state. However, it also encourages profit-seeking behavior and the evasion of government control. Therefore, the foreign expansion of Chinese oil companies is becoming increasingly driven by corporate incentives and interests (cf. Jiang, 2012).

As latecomers, Chinese companies still have limited experience with overseas direct investment, including the social and environmental impacts. According to a report of the Chinese non-governmental Global Environmental Institute (2014: 196), that proposes ways to integrate sustainability principles into the Going Global Strategy, “Chinese investors’ misbehaviours on social and environmental issues are numerous and can include: inexperience, ignorance, complacency, sheer disregard for regulations, along with lax and patchy local law enforcement.” The government has recognized the need to catch up and has begun to design corporate social responsibility (CSR) policies and guidelines, but most Chinese regulation in this area is soft policy, that cannot be enforced. An interesting trend since the mid-2000s is the work of a few small Chinese NGOs on the behavior of Chinese companies abroad. Their research and reports encourage awareness-raising in China and they give various Chinese companies training on voluntary principles. In their experience,

13 Still, in the eyes of an interviewed international consultant the heads of Chinese oil companies are politicians: things go slowly and there is always a hidden agenda.

14 Besides benefits, COCs have responsibilities that differ from their western competitors, such as what the Chinese government calls ‘social responsibilities’ or ‘administrative tasks’ (besides energy security, for instance, employment and payment of pensions).

companies are not just greenwashing; they want to improve their behavior. Another development is the Hong Kong Stock Exchange guide to environmental, social, and governance reporting, that was initially voluntary but becomes mandatory in 2017. Simultaneously, COCs want to adopt the CSR practices themselves in order to be (seen as) equals by global oil TNCs. The CNPC and Sinopec have been reporting on their corporate social responsibility since the late 2000s. Nevertheless, in China's extractive sectors and among large SOEs progress has been low, especially when it comes to transparency and accountability or multi-stakeholder consultation. According to Tan-Mullins (2014), this attitude reflects the unwillingness of Chinese companies to share power with stakeholders.

Related to the lack of transparency is the widespread corruption in Chinese companies, that also extends into politics. While this has been a long-standing problem, only since President Xi Jinping (2013) corruption has become a big topic on the political agenda. The government's anti-graft campaign has resulted in the investigation into and conviction of company managers and government officials up to the highest levels. The energy sector has been the most intensely investigated, especially Sinopec and the CNPC, including the CNPC's former general-manager, Jiang Jiemin, who has been sentenced to 16 years in prison for receiving bribes and abusing power.¹⁵ Often corruption in the oil sector involves cases of misconduct that go beyond abuse of power and resources, producing environmental and health damage.¹⁶ Since 2014, following the government's campaign, these matters became issue of media coverage and public debate. At the national television's coverage of the CPC and CPPCC meetings in March 2015, for instance, independent Chinese researchers were given the floor to present proposals for transparency, checks and balances, and the rule of law. Beyond some illegal practices, they explicitly warned about the risks of power concentration, and identified job circulation between the Party and SOEs as a fundamental problem: "Political power should move itself out of the market place".¹⁷

15 At the time of his arrest he had taken the position of head of the SOE's supervision committee, the SASAAC, that illustrates the spreading of corruption throughout the Chinese system, up to very high political levels.

16 Upstream activities especially are vulnerable to corruption, because no one knows the actual amount of oil produced. The CNPC is making efforts to improve its environmental record but in 2014 it was fined \$1 billion for violating environmental standards while drilling for oil in Chad.

17 Professor Fu Jun from the School of Government, Peking University, on 12 March, 2015, in the English-language broadcast of CCTV News.

3 China and Latin America Moving Closer

Since the 1990s China has actively intensified its diplomatic relations in Latin America. The Chinese government strengthened its relations with all Latin American countries, some of which have culminated in strategic partnerships (with countries like Brazil and Venezuela and, more recently, Ecuador and Argentina) or Free Trade Agreements (Chile, Peru, and Costa Rica). Besides strengthening bilateral ties, relations with regional organizations and institutions have been improved and formalized, and Latin America and the Caribbean have showed great interest in these new South-South relations (Fernández Jilberto & Hogenboom, 2010a). The most important Latin American associate of China is undoubtedly Brazil. Since the mid-1980s the two countries have developed intensive diplomatic, economic, and scientific relations, and, as early as 1993, the Chinese government defined its relations with Brazil as a strategic alliance. Under President Lula da Silva (2003–2010), Brazil and China strengthened their relations and set up the BRICS with India and Russia, and later also South Africa. Alongside mutual national interests, China and Brazil also continue to need each other's support in their ambitions to change global politics. In the case of the Asian Infrastructure Investment Bank that China initiated in 2014, for instance, Brazil immediately expressed its willingness to become a member, the only country from Latin America.

China's search for a modernized role in the global economic and political arena has coincided with a similar search in Latin America, and both have sought a development model in which there is a reconciliation of state and market. While China's socialist economy has been liberalized and restructured since the 1980s, Latin American countries introduced neoliberal policies that went against mixed economy models with a substantial role for state-owned companies, especially in the mining and hydrocarbon sectors. Under the neoliberal model, Latin American states transferred a large part of their function as economic agent as well as their function as regulator of social inequality to the market (Demmers, Fernández Jilberto & Hogenboom, 2004: 24). Among public opinion these policy changes caused resentment, especially when the economic and social results proved weak. In the 2000s, presidents of the 'new left' again captured greater state control over the strategic sectors of oil, gas, and mining by reregulation, 'retaxation', and renationalization. Helped by booming commodity markets, these policies increased the public revenue that could be used for social expenditures (Hogenboom, 2012).

It is in the context of these new regimes and policies that China emerged as an interesting new partner, first for resource-based exports, and later also for investment and loans. In effect, despite concerns about its strong competition

in manufacturing in global as well as national markets, by and large China is perceived and presented by Latin American governments as a new ally in national development. This positive attitude can also be seen in reports of the Economic Commission for Latin America and the Caribbean (ECLAC, cf. ECLAC 2012; 2015a), that stress the benefits and potential of China as a new destination for exports, source of investment, credit, imports, and technology, and partner for mutual development. Nevertheless, the arrival of Chinese companies, projects, workers, and loans presents new challenges, such as (potential) conflicts with governments, companies, communities, and NGOs in Latin America. The involvement and physical presence of Chinese actors in the region is therefore transformational and challenging for both sides (Ellis, 2014). This is especially the case in the oil and mining sectors with their volatile markets, the resource curse, and the large impact on the environment and local communities. As also recognized by ECLAC (2015b), positive spillovers have failed to materialize, whereas regional exports to China have contributed to Latin America's reprimarization and deindustrialization. While achieving sustainable and inclusive development is primarily of concern to Latin America itself, it is also in the interests of Chinese actors involved in this region and sectors (Gallagher, 2016).

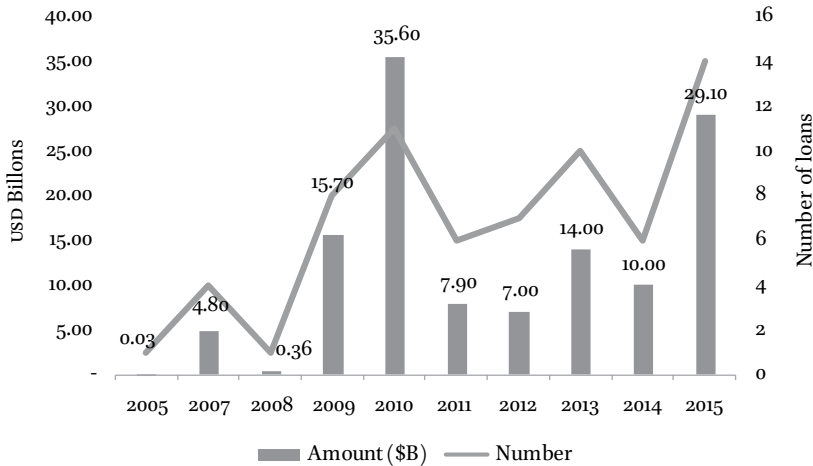
Since the turn of the century, China has become a major export destination for all resource-rich South American countries. In particular resource-rich Latin American countries have benefited greatly from China's enormous demand for energy, mineral ores, soya, and other primary commodities. From 2000 to 2013, the value of Latin American exports to China multiplied no fewer than 25 times, reaching almost \$100 billion (ECLAC, 2013b). China is the main export destination for countries like Brazil, Chile, and Peru and ranks second for countries like Argentina and Venezuela. For Latin America and the Caribbean as a whole, in 2011 China was the destination of 9 percent of total exports and took over the position of the EU as second largest export destination. However, these massive flows of goods to China are however far from diversified: each country exports mainly one or just a few products and Latin American supplies to China consist largely of metal ores, soy, and oil (Rosales & Kuwayama, 2012), with oil growing in importance. In the ten years from 2003 to 2012, the share of oil in Latin America's exports to China increased from 1 to 15 percent. This predominance of primary goods is much stronger in Latin American exports to China than in the region's general exports, 86 versus 56 percent respectively (Ray & Gallagher, 2013: 8–9).

While this export boom with China marked the decade of the 2000s, in the decade of the 2010s especially Latin America has seen large sums of Chinese direct investments arriving. In 2004, during the first large Chinese-Latin

America tour by President Hu Jintao and a delegation of Chinese companies, various large investments were announced. However, it was only in the late 2000s, during the international financial crisis, that Chinese multinationals began to invest seriously in the region. As in the composition of Chinese imports from Latin America, a noticeable feature of Chinese investments is the disproportional share related to the primary sector. While worldwide FDI in Latin America from 2007 to 2011 went primarily to services (43 percent) and manufacturing (31 percent), almost 90 percent of Chinese FDI in the region flowed to natural resources, that represents only 25 percent of FDI worldwide (ECLAC, 2013b: 13–14).

Simultaneously, since the mid-2000s, Chinese loans have begun to arrive in the region, and from 2010 to 2015 they reached USD\$94 billion, turning China into a major lender. Within this limited timespan, the Export-Import Bank of China but especially the China Development Bank have become the main sources of large loans. These state-owned Chinese development banks are big financial actors, with the CDB ranking number 87 in Fortune's 2015 list of the world's largest companies. In 2010, when the financial crisis forced the World Bank, the Inter-American Development Bank, and the US Export-Import Bank to limit their activities, Chinese loan commitments jumped to \$37 billion. In effect, China temporarily surpassed the amount of loans provided by these traditional main channels for credits to Latin America (Gallagher, Irwin & Koleski, 2012). This happened again in 2015, when Latin America received 14 loans, valued at \$29 billion in total, as visualized in Figure 6.2. Since 2015 state-owned commercial Chinese banks have also commenced providing some large loans, but these are not included in Figure 6.2. The following sections will show that Venezuela, Brazil, and Ecuador have received the lion's share of Chinese loans, in various ways connected to oil.

The expansion of Sino-Latin American flows of goods and capital continues to be strongly encouraged and supported by the Chinese government, and relations with individual countries take different forms. During President Xi Jinping's first official visit to the region, in June 2013, he went to Mexico, Costa Rica, and Trinidad and Tobago, followed by a visit to the US. Among other topics, Xi discussed energy cooperation with both Mexico and Trinidad and Tobago (a Caribbean island with substantial gas and oil reserves). In July 2014, Xi visited Brazil (and the BRICS Summit in Brazil), Argentina, Venezuela, and Cuba. In May 2015, Premier Li Keqiang went to Brazil, Colombia, Peru, and Chile. During these visits ambitious plans and projects were announced and many contracts were signed, including agreements involving Chinese companies and banks. In China's bilateral arrangements in Latin America, basically three models of deal making for large projects can be observed. A particular Chinese



Number and value of accumulated loans in USD billion

FIGURE 6.2 *China to Latin America loans evolution 2005–2015.*

SOURCE: THE DIALOGUE.ORG, 2016, CHINA-LATIN AMERICA FINANCE DATABASE, AVAILABLE ONLINE AT http://www.thedialogue.org/map_list/

way of working involves the making of package deals that include various agreements, investments, and/or loans, based on negotiations in which both governments do business for their state-owned companies. In this government-to-government model (also known as the “Angola model”), that is used in countries like Venezuela and Ecuador, but also Cuba (an important producer of nickel), large deals can be made quickly and loans paid back with oil ease the issue of debt payment. This model cannot be used in all countries. In Chile and Mexico, both member of the OECD, open international bidding is required for large projects. Under these open market conditions, a company-to-company model has to be used, and Chinese companies have to make their bid alongside western multinationals. With a third group of countries, such as Brazil, Colombia, and Peru, a mixed model is used, involving substantial government influence as well as company-to-company arrangements.

Finally, the relations with the region as a whole have also been formalized in greater depth with the creation in 2014 of a forum between China and the Community of Latin American and Caribbean States (CELAC). In January 2015, Beijing hosted the first ministerial meeting of the CELAC—China Forum, announced as “a new platform, new starting point and new opportunity for dialogue and cooperation”. The cooperation plan for 2015–2019 covers a wide range of areas and aims to shift from trade and investment in Latin America’s natural resource sectors to a new model of South-South cooperation with

more consideration given to the region's development needs. In this context President Xi Jinping announced the goal of increasing China-Latin America trade to USD\$500 billion and Chinese investments to \$250 billion in ten years.¹⁸ In practice, there is still limited regional coordination of relations with China, and Latin American countries primarily compete with each other for Chinese trade and capital. The *Latin American Economic Outlook 2016* stresses the role of China in understanding Latin America's development challenges and establishing that, "channels of co-operation should go beyond bilateral forms of dialogue and rather be accompanied by a structured dialogue with the region as a whole" (OECD, CELAC & CAF, 2015: 170). Moreover, the Outlook calls for greater transparency and regulation of Chinese lending to the region, particularly when it comes to environmental impacts. Conversely, this situation also begs for greater Latin American efforts and more proactive joint initiatives.

3.1 *Chinese Interests in Latin America's Oil Sector*

As mentioned at the beginning of this chapter, oil is a key commodity in China's relations with Latin America, including trade, investment, and loans. Of the region's exports to China, oil represents around 15 percent, much of which originates from the three countries that will be examined in more detail below: Venezuela, Brazil, and Ecuador. While Venezuela's proven reserves of crude oil make Brazil and especially Ecuador seem irrelevant, production volumes in Brazil have increasingly come closer to the level of Venezuela (see Table 6.2). However, when we look at their exports of crude oil, Ecuador is clearly also a relevant oil country. For Ecuador and Venezuela, oil is the main commodity in their relations with China, but Brazil is a different case. In 2013, oil was its third leading export product to China, yet represented only 9 percent, much less than the shares of soybeans (37 percent) and iron ores and concentrates (35 percent) (ECLAC, 2015a).

Besides COCs, the Chinese government and banks have played a prominent role in advancing oil relations with Latin American countries. Commencing in the mid-2000s, China has used high-level oil diplomacy to secure supply and help advance the transnationalization of its oil companies. When President Hu Jintao visited several Latin American countries in 2004, Petrobras and Sinopec

18 South-South cooperation and China-CELAC coordination in global affairs were also stressed, including the "promotion of multilateralism and a multipolar world, and greater democracy in international relations" (http://www.itamaraty.gov.br/index.php?option=com_content&view=article&id=6743:documentos-aprovados-na-i-reuniao-dos-ministros-das-relacoes-exteriores-do-foro-celac-china-pequim-8-e-9-de-janeiro-de-2015&catid=42:notas&Itemid=280&lang=pt-BR#the).

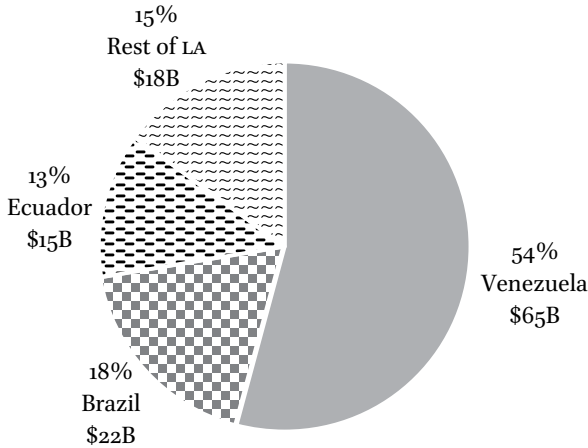
TABLE 6.2 *Proven reserves, production and exports of crude oil, Venezuela, Brazil, Ecuador (2009, 2014)*

	2009			2014		
	Reserves	Production	Exports	Reserves	Production	Exports
	million barrels		USD million (f.o.b)	million barrels		USD million (f.o.b)
Brazil	11,899	712	9,370	15,314	823	16,357
Ecuador	6,511	170	6,284	8,273	203	13,016
Venezuela	211,173	1,050	66,480	299,953	979	47,842

SOURCES: OPEC, 2014, Dados.gov.br, 2016, OBSERVATORY FOR ECONOMIC COMPLEXITY-OEC, 2016

signed an MOU on the Gasene Project in Brazil. Hu also promised \$5 billion Chinese oil investments in Argentina, while Sinopec prepared a product-sharing agreement with the Cuban oil company. In 2005, Vice-President Zeng Qinghong came to Venezuela and signed 19 bilateral accords, and the CNPC and the PDVSA signed an MOU on a new joint Orinoco Project (Kong, 2010: 125–6). These diplomatic relations have since been strengthened and extended to other countries in the region.

Even more than Chinese direct investments, by and large all the loans from Chinese banks are in some way or another related to oil. The China-Latin America Finance Database shows that \$70 billion of the \$125 billion (representing 56 percent) disbursed by Chinese development banks from 2005 to 2015 were put into Latin America's energy sector, predominantly oil but also power and non-traditional energy projects (Gallagher & Myers, 2014). These loans are over and above the already-mentioned financial support to COCs by the CDB and the ExIm bank for making foreign acquisitions. As we see in Figure 6.3, 85 percent of the Chinese loans to Latin America have been for Venezuela, Brazil, and Ecuador. The CDB has disbursed most of these loans and Venezuela has been the main beneficiary. Since 2007, oil-backed loans, including as financial support to sectors other than energy, have been widely used in particular infrastructure projects. Such loans are guaranteed by long-term (ten to thirty years) oil supply contracts to Chinese oil companies and involve multi-party arrangements between a bank, one or two governments, and the Chinese and Latin



Percentages and accumulated loans in US\$ billion

FIGURE 6.3 *Distribution of Chinese loans to Latin America in percentages and accumulated loans in USD\$ billion (2007–2015).*

SOURCE: THE DIALOGUE.ORG, 2016, CHINA-LATIN AMERICA FINANCE DATABASE, AVAILABLE ONLINE AT http://www.thedialogue.org/map_list/

American state-owned oil companies (Downs, 2011). Positive accounts portray Chinese banks as partners in (South-South) development. They also point out that, contrary to Washington-based financial institutions, they do not impose macroeconomic policy conditions on their loans or interfere in national affairs. Nevertheless, Chinese development banks have become more commercial and profit seeking, now often lending at commercial rates (Downs, 2011). The CDB rates can be higher than those of the World Bank, as was the experience of Brazil in 2009 and Ecuador in 2010 and 2011 (Kong & Gallagher, 2016: 26). Another concern about such long-term contracts is their limiting effect on future room for public spending and policy reform. A new government will, for instance, be at liberty to sell the oil to other companies or decide to limit oil extraction. Clearly, Chinese oil-related loans imply the creation of long-term Sino-Latin American ties, both economic and political.

In the following three sections we look into the transnationalization of COCs in three Latin American countries, each showing their own specificities. Venezuela has the largest proven reserves and strong state control. Ecuador's reserves are much smaller, but like Venezuela it depends heavily on oil, has expanded state control over its oil sector, and has sought for close ties with Chinese companies, banks, and the government. Brazil only recently discovered large deep-sea reserves, and state control in this sector has expanded but less so than in the other two countries. In concert with their different oil

sectors, governance structures, and political regimes, Chinese involvement has also varied. An examination of the provision of Chinese loans to these oil-producing countries, for instance, reveals that the large amounts disbursed for Venezuela have often been the cause of criticism and have raised doubts. Indeed, when comparing the oil exports of the three countries, the loans to Venezuela seem disproportionately large but, taking the national oil reserves and exports into account, the volume of these loans does make more sense (see Figure 6.4). Likewise, at first glance the political and social circumstances in Venezuela might seem exceptionally problematic, but as we shall see, Brazil and Ecuador are also suffering from a deep crisis and facing great uncertainty in their future development.

3.2 Venezuela

Venezuela is a real oil country and it holds the world's largest proven reserves of almost 300 billion barrels, most located in the large Orinoco Belt in the centre of the country. As said, its annual production of crude oil is around 1 billion barrels, but has been decreasing. As its exports and state revenues depend heavily on this resource, its economy and society suffer from the so-called 'Paradox of Plenty' (Karl, 1997). Despite its oil wealth, other economic sector including agriculture have not developed well, corruption is endemic (reportedly the worst in Latin America), and poverty is widespread among its

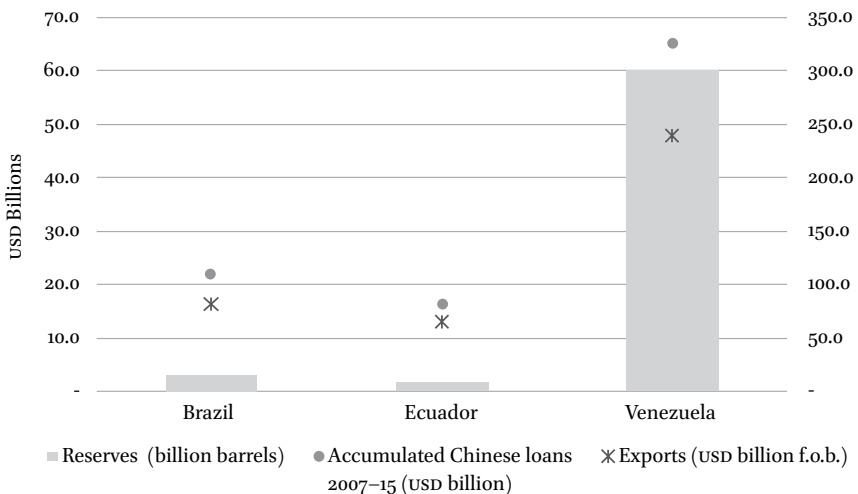


FIGURE 6.4 *Chinese loans and exports and reserves of crude oil, Venezuela, Brazil and Ecuador (2014–5).*

SOURCE: THE DIALOGUE, 2016, OPEC, 2014, Dados.gov.br, 2016, BCE.FIN.EC, 2016 AND OEC, 2016

population of around 30 million people. Between 1958 and 1998 the two main political parties, the AD and the COPEI, managed to dominate politics and society under a regime that has been labelled a 'partidocracia'. However, with the crisis of the 1980s, these parties and their oil policies became unpopular, and calls for radical change gained support among poor citizens. At the beginning of his presidency, Hugo Chavez (1999–2013) announced that he was leading a Bolivarian Revolution that would make a break from Venezuela's long-standing patterns of socio-economic and political inequality. Indeed, a profound shift took place in the setting of the groups that influenced decision making, especially in and around its oil sector. In 2001, Venezuela adopted a new law on oil that strengthened the central state's control over the oil sector, and established that the state-owned company, the PDVSA, was to have a majority share in joint ventures with foreign companies. In the following years, the share of the PDVSA in these joint ventures rose to 78 percent, while the royalties for foreign oil companies increased from 1 to 30 percent, and taxes from 34 to 50 percent. This gradual re-nationalization of control and revenues clearly hurt foreign companies' interests and some of them decided to limited or end their investments in Venezuela.

National political and economic elites responded vehemently to Chavez's oil policies, especially to his steps to gain control of the management and revenues of the PDVSA. In 2002 and 2003 Venezuela experienced a series of protests and oil strikes, led by opposition parties and the managers and (unionized) workers of the PDVSA. These mobilizations could count on substantial support from groups that were critical of the centralizing institutional tendencies under Chavez. Nevertheless, Chavez and his populist policies and new institutions were very popular, especially among the poor, and he continued to gain majority support in a series of elections and referenda. Between 1998 and 2006, real social spending per person tripled as the central state's spending increased from 21 to 30 percent of GDP and the PDVSA's contributions to social spending reached 7 percent of GDP in 2006. Lack of transparency and reliable data prevent a full assessment of the social and economic results of Chavez's redistributive policies, but a considerable part of these expenditures probably leaked away because of inefficiency and errors. Still, in the first eight years of his presidency there was a drop in the poverty rate from 44 to 28 percent (Corrales & Penfold, 2011; Philip and Panizza, 2011; Weisbrot and Sandoval, 2008). And although his oil policies were initially viewed as radical, in the following years several South American countries experienced political changes that resulted in similar economic and social reforms.

Chavez and his team made great efforts to establish a strong oil-based collaboration with the Chinese government and Chinese oil companies and banks,

and presented this nationally and internationally as an example of modern and effective South-South cooperation. Decreasing Venezuela's dependency on the United States was a key motive because it was the single dominant force in Venezuela's oil sector: the US was its main export destination, its main source of foreign direct investment, and directly or indirectly (via Washington-based multilateral financial agencies) its main creditor. A bilateral agreement for joint oil exploitation was signed with China in 1996 (before Chavez came to office), and the strategic partnership agreement with China was formalized in 2001. Indeed, Venezuela and China have established an extensive model of energy cooperation, including a series of joint ventures between the CNPC and the PDVSA, major Chinese loans governed by joint institutions such as the China-Venezuelan Joint Fund that finances large projects in Venezuela (co-funded by the CDB and Venezuela's Development Bank), and the China-Venezuela High Level Mixed Joint Committee that coordinates decision making.¹⁹ If one ignores the 4 percent of iron ore exports, all Venezuelan export to China consists of oil: 77 percent crude and 18 percent other oils (ECLAC, 2015a: 47). Although the precise amount of Venezuelan oil being exported to China is unknown, Reuters calculated that in 2014 45 percent of the daily 630,000 barrels of oil exported to China was for servicing the PDVSA debt.²⁰ While more Venezuelan oil now flows to new destinations like China, the US remains its main export market, despite the fact that Chavez's anti-US policies and discourses intensified over the years. Contrariwise, although Venezuela was the main foreign source for the US in the 1990s, the latter diminished imports of Venezuelan oil to such an extent that Canada, Saudi Arabia, and Mexico have now become more important sources.

Helped by the bilateral institutional arrangements, between 1999 and 2009 Chinese oil investments reached around \$2 billion, the bulk from the CNPC. The CNPC has been operating in Venezuela since 1997, when it won its first tenders for two marginal oilfields (Intercampo and Caracoles). Over the course of the 2000s, the CNPC and the PDVSA launched various large projects together, including the Orimulsion Project, the MPE3 Project, the Zumano Oilfield, and in 2009 the Orinoco Heavy Oil Belt's Junin-4 Block. Like other foreign companies, the CNPC has had to deal with the difficulties of operating in Venezuela's oil sector, in particular the PDVSA's dominance and the country's complex and politicized governance structures. More threatening is the problem of insecurity caused by the country's dramatically high crime rates. Therefore, the CNPC

19 See Sun (2012), and Sun's contribution to this volume.

20 Reuters, 15 June 2016, 'Exclusive: Venezuela in talks with China for grace period in oil-for-loans deal sources' (<http://www.reuters.com/article/us-venezuela-china-idUSKCN0Z01VH>).

does not allow its upper-range Chinese employees to bring their families to live with them, as they are allowed to do in, for instance, Ecuador. Nevertheless, the CNPC has continued investing in Venezuela. In 2013, for instance, the CNPC agreed to invest \$28 billion in a new project in Junin 10, while Sinopec was to invest \$14 billion in Junin 1.

Chinese lending to Venezuela has been massive. As we have seen, accumulated loans from 2007 to 2015 were valued at \$65 billion. The CDB has made big oil-backed loans to Venezuela's development bank, BANDES. These are to be repaid by the PDVSA by selling the oil to Chinese oil companies, especially the CNPC and Sinopec, on the basis of long-term, twenty- to thirty-year contracts. The CDB's previous chairman, Chen Yuan, decided to provide more credit to Venezuela than to any other foreign country in the form of loans-for-oil deals, around one-third of its overseas loans. Was this a rational decision? In interviews and the media, the friendship between Chávez and the CDB's previous chairman, Chen Yuan, is often mentioned. The Chinese are said to be conservative when it comes to friendship (read: they stick to friends) and also in a socialist way of thinking it is expected that their help and friendship will be remembered. Several Chinese and Latin American interviewees have mentioned that friendship is important in China's international relations, but that this point of view is not well understood in Latin America. The CDB provided Venezuela with numerous recommendations to do with macroeconomic policy, long-term strategic planning, and infrastructure investment. These recommendations are said to be different to the policy conditions laid down by institutions like the World Bank and the Inter-American Development Bank. However, like the bilateral investment fund, they help to serve the interests of Chinese state-owned companies, in particular by winning infrastructure contracts (Sanderson & Forsythe, 2013). With the CDB's mission to support the Chinese state, these loans are also part of the Bank's overall policy to help secure oil supplies for China. From the perspective of energy security, strong relations with a country that has an unparalleled amount of oil clearly make sense. Moreover, the oil-based cooperation between Venezuela and China is seemingly well institutionalized and the CDB loans have been designed and regulated in such ways that the CDB's risks are limited and profits largely secured (e.g. through loans' guarantee by oil shipments, dual-currency loans including both US dollars and Chinese Yuan amounts, and repayment codified in Venezuelan law, as shown by Sun, 2012). Beyond friendship, as long as the country did not face major economic, social and political instability, large loans to Venezuela seemed to make sense for China.

Despite smart institutional design and win-win arrangements, in Venezuela a number of doubts have also been raised about the nature and rationality of

the oil-based relations with China. The high indebtedness of Venezuela and the PDVSA, and the obligation to provide large volumes of crude oil to Chinese companies have added to the neglect of the Venezuelan company's needs. Underinvestment harms production and jeopardizes the company's future capability of exploiting the nation's oil reserves, whose location and chemical nature (heavy crude) pose various challenges. Moreover, the publicly made claims that link these loans directly to serving China's energy security have to be taken with a grain of salt. It turns out that a considerable part (roughly around 50 percent, although this is hard to estimate and the percentages differ greatly year to year) of the oil that the PDVSA sells to Chinese companies is not shipped to China (Ferchen, 2013). Instead, Chinese companies sell it in the US market, that is geographically closer than their home country. This business mentality can also be seen in the CDB loans and oil deals with Brazil and Ecuador (Sanderson & Forsythe, 2013: 132–140). Members of the Venezuelan opposition have claimed that the Chinese fund and loans could be more expensive than IMF credit lines, although the lack of transparency makes it very hard to prove the real costs of the arrangements.²¹ In 2012 and 2013 irregularities arose in Chinese funding, and various people were convicted for the embezzlement of \$84 million. This fraud disturbed the China Development Bank and damaged the bilateral relations.²² Venezuela's opposition leader, Henrique Capriles, criticized the loans with China, claiming that the money had fallen into the hands of corrupt officials instead of being properly invested. He also expressed concern about Chinese banks putting the country into unnecessary debt: "Our debt with China is equivalent to twice our reserves" (Robertson, 2014).

Since Chavez died in 2013, and oil prices decreased to unexpectedly low levels since 2014, Venezuela has experienced a profound crisis at all levels. Apace with the oil prices, investments and export value and volumes also decreased, while the country's bond status tumbled down even more. In 2015, the revenues of the PDVSA decreased by 40 percent, the economy contracted 6 percent, and poverty and inflation rose immensely. Social conditions deteriorated concomitantly, with even basic products and services, including food, electricity, and medical supplies becoming scarce. In effect, social tensions began to rise, man-

21 See, for instance, "Montoya: Fondo Chino no da beneficios a Venezuela", 20 September 2013. Retrieved 7 April 2014 (<http://informe21.com/economia/montoya-fondo-chino-no-da-beneficios-a-venezuela>).

22 See, for instance, "La inversión china en Venezuela pende de un hilo", *Nuevo Herald*, 22 July 2013. Retrieved 10 September 2013 (<http://www.elnuevoherald.com/2013/07/22/1527061/la-inversion-china-en-venezuela.html>).

ifested in numerous cases of looting and rioting. While the opposition called for a recall referendum against Maduro, in May 2016 the president decreed a state of emergency to deal with the crisis.

Despite some Chinese ideas and discourses that Chavez showed China his friendship, and that they have to stick to his successor, the recent events have forced Chinese actors to reassess their relations with Venezuela with a critical eye. Among Chinese commentators and officials, Chavez's successor Maduro is widely perceived as a weak and disappointing leader, but they also had to adapt their views on Chavez retrospectively. For some time, top Chinese officials might not have been fully aware of the local situation and the problems with Chinese investments and Chinese loans as a result of limited reporting and weak bottom-up information flows (partly stemming from the hierarchical relations in the Chinese bureaucracy and the fear of bringing bad news, according to some interviewees). Gradually it turned out that Chinese policy recommendations, such as the importance of manufacturing and inflation control (that were based on China's own development lessons), had hardly been implemented. Under the banner of Socialism of the 21st Century, instead Chavez spent large amounts on domestic social and economic projects and on special oil arrangements for friendly Latin American and Caribbean countries. Although the lack of reliable data inhibits a full assessment, Chinese loans for development were also partly wasted on account of mismanagement and in 2016 it became clear that the joint construction of a high-speed railway had floundered. Turning to Venezuela's oil company, the PDVSA has become heavily dependent on Chinese finance, but without becoming a productive enterprise and realizing its goals to expand production (Hellinger, 2016).

Venezuela's deep crisis is of great concern to the Chinese government, banks, and oil companies. A Chinese study labels the country the second riskiest investment destiny.²³ Although formally denied by its Ministry of Foreign Affairs, press reports have mentioned that China is rethinking its relations with Venezuela because of concerns about debt repayment as well as the operational obstacles and security problems faced by Chinese state companies operating there.²⁴ However, whether stepping aside is an option for Chinese actors remains unclear as the vested interests are massive. In 2015, the CDB

23 According to a Chinese report by the Institute of World Economics and Politics of the Chinese Academy of Social Sciences (IWEPP-CASS), cited in Myers, Gallagher and Yuan (2016).

24 See "China Rethinks Its Alliance With Reeling Venezuela" by Kejal Vyas in the *Wall Street Journal*, 11 September 2016 (<http://www.wsj.com/articles/china-rethinks-its-alliance-with-reeling-venezuela-1473628506>).

and the Bank of China agreed to give large new loans although not as large as the Venezuelan government had asked from either. Simultaneously, Venezuela requested a rescheduling of existing oil-backed debt payments, and the CDB agreed to do so in 2016. No details were given, but the arrangement might involve an interest-only payment as long as the price per barrel for Venezuela's crude remains under \$50.²⁵ Since 2015, rumors say Venezuela has temporarily defaulted on some debt payments to China (with oil supplies) and Chinese scholars and the media are openly criticizing the massive old and new Chinese loans to this nation with its uncertain future. Nonetheless, the Chinese media continue to report on joint efforts to expand oil production in Venezuela, including Chinese loans and investments.²⁶

A change of political regime might transform the close Sino-Venezuelan ties developed since *Chavismo*, but under an opposition government Venezuela and China will also continue to need one another. The media have reported that the CDB requested approval from the Venezuelan Congress for the new loans, in which the opposition has held a majority since 2015. Chinese officials were also said to have met with members of the Venezuela opposition, but this was denied by China's Ministry of Foreign Affairs. Whatever the case, China seems to be prepared for the opposition taking over at some point. For Chinese oil companies, this political shift will probably bring positive changes, such as oil reforms that limit state control and allow foreign companies more room to manoeuvre in negotiations with the PDVSA.

3.3 *Brazil*

As already mentioned, Brazil with which it has enjoyed a strategic partnership since 1993 is China's most privileged partner in the region. Brazil is the largest recipient of Chinese energy investments in Latin America and these range from oil and gas projects to major projects in electricity (the majority by the Chinese company State Grid that is constructing the transmission line from the large Belo Monte Hydroelectric Dam) and also wind energy (Husar & Best, 2013). Brazil is also far from a typical oil country. For decades, the volume of its oil reserves was in fact a cause of concern for the largest economy of the region with its large population (currently around 205 million). To limit its dependency on fuel imports, Brazil made large public investments in ethanol production

25 Reuters, 15 June 2016, 'Exclusive: Venezuela in talks with China for grace period in oil-for-loans deal sources', see note 20.

26 For instance, "China state-run firm to help boost Venezuela oil exports by two thirds", *South China Morning Post*, 6 August 2016 (<http://www.scmp.com/news/china/diplomacy-defence/article/2000107/china-state-run-firm-help-boost-venezuela-oil-exports>).

and later also in other bio-fuels. With most of Brazil's oil already located in the sea, in the mid-2000s the news came out that the pre-salt layer along the Brazilian coast held major undiscovered oil reserves. While its proven sea reserves of oil increased from around 12 billion barrels in the late 2000s to 15 billion in 2014, plus probable reserves, the amount of total sea reserves increased from 20 billion to 30 billion of barrels.²⁷

The discovery of these new oil reserves profoundly changed the dynamics of Brazil's oil governance. Until then, Brazil's president, Lula da Silva (2003–2010), had not opted for restructuring the oil sector like his Venezuelan colleague Chavez. Although he came from the Workers Party (PT) and was elected on a leftist agenda to combat poverty and inequality, initially Lula did not change either the tax rules or the status of Brazil's huge mixed oil company Petrobras that was partly privatized in the 1990s but remains state-controlled (with the government currently controlling around two-thirds of its shares). However, in 2008 President Lula announced oil reforms that created a new production-sharing system and a new (non-mixed) state company, Petrosal, in order to protect the public sector's control of the deep-sea oil reserves and revenues (although Petrobras remains the operator). In order to pay off 'the debt with the poor since 500 years', he also announced the creation of a development fund in order to use the new oil revenues for education, health care, and technological development. In the words of Lula, this new institutional arrangement will allow the revenues from future deep-sea oil drilling to be put 'in hands of the Brazilian people'. The social agenda of Lula and his successor, Dilma Rousseff (2011–2016), did resemble those of other leftist presidents in the region and social spending increased substantially, partly by conditional cash transfer programmes for poor families. With a combination of other public spending and the effects of economic growth decreased both poverty and inequality (Hochstetler, 2014).

Whereas most of Lula's economic policies were marked by continuity, in his oil reforms he applied a neo-developmental approach (Schutte, 2013).²⁸ Similarly, under president Dilma Rousseff (also from the Workers' Party), in 2012 the pre-salt oil law introduced the use of production-sharing contracts in the pre-salt fields and other oil areas that the government considers of strategic importance. These reforms took their place next to existing industrial policies to stimulate productive linkages between multinational and domestic

27 Data from ANP (Brazil's National Oil, Gas and Biofuel Agency: www.anp.gov.br, retrieved 6 June 2016).

28 Brazil had previously experienced a long and strong developmentalist period, and in the 1980s and 1990s liberalization strategies were combined with industrial policies.

firms, such as a minimum local content requirement for offshore and on-shore oil projects of 30 percent and 70 percent, respectively. Transnational oil companies consider Brazil's regulations and institutions rather demanding and challenging, besides which reaching the deep-sea reserves also requires major investment and specialized technologies. All this adds up to the fact that foreign investors face quite a few hurdles when engaging in Brazil's pre-salt oil sector.

Sinopec has been the most successful Chinese oil company in Brazil. Its first activities there were in a range of non-oil projects, commencing in the mid-2000s in the project for a nation-wide network for natural gas, Gasene. Petrobras and Sinopec agreed that the latter would develop two large stretches of gas pipelines, that were realized in 2010 at an estimated cost of almost \$2 billion. The CDB provided the Gasene Project with a \$750 million loan. Subsequent Brazilian projects of Sinopec have concerned service contracts for the construction of pipelines in the gas and mining sectors, and the construction of a fertilizer plant (Conselho Empresarial Brasil-China, 2013). In 2009, Sinopec signed an agreement with Petrobras that the latter would supply 200,000 barrels a day for a period of ten years. This supply contract is part of the first loan-for-oil arrangement between China and Brazil, in which the CDB will provide Petrobras with a \$10 billion loan for ten years.²⁹ Because of the global crisis and lack of finance options at that moment, Petrobras has settled for this Chinese deal, even though it is relatively expensive.

Both Brazil and China have been eager to cement their oil relations. The Brazilian government has been very welcoming, with high Brazilian officials travelling to Beijing to promote bids and forge bilateral relations. Brazil offers the COCs the chance to get resources, make profits, and learn about new technologies, especially in deep-sea projects. Sinopec invested \$7.1 billion in 2010 by buying a 40 percent stake in the Spanish oil company, Repsol, followed by the acquisition of a 30 percent stake in Portugal's Petrogal for \$4.8 billion in 2011. Sinochem made a similar move in 2010, buying a 40 percent stake in Norway's Statoil operations in Brazil, for \$3 billion. These important steps by the COCs were eased by the financial problems of other global oil players. Although the recent drop in oil prices does harm the profitability of some projects, since

29 For Brazil conceptually this is not an oil-backed loan, in the sense that it is not a strategic deal based on a governmental understanding but a business deal. Formally, however, because of the MOU that the Chinese government was anxious to sign, it does concern an oil-backed loan.

2009 more Brazilian oil has been being exported to China and in 2015 China replaced the United States as first export destiny of Brazilian crude oil.³⁰

In 2013, the CNPC and the CNOOC also made their first large investment in Brazil. They took part in the winning consortium for the bid to explore Libra, Brazil's largest oilfield. Interestingly, while each company had already collaborated in several foreign projects with Sinopec, this was the first joint investment of the CNPC and the CNOOC anywhere in the world. Within this consortium, the two Chinese companies each hold 10 percent, for which they each paid \$700 million, while Shell and Total each hold 20 percent, and Petrobras holds 40 percent. This cooperation with both the local national oil company and two large international oil companies in a deep-sea oil project that requires special new technologies is an interesting development for COCs. With Petrobras as operator, and the stakes of Shell and Total outweighing those of the CNPC and the CNOOC, Chinese participation remains relatively limited, but this involvement can nevertheless be labeled an achievement. It illustrates a trend away from large controlling stakes by also seeking minority stakes, especially in strategic projects from which the COCs can learn from more experienced global companies (Khaitan, 2014). It was also a good opportunity to get involved in Brazil, and the huge Libra reserves, even though the auction for this field came at a moment when both companies were decapitalized by investments elsewhere (Ramos Becard & Vieira de Macedo, 2014).

While these major acquisitions have bought Chinese companies a seat in the development of Brazil's deep-sea oilfields, there have been some hurdles on the way. Getting access to the technological expertise in deep-sea production that Chinese companies want to acquire and that Petrobras and international oil giants already have at their fingertips depends on the partners' willingness to transfer technology. According to a study by the International Energy Agency (Husar & Best, 2013), Petrobras seems unwilling to share its expertise with the CNOOC. And Sinopec has also found that technology transfer with Petrobras has been disappointing, despite the fact that they signed an agreement for technological cooperation. Chinese oil investments and loans have not caused much debate in Brazil, but there have been some social expressions of anti-Chinese sentiments. These fit into broader nationalist pleas for 'o petróleo é nosso' (the oil is ours) and against transnational companies making profits. Although not a large movement, in the case of the Libra auction in

30 In 2014, the US was the leading export destination, followed by China, with respectively 145,000 and 107,000 b/d in 2014 (EIA, 2015). But in the first five months of 2015, Brazil's oil exports suddenly rose more than 2.5 times (<http://www1.folha.uol.com.br/mercado/2015/06/1639589-neo-exportacoes-de-petroleo-para-a-china-sobem-260.shtml>).

particular there were a few anti-Chinese protests, that President Rousseff immediately criticized in the media, as “absurd xenophobia”.³¹

While institutional arrangements in Brazil might be more transparent than in some other Latin American countries, it is not necessarily an easy place to navigate for Chinese companies and banks. Brazil’s institutional setting is complex and fragmented, involving many different rules and agencies. As said, Brazilian legislation requires relatively high levels of local content of foreign investments, for which public tenders have to be put in. Chinese banks and oil companies have proven capable of adjusting to Brazil’s institutional framework, but their entry into its oil sector would not have been so rapid were it not for the global financial crisis. Chinese oil companies have limited overseas experience in “managing complex cross-border mergers and navigating heavily regulated markets. This is a particularly daunting challenge in countries with overlapping jurisdictions and complex regulations such as Brazil” (Alves, 2013: 122). Interviews have also revealed that Chinese companies and banks are still learning how to deal with the Brazilian style of the governance of oil. Partnerships with Petrobras, for instance, have involved lengthy negotiations, as have some of the negotiations for loans.

The multiple crises that has hit Brazil since 2014 is linked to the oil sector in several ways. Low prices of oil and other key commodities, partly caused by China’s economic slowdown, caused Brazil’s GDP to shrink by 4 percent in 2015. The social effects have fed wider civic discontent that has resulted in various large social mobilizations against the government. Petrobras has simultaneously been under investigation in Brazil and the United States for corruption. Evidence shows widespread money laundering and bribery and the upshot has been serious charges against numerous high officials in Petrobras and the government, not to mention many politicians of different parties. Through Petrobras and several large private companies, government officials used part of the money to buy political support in the (highly divided) Congress. The roles of ex-President Lula and President Dilma Rousseff, who had been Minister of Energy (2003–2005) under Lula, came under suspicion and eventually were subjected to investigation. In May 2016, President Rousseff was removed from office in what several have labeled a political coup. While the legitimacy of her removal from power by joint opposition politicians (a majority of whom are also suspected of misconduct and corruption) by the use of formally democratic mechanisms remains contested, the socio-economic context did contribute to this course of events. From the beginning of her

31 See for instance *O Globo*, 24 October 2013 (<http://oglobo.globo.com/economia/dilma-diz-que-reacao-negativa-presenca-de-estrangeiros-em-libra-xenofobia-10526471>).

second term, in January 2015, Brazil's economic and social situation deteriorated, her popularity was low, social protests increased, and the political opposition to the PT and her presidency strengthened considerably. Her opponents made (unproven) accusations that she had been involved in corruption and claimed that she had manipulated national financial data in the months prior to her re-election, in order to improve her image and chances. After a highly contested political 'game', a majority of the House of Representatives voted in favor of impeachment. Finally, in 2014 with a combination of the oil crisis, corruption charges, and Brazil's economic instability, Petrobras faced an increasingly precarious situation with falling credit ratings, share values, and production forecasts.

Under these circumstances, how was Brazil's national oil company supposed to make a debt repayment of \$12 billion in 2016? As long as the investigation continues, the company's financial statements cannot be certified and Petrobras has no access to international capital markets. The Chinese government and banks have offered substantial support to Brazil. In 2015, there were several top-level bilateral meetings, including the visit of Prime Minister Li Keqiang to Brazil in May, when he and Rousseff signed the 2015–2021 Brazil-China Joint Action Plan focused on investments in innovation and industrial capacity investment and another 35 cooperation agreements. Brazil obtained over \$10 billion financial support from Chinese banks. Most of this was channelled into Petrobras, including a two-part loan for \$5 billion from the CDB based on a similar arrangement as that of 2009. To repay the loan, for 10 years Petrobras will supply Sinopec with approximately 200,000 barrels of oil a day. An additional package was made for \$5–10 billion in order to allow Petrobras to repay its debt. The China Export-Import (ExIm) Bank offered four large Brazilian companies funds to pre-finance the acquisition of Chinese (technology) equipment. In the case of Petrobras, the loan will allow for importing high-tech. ships and oceanographical equipment, for which \$1 billion was indeed agreed upon in the first half of 2016. Furthermore, Petrobras was offered \$2 billion credit by the Industrial and Commercial Bank of China (ICBC) through the construction of the lease of two offshore oil platforms. Unlike the development banks, the CDB and the ExIm Bank, the ICBC is a commercial (yet state-owned) bank, the largest in China, indeed the world. Even though not all of the planned loans have yet materialized, in the short run Chinese capital might have saved Petrobras from defaulting.

As in Venezuela, the multiple crises of Brazil has affected Chinese oil companies in several ways. The combination of low oil prices and economic, social, and political instability is certainly a challenge. The lowered price level affects the profitability and viability of capital-intensive projects, such as those in the

deep sea, as well as the possibilities to invest in technological development. Since 2014, the major private oil companies have been forced to lower their costs globally and rethink their strategies. While this can have some negative effects on the projects in which they are involved with the Chinese, in theory the crisis in the oil sector can also offer Chinese companies a possibility to expand their share in Brazil and elsewhere. However, the 13th licensing round for oil blocks in 2015 failed as neither Petrobras nor any large foreign company made a bid. The political crisis and power shift might possibly be more in their advantage. In 2015, the senate had already discussed oil reforms, and in January 2016 the government decreed a reform of its local content policy in order to attract more investments. Rather than lowering the high (up to 65 percent) local content targets, by offering bonuses and incentives it should become easier for oil companies to achieve them. The political turn to the right in the context of an economic crisis and lower oil prices will probably lead to more reforms in the sector, such as deregulation and liberalization. Looking at relations with China, as soon as he came to power in May 2016, President Temer stressed that Brazil would continue to give high priority to its relations with China. Here, again, Brazil's need for more foreign investments is playing a key role but, besides bilateral economic relations, the new government is also committed to strengthening multilateral initiatives, especially the BRICS.

3.4 *Ecuador*

Although oil production in Ecuador is much lower than in Venezuela and Brazil, oil is the main export product (around 40 percent) and represents a significant part of the public sector's revenues (around 30 percent). The bulk of the rest of its exports consists of agricultural produce such as bananas and coffee, leaving the economy of this Andean country with a population of 16 million people heavily dependent on commodity prices and market swings. In the 1980s and 1990s, difficult economic and social circumstances and neoliberal policies caused social protests and political instability. The entry of leftist president, Rafael Correa (since 2007), who called for a citizens' revolution, brought profound changes. As part of his neo-developmental agenda, oil revenues had to be used for (higher) education and innovation that would decrease the dependency on oil. He also aired strong criticism of the dependency on foreign investments and loans. In 2008, Correa announced that Ecuador would default on two large outstanding bonds because of irregularities in these debts. In effect, the country's debt rating was lowered and many creditors decided to not grant the country new loans. However, the global oil boom (and Ecuador's dollar economy) enabled Correa to double welfare payments to poor households, subsidize electricity for poor households, and make a range of investments in

education, health, micro-credits, and infrastructure. In effect, Correa secured major electoral support for his regime and for his policies of more state control over the economy, including the oil sector.

In his first year in office, Correa decreed he would raise the state's share in windfall oil profits from 50 to 99 percent and made some radical policy decisions, that would probably have been impossible if it had not been for the high oil prices. In 2010, the National Assembly approved the new Hydrocarbon Law, that reinforced national control over oil extraction and revenues. The main point of this law was that it allowed only for servicing contracts in the oil sector instead of the previous use of production sharing contracts (it also stipulated that foreign companies were to hire Ecuadorian staff for 90 to 95 percent of positions). The contracts with multinational companies had to be renegotiated but four out of nine did not reach an agreement and ended their operations. This left the oil sector predominantly (for about three-quarters) to Ecuador's state oil companies, PetroEcuador and PetroAmazonas, and a joint venture with the PDVSA. Since then, several new areas have been opened for oil concessions, but it has not been easy to attract foreign investors other than Chinese companies. Most blocks are located in Amazonian areas with high biodiversity.

Considering the potential of Chinese trade, investments, and loans for Ecuador, relations with China became very important for Ecuador under President Correa. In his first year, Correa made a six-day visit to China during which various collaboration agreements were signed and cooperation rapidly expanded. Chinese companies had previously played a limited role in Ecuador, but from 2007 to 2011 annual Chinese investment ranged between \$45 billion and \$80 billion. Only in 2015 was a strategic partnership agreement signed, but prior to this President Correa had often already referred to China as Ecuador's strategic partner, privileged ally, and main economic partner. Chinese companies play a pivotal role in various sectors, such as hydro-electricity (that is in the interest of Ecuador's energy security),³² infrastructure, and recently in mining. Ecuadorian officials often claim that their small country has succeeded in making progressive policy reforms that were widely perceived as impossible, and that the relations with China have been very supportive of this sovereign regime change. Besides their willingness to stay despite greater state control, they have been willing to share know-how and technology and invest

32 In 2010, the construction of the country's largest hydroelectric facility (1,500 MW), Coca Codo Sinclair, by the Sinohydro Corporation started, was helped by a loan of the ExIm Bank of China. The \$1 billion contract with Sinohydro was important both financially and because of the technical cooperation. It also helped to raise interest in Ecuador among other Chinese companies.

in infrastructure (Báez Pichuco, 2013). However, public opinion about Chinese companies is rather mixed, and the package deals made with Chinese companies and banks have been criticized for their lack of transparency and also because of licensing and price competition—to some degree with reason as we shall see below.

Oil is the key commodity in the bilateral economic relations. While Ecuador only recently began to export substantial volumes of crude oil to China, in 2013 it represented 54 percent of its total exports there (ECLAC, 2015a:46). In contrast to Venezuela and Brazil, Ecuador is located on the Pacific coast, that facilitates the shipping of oil to China. Of the oil production by foreign companies more than one-third is in Chinese hands, mainly the CNPC and Sinopec, that had jointly invested \$3.5 billion in Ecuador by 2016.³³ After some small Chinese oil investments since the mid-1980s, in 2003 the CNPC acquired Block 11 in Sucumbios (eastern Ecuador) and launched oil and gas exploration and development. Two years later, the CNPC and Sinopec formed the consortium Andes Petroleum, in which CNPC holds a 55 percent share. Andes Petroleum purchased assets and development rights to five blocks in the Oriente Basin (in the Amazon area in the east of Ecuador), including the profitable Tarapoa Block. Other operations are carried out under the name PetroOriental. Despite the fact that Andes Petroleum and PetroOriental acquired new contracts in Ecuador, the oil reform of 2010 and subsequent renegotiation of legal arrangements were also challenging for these Chinese companies. Although the conversion of production-sharing contracts into service contracts had a negative impact on their profitability prospects, the CNPC and Sinopec decided to stay. According to the CNPC operations director, Xing Xueping, now that the social politics and thinking is a political tendency of great force in the region the companies see Ecuador as a point of expansion toward other Latin American countries (Báez Pichuco, 2013). They expanded their investment in Ecuador, and the production of Tarapoa and Blocks 14 and 17 almost doubled (from 56 to 99 million barrels), again adding to the national public sector's revenues.

After their investments in upstream activities, a next step for COCs was to engage in refinery and pipeline projects. In Ecuador, the CNPC became involved in the ambitious plans for the construction of a major refinery installation along the Pacific coast, in which Venezuela's PDVSA would also participate. Having such a refinery will be a major step for Ecuador as it is now exporting crude and simultaneously importing refined oil products. After lengthy

33 According to Zhao Xinjun, president of Andes Petroleum, the joint venture of the CNPC and Sinopec (in *El Comercio*, 25 January 2016, <http://www.elcomercio.com/actualidad/ecuador-explorar-amazonia-andespetroleum-china.html>).

negotiations, a 30 percent share of the CNPC in the refinery project was agreed upon. However, after several announcements by the Ecuadorian government in 2013 and 2014, the prospects for the project have become uncertain. Since the crisis, Ecuador and the PDVSA have no resources and the CNPC has opted out. It is not clear how and when the Refinery of the Pacific will materialize and if Chinese investment will be involved.³⁴

Besides investments, China has become Ecuador's main source of loans. Before the extra Chinese support announced in 2015, the CDB, China's Export-Import Bank as well as the CNPC had already been providing credits of up to USD\$9 billion in total. At a time when most other creditors were scared away by Ecuador's partial default, the confidence of the CDB in its oil-for-loans design enabled it to also lend to this country. From 2009 to 2011, the bank provided two oil-secured loans (respectively USD\$1 and USD\$2 billion) at an attractive rate, below the high rate on its bonds, and the CNPC offered two USD\$1 billion oil-backed loans (Sanderson & Forsythe, 2013: 139–140). According to an Ecuadorian government official interviewed, these loans do not imply Chinese influence in national policies of Ecuador. In his experience, the South-South relations that Chinese officials often mention are genuine claims. However, simultaneously, as with any country, there is *Realpolitik*: the relation also serves the national interest of China, including its energy needs. However, as in Venezuela, a substantial part of the Ecuadorian oil sold to Chinese companies to service these loans is not shipped to China but sold to traders and imported into the US, that remains the main export destination for oil from Ecuador. This reselling has caused some debate in Ecuador, as the price when the state-owned company PetroEcuador sells oil to a befriended nation is a few dollars below the market price. It seems that this price difference offers the Chinese companies a nice profit at the cost of the Ecuadorian public sector, but because of the lack of transparency in the accounts of the actors involved (and in oil-trade markets in general), it is hard to estimate the amount of money involved and to verify allegations of corruption (Villavicencio 2013).³⁵ Furthermore, there are concerns about the magnitude of oil supply contracts

34 Instead of the CNPC, the Chinese state-owned company Sinomach, a subsidiary of China National Machinery Industry, has become interested in constructing the refinery plant, in collaboration with Hyundai from South Korea.

35 In his critical book (in Spanish) *Ecuador made in China*, Villavicencio (2013) tries to document what is happening with these oil and capital flows. While offering ample empirical information that gives insights into this world of oil, money, and politics, his strong criticism of President Correa's oil cooperation with China are only partly founded because of gaps in the data and analysis.

that are part of the loans-for-oil deals, as a result of which COCs are expected to dominate Ecuador's oil exports for quite some time to come.³⁶

In early 2016, Andes Petroleum signed exploration and production contracts worth over \$70 million for two controversial projects near Yasuní-ITT in Ecuador's southern Amazon region, where the government plans to develop more oilfields. Blocks 79 and 83 not only lie in an untouched region with delicate ecosystems and high biodiversity, they also overlap with indigenous territory. The blocks border on the Yasuní National Park, where some of the largest oil reserves are located. Sinopec will develop six additional fields for PetroAmazonas for the sum of \$500 million. At the outset of his administration, Correa had announced an innovative policy, proposed by environmentalists within his government, that would protect this extremely vulnerable area by leaving the oil in the ground, and being partly compensated through international financial support. Probably the president and some sections of his government never favoured the plan. Information disclosed about the negotiation of the \$1 billion CDB loan indicates that in 2009 the Ecuadorian team had already offered CNPC (PetroChina) and Andes Petroleum special help to explore ITT and Block 31, that are located within the National Park.³⁷ By 2013, Correa formally withdrew the conservation plan and allowed drilling.³⁸ The decision caused a wave of protest in- (and outside) Ecuador, as many citizens like the plan to save this area from oil extraction. Civil society groups and scholars have expressed serious concerns about the effects on the environment and indigenous peoples. As Ray and Chimienti (2015) argue, these new concessions are a test for Ecuador's government and China's oil companies on a range of challenging issues: protection of the environment and indigenous territory, transparency and public accountability, and taking the opinion of the local community into account in decision making and planning.

In June 2016, several proofs of corruption in Ecuador's oil sector were presented. The Panama papers demonstrated that the first presale contract be-

36 Critical perspectives can be found in, for instance, "República Popular China: ¿Socio Estratégico de Ecuador o Punto de Eexpansión en América del Sur?" by the Comité Independencia y Soberanía para América Latina, 6 March 2013 (retrieved 4 April 2013: <http://www.nodo50.org/ceprid/spip.php?article1631&lang=en>); "China tomó el control del petróleo de Ecuador", *Portafolio*, 26 November 2013 (<http://www.portafolio.co/internacional/china-tomo-control-petroleo-ecuador-76700>); and Schneyer and Medina Mora Perez (2013).

37 *The Guardian*, 19 February 2015 (<https://www.theguardian.com/environment/2014/feb/19/ecuador-oil-china-yasuni>).

38 ENGOV Newsletter 6, October 2013, *Special Issue on the End of the Yasuní-ITT Initiative* (http://www.engov.eu/documentos/ENGOV_Boletin6_ENG.pdf).

tween PetroEcuador and the CNPC (PetroChina), that was linked to the CNPC's first \$1 billion loan to PetroEcuador, was accompanied by the payment of commissions for \$1 per barrel, amounting to \$69 million in total. The recipients were three Ecuadorians, including businessman Jaime Baquerizo, who had assisted in the negotiation process of the presale and received the money via a trail involving companies in Geneva, the Virgin Islands, and Panama.³⁹ Almost simultaneously, PetroEcuador's former president, Alex Bravo, was sentenced to imprisonment for an illegal deal that benefited the same Baquerizo. Moreover, the Minister of Hydrocarbons, Carlos Pareja, had to step down for another contract that had filled Baquerizo's pockets with around \$8 million.

Although the sudden fall of oil prices has harmed Ecuador's economic performance and government revenues in Ecuador, the economic, social, and political crisis is arguably less dramatic than in Venezuela and Brazil, despite the fact some voices claim that the government manipulates data and conceals the true size of the nation's indebtedness.⁴⁰ Unquestionably, in 2015 economic growth stagnated and the government has been forced to cut back many on projects and expenditures. Assistance from China has eased some of this pain. In 2015, large loans were granted by the ExIm bank (two loans totalling \$5.5 billion) and the CDB (\$1.5 billion). In the first half of 2016, the CDB gave another loan, for \$2 billion, while the Industrial and Commercial Bank of China granted a loan of almost \$1 billion. While the Minister of Finance of Ecuador stated that the latter two were not oil-backed loans, in both cases a supply contract was signed with the CNPC (PetroChina) on the very same day as the granting of the loan, and lasting for the same period. Apparently the deals are politically sensitive. The ministry stressed that there was no oil guarantee linked to these loans and that the oil contracts would not jeopardize resources of the next government.⁴¹

39 *El Universo*, 6 June 2016 (<http://www.eluniverso.com/noticias/2016/06/06/nota/5620212/ecuatorianos-recibieron-comision-crudo-prevendido-petrochina>).

40 According to *En Marcha*, published by the Communist Party of Ecuador, the oil-backed loans with Chinese banks are not registered as debts (1 September 2015, <http://www.pcmle.org/EM/spip.php?article6955>).

41 *El Comercio*, 21 June 2016 (<http://www.elcomercio.com/actualidad/credito-chino-compromete-venta-petroleo.html>).

4 Conclusions

Chinese oil companies are state-owned entities that began to transnationalize relatively late, and the particular ways in which they do so is still puzzling for scholars as well as actors in receiving countries. Although also looking for revenue and profits, they sometimes take on projects that western multinationals would not, as the latter might find the physical, economic, or political and social conditions too risky or demanding.⁴² Chinese companies partly invest in 'difficult' countries (e.g. Ecuador), areas (e.g. requiring additional infrastructure investments), and projects (e.g. with a conflictive history or also requiring extra expenditure). Compared to companies from western countries, COCs can invest more easily in projects that require infrastructural development and they are less restrained by short-term shareholder value maximization (cf. Gonzalez-Vicente, 2012).

Since the mid-2000s, the transnationalization of Chinese oil companies and the related support by the Chinese government and banks to Latin American countries with substantial oil reserves has been an important development for all actors involved. Whereas the Chinese government aims at energy security and the diversification of oil imports, COCs and banks are driven to invest and grow, and Latin American governments and state-owned oil companies seek to secure investments and loans and diversify the destiny of their oil exports. For several years, until the recent crisis, oil was key in Sino-Latin American cooperation and the oil relations involving trade, direct investment, and credits seemed to be beneficial for all. As this chapter shows, the oil-based ties between China and Venezuela are strong and institutionalized and include a mix of large direct investment by the CNPC and to a lesser extent Sinopec, and massive CDB loans. In the case of Brazil, the oil sector is only one among various shared economic and political interests with China, that have been the basis for strong bilateral relations. Sinopec arrived here first and has been the most successful, with the CNPC, the CNOOC and also Sinochem following more recently, and Brazil has received a few large Chinese oil-related loans. Ecuador, in contrast to Venezuela and Brazil located on the Pacific coast, is the

42 Explanations for this difference range from the fact that they are state-owned (and therefore guided more by policy aims for national resource security, although they do come together with bank credits and special bilateral cooperation schemes, or counting on some leeway in case projects falter or take longer to become profitable), that they are new-comers to contemporary globalization (and therefore cannot be too picky about where and how to start-up businesses), and that they surf on a high economic and financial wave compared to the conditions of North American and European MNCs.

smallest of the three and the most dependent on Chinese oil investments and especially loans. Interestingly, here the CNPC and Sinopec operate together, through their joint venture Andes Petroleum.

The arrival of Chinese capital, actors, and interests in Latin America's oil sector has brought along a specific style of co-governance, involving new types of interaction. The arrangements and coordinated activities that Chinese companies, banks, and government agencies deploy differ from those of other large oil companies and oil-seeking nations. Chinese influences usually imply a pronounced role of the state, involving special arrangements and package deals with state-owned companies and development banks. Until recently, this resonated quite well with progressive governments in Venezuela, Ecuador, and Brazil that were aiming to get more state control over their oil sector. Although at several points their policies of resource nationalism went against the interests of investing oil companies, including COCs, the emergence of China as a friendly nation and a source of major direct investments and loans has offered unexpected alternative pathways for development to Latin America's oil-rich countries. Hence Chinese influences have provided enabling factors for the plans of the new Latin American political elites to move the governance of oil into a different direction as part of their agenda to use resource wealth for state-led economic development and social redistribution.

The particular way in which Chinese oil companies transnationalize stems from their historical trajectory as well as the current way in which they are governed and receive formal and informal support from the Chinese state and state-owned institutions, both at home and overseas. Latin American governments and state-owned companies welcomed the fact that COCs are different, but their hybrid nature, the shady (power) relations between the companies and China's government, and the informal practices of Chinese actors also puzzled them, and fed some doubts among political opponents and public opinion. For instance, while COCs claim that they are market players, and their foreign branches are indeed listed at international stock markets, it is less clear if they also compete with each other, and whether their investment decisions are made independently of the Chinese government. The new, large oil-backed loans to crisis-ridden Brazil, Venezuela, and Ecuador have raised another key question: are these loans based on decisions of the Chinese development banks themselves, or are they an expression of the political agenda of the Chinese government? In this particular case, the political influence seems evident. Since 2014, the three countries have all been hit hard by the collapse of oil prices, that has caused major economic problems and exacerbated political and social tensions, resulting in major crises. While being easily criticized as being political, risky, and irrational, the Chinese banks' infusion was much

needed and was accompanied by Chinese government efforts not only to reach out to the incumbent regimes but also to establish contact with some opposition groups. Nevertheless, as oil serves as collateral, there is also some logic to the new loans as well as the accumulated amount of loans, even in the case of Venezuela. Obviously, there are major political risks involved but, if we take the volume of this country's oil reserves and exports into account, the loans are not particularly disproportionate (as shown in Figure 6.4) and might even make some sense from a (Chinese) commercial point of view.

Beyond formal institutions and arrangements, there are some informal and less visible dimensions to the Chinese influence on the governance of oil in Latin America, and these are hard to assess. Oil-related corruption is evidently biggest problem in both China and Latin America, damaging both the oil sector and the political system. Although some of it has recently been revealed, its true size and nature remains unknown, and the question of Chinese effects on corruption in Latin America remains unanswered. Another case in point is the supply chain. A considerable share of the oil that Latin American state-owned companies sell to Chinese companies in order to serve the loans-for-oil never reaches China, but is sold in the oil market and is than most probably consumed in the United States (Jiang and Sinton 2011). As these practices and markets are rather opaque estimates are hard to verify, but most studies point to the same conclusion. In Latin America, this profit-seeking behavior of COCs with 'their oil' did not fit well with discourses of leftist presidents like Chavez and Correa, who presented the oil relations with China as being based on partnership and even friendship. And in Latin American public opinion there are doubts about which side profits most from the loans-for-oil deals and the long-term supply contracts to COCs.

It is too early to determine how the recent crisis will affect the oil relations between China and Latin America, but the rapid adaptation of the Chinese government to changing economic and political circumstances and the banks' new loans indicate the desire of Chinese actors to strengthen their oil relations with Latin America. Whereas the official Latin American reactions are very positive, there are critical voices from Latin American academia, NGOs and other civil society groups expressing concern about this growing Chinese influence in the oil sector as well as the overall dominance of the primary sector in Latin America's development model. From their point of view, the expanding Chinese influences have helped to sustain a commodity-based style of development that is economically, politically, and ecologically unsustainable. In a time of economic growth and poverty reduction, they already pointed out the long-term risks of dependence on Chinese capital and oil-based development. Latin America's long history of dependency on powerful foreign partners that

seek access to the region's commodities seemed to be repeating itself: "The players have changed, but not the rules of the game."⁴³ In these debates concerns about the power asymmetry in bilateral relations with China are connected to wider critiques of Latin America's neo-extractivist model.⁴⁴ In order to change this unequal and 'extractive' relationship with China, and to encourage Latin America's long-term development, both sides of the Pacific now realize that Latin America has to interact with China more as a region.⁴⁵ This is one of several new challenges for the future governance of Latin American oil, that will continue to involve complex interactions between governments, state-owned oil companies, and development banks from both China and the region as well as Latin America's civil society.

43 My translation of the quote from an opinion article by Luciano Bolinaga, 'La relación con el gigante asiático', *Página 12* (newspaper, Argentina), 3 March 2014.

44 Others call it the neo-extractivist development model, or refer to Maristella Svampa's (2013) idea of the *Consenso de los Commodities* ("Commodity Consensus"), a new economic and political-ideological order that has come to influence the region's policies and development after the end of the Washington Consensus.

45 According to the Argentinean ex-ambassador, Diego Guelar (author of the book *La invasión China. El desembarco China en América del Sur*), otherwise future generations "will be combating Chinese imperialism, like we combated the US" (interview, 4 March 2014, PolíticaOnline, <http://m.lapoliticaonline.com/nota/78934-brasil-debe-ponerse-al-frente-de-la-negociacion-con-china-antes-que-sea-tarde/>). Beyond the oil sector, the ECLAC (2015b: 77) generally recommends that Latin America and the Caribbean produce "a regional response to the initiatives proposed by China".