# Evaluation of the Chinese State Capitalist Model in Light of Financial Institutions' Oil Related Investments Overseas

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## Abstract

*In this article prepared for the International Culture Conference, I provide a short introduction to the framework of state capitalism, and discuss Chinese national oil policy in light of the principles based on this framework. To best illustrate this overarching strategy, this paper presents one of the institutions involved in shaping China's overseas oil acquisitions, namely the Chinese policy banks and their requirements when issuing Energy Based Loans (EBLs) to overseas trade partners. The purpose of this paper is to illustrate how state capitalism plays a pivotal role throughout the Chinese oil investments, whether being commercially or politically initiated investments. This underscores the originality of my research vis-à-vis previous attempts to evaluate the Chinese decision-making process within the oil sector. Based on the institutional framework represented through China's version of state capitalism, this paper presents an introduction to this research by presenting the principles that are relevant when the financial institutions proceed with Energy Based Loan agreements.*

## Introduction

As any person who has studied economic development theory should know, the possibility of determining a country's economic policy strategy within the framework of a single economic theory is close to impossible. The reason for this is not that there are no applicable choices, but that states tend to implement various theoretical tools from different frameworks suited to their stage of development.[1] As underscored by Max Weber: most theoretical frameworks for economic development do not exist in their "pure" form, but instead are coordinated with others to provide the best possible result. Therefore, it would be unwise for this paper to stipulate that China is different and that one theoretical framework for economic development is single-handedly dictating China's strategy development. As a consequence, this paper emphasizes China's developed attachment to the institutional framework of state capitalism, which consists of theory derived from neo-mercantilism and the Institutional Political Economy.[2] To underscore the relevance of state capitalism as the dominant institutional framework to the Chinese development model, this paper's main purpose is to illustrate how state capitalism contributes in shaping the development of China's national oil policy. The paper's approach is to apply the theoretical knowledge provided by neo-mercantilism and the Institutional Political Economy for the purpose of illustrating state capitalism's importance to the development of China's national oil policy. To underscore how state capitalism is the most suitable explanatory model for China's oil policy development, this paper will include empirical data on the Chinese financial institutions' adaptation of the state capitalist principles in its Energy Based Loans (EBLs) agreements. In effect, a short introduction to state capitalist's main principles, together with the theoretical frameworks supporting them, will be presented to analyze China's contemporary emphasis on competitive State-Owned Enterprises (SOEs) and institutions involved in the overseas transactions processes. This will provide an adequate basis to identify the state capitalist principles overarching influence on the Chinese financial institutions, while also touching on the relevance to the National Oil Companies (NOCs) and state bureaucracy's involvement in transnational interactions and acquisitions.

## *State Capitalism's Institutional Framework*

Throughout history, the theoretical concept of state capitalism has been associated with a number of institutional frameworks emphasizing an activist state as a necessary condition for long-term growth in the real economy. One example is its contradictory usage both before and after the establishment of the USSR.[3] Even so, as the world's liberal trading regime evolved into a globalized force of recognition and the feasibility of a socialist command economy lost much of its leverage in the debate on economic development theory, the former terminology of state capitalism has evolved into an overall description of an economy underpinned by an activist state. The institutional framework of state capitalism is primarily based on two overlapping theoretical frameworks, namely neo-mercantilism and Institutional Political Economy. It is appropriate to stress them as overlapping since similar policy principles in theory can be derived from both of these theoretical frameworks.[4] This paper focuses much on how the different theoretical frameworks deal with SOEs' relevance to Chinese policy, particularly so for Chinese oil policy. The main focus however will be on the theories' implications in relation to the financial sector. Therefore, this paper will present the relevant theories contributed to by these frameworks and how, through the state capitalist framework, they in this case influence the Chinese EBLs agreements overseas.

Many commentators would emphasize that neo-mercantilism is the best theoretical framework for understanding the Chinese version of state capitalism, using the NOCs'/SOEs' seeming strategy of "locking up" natural resources throughout the developing world.[5] Although plausible, this paper would emphasize that this strategy is without context due to the fact that most Chinese oil production, far away from the Chinese mainland, is sold to the international market, thus contributing to the international oil market rather than decreasing the global supply. Consequently, this idea of "locking up" moves the attention away from the actual relevance of neo-mercantilism to the Chinese growth model, namely the Chinese state's support of promoting long-term growth in the real economy through incentives. This idea is derived from the sixteenth-seventeenth century European mercantilism's institutional framework. Contemporary neo-mercantilism highlights the importance of a strong domestic economy for the security of sustaining a continuous economic development in the real economy[6]. Emphasizing this idea, several financial incentives are offered to the domestic economy through state intervention, be they protectionist trade remedies or state subsidies. Yet, relevant to the contemporary SOEs' growth initiative are the late twentieth and early twenty-first centuries' neo-mercantilist protectionist tools or trade remedies, which can be summed up by the following: A favorable monetary policy and the recently popularized "safeguard" provisions, antidumping measures and countervailing duties. By actively promoting and protecting domestic industry, most notably securing the SOEs' competiveness, the establishment of long-term growth in the real economy is achievable. In effect, the consequence of implementing these neo-mercantilist tools is a more secure and sheltered domestic industry that promotes long-term growth, competitive development and a diversified manufacturing and industrial sector. As a result, by combining this with a neo-mercantilist controlled monetary policy which prevents currency fluctuations, speculations and excessive cross-border currency flow, in addition to increased competitive advantages to the international market, the aforementioned tools provide a semi-free market with the overall purpose of securing domestic long-term growth in the real economy as opposed to growth in the financial sector. The Chinese attachment to the neo-mercantilist approach is its overall agenda of securing the competitiveness and diversification of its industrial and manufacturing sector. Thus, the empirical data illustrate that China has not excessively implemented the aforementioned trade remedies of "safeguard" provisions, antidumping measures and countervailing duties (to the same degree as the European states or the US).[7] It is therefore more appropriate to regard the neo-mercantilist influence on primarily the policies concerning a tightly controlled monetary policy and financial system in combination with a subsidization of China's seven core industries, financial institutions and infrastructure development industries.[8] In regard to the topic of this paper, it will be most relevant to review the neo-mercantilist theory's influence on the promotion and subsidization of the financial institutions.

Institutional Political Economy draws its theoretical basis from the former Institutional economics, which to a certain extent presents them both as bodies of thought within the theoretical framework of Keynesianism. Important Institutional economics' scholars are Torestein Veblen, John Kenneth Galbraith and John R. Commons. In contrast to the classical economic doctrine, these scholars emphasized the market as just one of numerous institutions involved in shaping economic development.[9] The state is given a central role in charge of mapping out the rules and regulations beneficial to all institutions within the economy to the degree that the end result will be growth in the real economy.[10] As a result, the state promotes "an industrial policy aimed at particular industries (and firms as their components) to achieve the outcomes that are perceived by the state to be efficient for the economy as a whole."[11] This "favoritism" from the state is based on the necessity of developing SOEs, which will be better explained when mapping out the principles of state capitalism below.

**State Capitalism and Its Guiding Principles**

The state capitalist principles which this paper now proceeds to discuss are the theoretical ideas incorporated into the Chinese version of state capitalism that are relevant when reviewing the financial institutions influence on the Chinese oil policy. These principles of state capitalism which I have formulated on the basis on the existent relevant theory are what Weber underscores as overlapping, as they draw on the theory promoted by the neo-mercantilist and the Institutional Political Economic theoretical frameworks.

First and foremost, the institutional framework of state capitalism was based on the theory of neo-mercantilism. However, as the global economy has developed over time, neo-mercantilism do not sufficiently cover the institutional framework apparently followed by China. For that reason, other perspectives such as the specific theory represented by the Institutional Political Economist complement the institutional framework and adjust it to the current twenty-first century global trading regime. Nevertheless, in regard to the scope of this paper, only a brief introduction to the state capitalist principles relevant to the national oil policy development is appropriate. This paper will later proceed to an assessment of how, in the instance of EBLs, the relevant principles of state capitalism draw on the theoretical frameworks of neo-mercantilism and the Institutional Political Economy:

1. A workable financial system must be in place that through regulation is able to guide the material self-interest of individuals and corporations in pursuing long-term profit goals, and not only increase the short-term profits of its shareholders.[12] This correlates with John Kenneth Galbraith's theory: that the financial system should determine price and wage levels in order to control inflation[13]. However, this approach should be attributed to the state's responsibility in promoting the objective of full employment.[14]
2. Sustaining manufacturing is vital for supporting the continued development of high-value services. Here, the state's role is to promote key competitive manufacturing sectors (SOEs), which develop productivity growth and an industrial niche for the promotion of international trade and further innovative thinking. However, a competitive and diverse manufacturing industry is also emphasized based on the lessons drawn from the seemingly insufficiencies of the neo-liberal market economy prior to the 2009 financial crisis.[15] Hence, an important task is the state's obligation to provide necessary preconditions for private sector development, such as institutions securing the rights and security necessary for private enterprises to thrive and develop, combined with a capable banking sector willing to support this development.
3. Governmental interventions should be present in order to encourage economic dynamism and stability. Furthermore, through R&D investment, worker training, risk sharing in projects low on private returns but high on social returns, and the protection of "infant" industries, the state can increase its industries' competitive level on the international market.[16]

As the principles above suggest, the general purpose of state capitalism is not to promote a dominant state, influential within all aspects of social and economic development. On the contrary, the idea is to let the domestic market interact with the contemporary global trading regime in developing competitive growth. Nonetheless, as the history has taught us, an unregulated market may often contribute to market depressions.[17] The principles above therefore present a part of a framework of how a state may choose to best guide the domestic market towards long-term growth in the real economy when confronted by the insecurity of fluctuations and disruptions imbedded in the neo liberal economic doctrine.

Before I proceed to the discussion on the EBLs' empirical attachment to the state capitalist principles, I deem it necessary to provide a short comparative introduction between how the aforementioned state capitalist principles coincide with the theory of neo-mercantilism and Institutional Political Economy. I do want to point out that the theory discussed below is primarily concerned with the purpose of the financial institutions' promotion of the EBLs and how this correlates with the state capitalist principles.

Assessing the theoretical aspects of EBLs, the aforementioned theoretical frameworks are present. Based on the Institutional Political Economic theory, the state promotes the growth of specific industries that benefits the economy as a whole in the long run, in this case through energy import security and technological development. This idea correlates with the Institutional Political Economy's concept of prevention of excessive saving through investments and neo-mercantilisms' theory on the subsidization of China's seven core industries, financial institutions and infrastructure development industries to promote long-term growth. These theoretical concepts underscore the state capitalist principles influence on the EBLs agreements. To be more specific, the state initiative with the neighboring states not only contributes to the energy security of China, but provides the NOCs and SOEs with opportunities to develop their experience and technological competitiveness. This is in compliance with state capitalism's second principle, in which the security of foreign energy imports assists the development of SOEs operating abroad by increasing their competitiveness within their industrial niche, as well as their overall production capability. The third principle is relevant as the EBLs support the state responsibility in risk sharing and to secure long-term contracts and various sub-contracts which increase the security and long-term stability of developing "infant" industries' competitiveness vis-à-vis the international market. The first principle is relevant to the role the financial institutions play in supporting these long-term EBLs. As this comparative summary may seem insufficient, it is appropriate to present how this correlation between the aforementioned theoretical frameworks and state capitalist principles are also valid if assessing the broader relevance the financial institutions have on the development of China's oil policy.

## *The State Capitalist Principles' Relevance to the Energy Based Loans Agreements*

Having identified the overarching principles of state capitalism, I now continue by analysing how Chinese oil policy is used. To best exemplify the relevance of state capitalism to China's oil policy development, this paper will present two case studies on overseas Energy Based Loans (EBLs) initiated by Chinese policy banks.[18] This will underscore the overall relevance of the state capitalist principles to China's overseas acquisitions and investments. The point is to emphasize that although the EBLs pursued through a political based or commercial based initiative may be different, they both operate in accordance with the state capitalist principles of promoting long-term growth in the real economy.

As mentioned in state capitalism's second principle, one of the main factors sustaining competitive growth and innovational development is the support of SOEs' continuous growth, both domestically and abroad. One of the prerequisites for this approach to succeed is an active banking sector. The main involvement by the Chinese policy banks (China Export and Import bank – Eximbank and China Development Bank – CDB) is through EBLs. As argued by Erica Downs[19], China's EBLs should be differentiated between what seems to be EBLs promoted by the banks and those stipulated by the state. As presented in Table 2 below, the investments areas of the CDB and the Eximbank can be separated among a few countries.

Table 2

CDB's Energy-Backed Loans, 2005-2010

| Date | Country | Borrower | Amount ($ billion) | Term (Years) |
|---|---|---|---|---|
| 2005 | Russia | Rosneft | 6* | 6 |
| 2008 | Venezuela | BANDES | 4 | 3 |
| 2009 | Russia | Rosneft | 15 | 20 |
| 2009 | Russia | Transneft | 10 | 20 |
| 2009 | Brazil | Petrobras | 10 | 10 |
| 2009 | Venezuela | BANDES | 4 | 3 |
| 2009 | Turkmenistan | Turkmengaz | 4 | NA |
| 2010 | Venezuela | BANDES | 20.6 | 10 |
| 2010 | Ecuador | Ministry of Finance | 1 | 4 |

Source: Erica Strecker Downs "Inside China, Inc: China Development Bank's Cross-Border Energy Deals" John l. Thornton China Center at Brookings. Washington. 2011. Page 39.

As Downs has emphasized, the choice of countries reflects the degree of influence that financial and political institutions have on choosing the recipients of EBLs.[20] One should bear in mind that the Chinese bureaucratic system of checks and balances requires all energy based investments abroad to be approved by the National Development and Reform Commission (NDRC) and in some instances the State Council. This procedure, however, does not hinder the capability of differentiate between politically and commercially initiated EBLs. Therefore, this paper will now proceed to an empirical introduction of the difference between politically and commercially initiated EBLs. This will be followed up with an assessment of how the aforementioned theoretical frameworks are linked through the state capitalist principles in determining the long-term objectives of EBLs.

## Politically Initiated EBLs

First, as underscored by Downs, all the EBLs provided to states located in close proximity to the Chinese mainland, such as Russia and Turkmenistan, should be considered as politically initiated EBLs that follow the policy of diversifying China's energy supply and contributing to national security. Moreover, to relieve China's heavy reliance on the maritime transportation of oil and gas, China's effort throughout the last decade has been to look for opportunities for long-term overland energy imports, preferably by expanding its pipeline network to neighboring states. Therefore, the politically initiated EBLs reflect the national and strategic aspects that make energy security the first priority and the profit-making agenda as the secondary priority. Hence, it is important to determine whether or not politically and commercially initiated EBLs constitute differences to the policy banks' monetary benefits. To illustrate this in the best possible way this paper now proceeds to the diversification between the politically and commercially initiated EBLs. By taking this approach, this paper will reveal to what extent the monetary benefits are different between the two initiatives and how, in the case of EBLs, the state capitalist principles underscore and contribute to the long-term growth of the Chinese financial sector.

The EBLs provided to the Russian energy companies mentioned above amounted to a stunning USD 20 billion, which is the largest ever trade finance deal between China and Russia.[21] The loan agreement stipulates that Rosneft[22] will receive a 60 percent share, while

Transneft is left with the remaining 40 percent, spanning over a twenty-year term with a five-year grace period for interests repayments. The loan's interest rate is calculated based on the London Interbank Offered Rate (LIBOR), which is added to a fluctuating margin independent from LIBOR. Based on the interest calculations provided by Rosneft, the loan would amount to USD 25.9 billion, including interest, which is to be repaid by the revenue earned through the sale of 300,000 b/d to the CNPC. Thus, the CDB will indeed make a considerable amount of money, with the interest amounting to USD 10.9 billion over the course of twenty years.[23] This agreement also has the backing of both the Kremlin and Beijing, thereby helping to ensure that both parties will honor the agreement within the time span agreed on. However, although this seems comforting, a similar agreement has previously been made in which the terms were altered over the course of the loan agreement. As presented in the table above, Rosneft was given a loan in January 2005 from both the CDB and the China Eximbank in the amount of USD 6 billion that was to be repaid through the delivery of approximately 180,000 b/d of crude oil to the China National Petroleum Company (CNPC) from February 2005 through December 2010.[24] Due to Rosneft's financial problems, which originated from its acquisition of the former Yukos subsidiary Yuganskneftegaz in 2004,[25] Rosneft was in need of an investment to finance its acquisition. Not surprisingly, the agreement with the CDB and China Eximbank suggested a hastily made decision. Although the attached interest rate was initially set at LIBOR +3, Rosneft experienced difficulties in paying the interest, as the LIBOR rates increased substantially in 2005. After some negotiations, Rosneft managed to convince the Chinese to decrease the interest to LIBOR+0.7 percent by the first quarter of 2006. Even so, as it became clear that Rosneft would be better served financially if it would export its crude to Europe rather than to the CNPC, the Russian company started to press the Chinese to revise the agreed upon oil formula. Although discontented with the revision on the agreement, the Chinese had little choice but to acquiesce due to the leverage presented by Rosneft. In short, if the Chinese refused to a revaluation of the agreement, Rosneft would not extend the supply contract after its official end in 2010, which was a precondition for the development of the planned ESPO cross border pipeline to China.[26] The end result was a revaluation of the oil formula that forced the CNPC to pay USD 0.675 dollars per barrel.

This demonstrates that although bilateral importance and state support are present, these agreements are not without risk and could develop into complicated situations in which the financial institutions and NOCs may lose some predetermined profit due to a more important state strategy. Some commentators may imply that this reconfiguration of the oil formula underscores the inability of state capitalism to provide profitability and secure long-term growth. However, if one reviews the traded market price on crude throughout the CNPC-Rosneft deal, it is clear that the overall monetary benefits are comparable to the market price. It is therefore not unexpected that a determined price is beneficial in the long-term, as it contributes to the security of imports vis-à-vis the insecurity of possible price fluctuations in the international oil market. Consequently, by following the state capitalist policy of long-term growth, the profit-making agenda of the policy banks and the NOCs supply stability are overall ensured.

## Commercially Initiated EBLs

The Venezuelan government is the CDB's largest foreign debtor, with extended loans since 2007 amounting to more than USD 28 billion. These loans or lines of credit consist of USD 8 billion to the China-Venezuela Joint Investment Fund (JIF), with USD 20 billion as an independent dual loan facility.[27] These credit lines' primary focus has been to develop social as well as infrastructure projects. Nevertheless, as the financing of these loans is based on the criteria of an EBL, the CNPC subsidiary, China National United Oil Corporation (Chinaoil), is to function as the recipient of the sale of fuel oil from Venezuela's national oil company, Petroleos de Venezuela SA (PDVSA). The revenue earned through the export to Chinaoil is used to finance the CDB loans.[28]

The involvement of the CDB in Venezuela was further extended on August 23, 2010 when CDB, The Venezuelan Economic and Social Development Bank, Chinaoil and PDVSA agreed to a "loans-for-oil" deal extending over the USD 20 billion mark, thus symbolizing the largest foreign loan ever to be credited by the CDB. These lines of credit also based their security through oil supply contracts. One should also emphasize that in accordance with Downs, the development of the aforementioned infrastructure projects should be executed by Chinese companies.[29]

The 2009 financial crisis represented a change in both state and institutional strategic policy priorities. The financial institutions moved away from their goal of developing in accordance with the western model, and focused their long-term strategic investments within sectors of strategic importance to the Chinese economy such as natural resource development. As a result, some western commentators have commented on this as a neo-mercantilist strategy to monopolize natural resources for the primary purpose of exporting them to China. As mentioned before, there are a number of underlying motivations, both institutional and state, which undermine the argumentation for this neo-mercantilist approach. Concurrent with what CDB CEO Chen Yuan stated in the 2009 CDB annual report, the policy bank is dedicated to not only aligning itself with the strategies of the state, but also promoting its own commercial interests.[30] This policy is underscored by the CDB's investments in Venezuela, which is in accordance with the institutional framework of state capitalism. Different from the EBLs provided to the Russian energy companies, the agreements with the Venezuelan government were a CDB initiative. Although some may argue that the low interest rate offered to Venezuela is proof that its strategies are purely politically initiated, one should know that the difference of strategies or economic perceptions of the current trading regime reinforce the state capitalist principles in its valuations of long-term growth, which is contrary to the predatory investments of western banks. To be more specific, the CDBs approach towards the Venezuelan government is based on a long-term cooperative relationship which not only serves the state's natural resource-based strategies, but also contributes to the overseas expansion of Chinese SOEs contracted to the infrastructure development project and the CDB's own growth policies. Additionally, because of the state only being a supporter/creditor, these long-term investments are commercially initiated, thereby leaving the CDB to negotiate these EBLs without being concerned with the geopolitical issues of energy security.

All in all, it seems as if these long-term EBLs are a valid option when it comes to import security and diversity, providing the NOCs involved with reliable estimations of future imports. It is also clear that the policy banks' monetary income is, through both initiatives, secured. Yet, one should bear in mind that these deals are dependent on strong support from both sides that also realizes the benefit of a long-term cooperation and are not subject to predatory short-term profits. It is also clear that, although not politically initiated, the presence of political support towards these deals needs to be consistent to avoiding disruptions due to minor geopolitical differences. This, however, correlates with the role that the state is to take if the long-term goals of state capitalism are to be most effective.[31] As this paper has now established both the empirical and theoretical basis of the state capitalist principles' relevance to both the politically and commercially-initiated EBLs, it is appropriate to present a short summary of the state capitalist principles overall influence on the financial institutions.

## How the State Capitalist Principles Stipulate the Agenda for the Financial Sector's Involvement with the Energy Industry

As existing studies have emphasized, it seems that the energy policies of China are based on cooperation by the NOCs, the financial sector and the state bureaucracy.[32] Although this is true, what is often left out is that this cooperation is based on the state capitalism principles which guide the overall strategic development, be they state, financial or corporate initiated. As presented in the aforementioned case studies, several state capitalist principles are present throughout the EBLs offered, whether commercially or politically initiated.

The Venezuelan case gives a clear indication as to how CDB's investments are based on the state capitalist principles of long-term growth in the real economy, together with the necessity of natural resource cooperation and promotion of SOEs abroad, whether they are NOCs or construction companies. The fact is that the state capitalist principles emphasize the necessity of promoting specific companies or national champions within selected industries. As China's record of EBLs stipulate, there are only a few financial institutions, with the CDB being the largest foreign creditor, that aligns their strategic policies with those of the state capitalist principles. One could argue that the reason for this is the Chinese state's delegation of functions among the various banks. However, this paper emphasizes that although the selection of certain banks helps prevent too many cooks in one kitchen, its delegations also correlate with state capitalism's emphasis on specific actors within one industry, thereby contributing to the overseas priorities of state capitalism. While bearing this in mind, the key is to underscore the relevance of the free market principles between the supported actors. Although they are supported by the state, it is up to each institution to facilitate the non-strategic contracts. Moreover, competition within the group of potential SOEs or NOCs is critical for the chance of sustaining competitiveness throughout each company, thus avoiding the pre-1990 SOEs technological backwardness and money drain. This approach is best exemplified by the CDB's financial track record. Due to the CDBs' ability to operate within the contemporary global trading regime vis-a-vis China's Eximbank, its financial track record is that much better. This is portrayed in Table 3 below, which presents the valuation of assets between the CDB and the China Eximbank.

Table 3

COMPARISON OF CDB AND THE EXPORT-IMPORT BANK OF CHINA, 2009

| | Total Assets RMB billion | Loan Balance RMB billion | Net Income RMB billion | NPL Ratio |
|---|---|---|---|---|
| CDB | 4,541 | 3,708 | 32 | 0.94% |
| China Eximbank | 792 | 592 | 2 | 1.1% |

Source: Erica Strecker Downs “Inside China, Inc: China Development Bank’s Cross-Border Energy Deals” John l. Thornton China Center at Brookings. Washington. 2011. Page 64.

Consequently, one should sum up the various factors which comprise the state capitalist approach towards the role of the policy banks in regard to oil policy development. As this paper has emphasized, one should differentiate the EBLs into two different categories: The first being for geopolitical and national security reasons, which can best be exemplified by the EBLs presented to the Russian oil companies Rosneft and Transneft. The second category is the one based on a commercial initiative either by the NOCs or the policy banks. Nevertheless, although the categories differ, they both operate in accordance with state capitalist principles. More specifically, they are a result of a cooperative facilitation by all actors to establish a presence overseas that contributes to the diversity of China’s oil imports. As stated by the state capitalist principles, this strategy promotes technological innovation to tackle operational difficulties, thereby stimulating domestic economic growth by both inspiring competitive development and relieving the bottleneck of energy insufficiency throughout the Chinese economy. In sum, the state role relative to the financial sector is to provide bilateral support to the EBLs that contribute to the economic dynamism and stability of the Chinese SOEs/NOCs. Thus, it is appropriate to acknowledge that the state-controlled financial sector plays a pivotal role in carrying out the principles of state capitalism, albeit with an emphasis that its own financial benefits are present. This underscores the basis for why these principles are also continuously followed throughout the private sector.

## *Conclusion*

The point of this paper was to review the relevance of the state capitalist principles to the Chinese growth model. More specifically, by evaluating the guidelines pursued by the financial institutions when issuing EBLs overseas, one achieves an insight into how the Chinese growth model values the importance of stable long-term growth based on the principles of state capitalism. As this is only an introductory paper prepared for the International Culture Conference, it would be theoretically as well as empirically insufficient to make any conclusions concerning how state capitalism influences the overall Chinese growth model. However, this topic will be approached to some extent, as my PhD research will further elaborate on the state capitalist principles' relevance to the NOCs overseas acquisitions and how the Chinese state bureaucracy implements the state capitalist principles towards the guidance of the market for the purpose of ensuring energy security and SOEs' competitive development in the real economy.

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## *Notes*

[1] To illustrate, since the 2009 financial crisis the U.S. has implemented economic tools originating from different economic development theories ranging from Keynesianism's stimulation of the aggregated demand through the 2009 stimulus package, Monetarism and the Federal Reserve's aggressive monetary policy to stabilize the economy and the neo Liberal agenda of relieving the U.S. financial sector of regulatory procedures.
[2] It is appropriate to underscore that China's own economic history consists of several economists who promoted much of the same ideas as Keynesianism, neo-mercantilism and Institutional Political Economy. Early scholars such as Wang Anshi (1021-1086), Wang Mang (45 BC- 23 AD) Guanzi (720-645 BC) are important for how these new theoretical frameworks gained acceptance and were adapted into the Chinese institutional framework. To some extent, one can imply that they supplemented the already accepted economic framework of Maoism.
[3] It has been issued as a critique by the former communists from the left towards the former leadership in the USSR , for its reintroduction of capitalist methods of production; it has also been used by leaders and economist, such as Lenin and Hilferding, when describing a transitional phase from capitalism to socialism. Paul Mattick *Economics, Politics and The Age of Inflation.* M.E. Sharpe, New York, 1978.
[4] Examples of overlapping theory could be neo-mercantilism's and neo-Keynesianism's emphasis on state subsidization, or stimulation of the aggregated demand through state support.
[5] Just to name a few examples, one can underscore the Chinese involvement in Zambia's copper industry and CNPCs involvement in Sudan.
[6] W.Raymond Duncan, Barbara Jancar-Webster and Bob Switky. *World politics in the 21st century.* Third Edition. New York: Longman. 2006. Page 414.
[7] Henrik Bergsager. "Neo-Mercantilist Conquest of the World? The Chinese Government and Companies in the Context of a Late Capitalistic World Economy and Interstate System" University of Oslo. 06.12.2010.
[8] For more information on the relevance of neo-mercantilist theory to the Chinese growth model see Bergsager, "Neo-Mercantilist Conquest of the World? The Chinese Government and Companies in the Context of a Late Capitalistic World Economy and Interstate System". 2010.
[9] These are the sociopolitical agenda within the population, companies and firms as institutions of production and consumer entities (conglomerations of firms, producer associations, trade unions, purchasing cooperatives and subcontracting network). See Ha-Joon Chang in *Globalization, Economic Development and the Role of the State.* Zed Books. New York. 2004. Page 98. For more information on the theory presented by Institutional Economics see Thorstein Veblen *The Theory of the Leisure Class*. Boston. Houghton Mifflin, 1973. And Thorstein Veblen *The Theory of Business Enterprise*. New York. Cosimo Classics. 2005. And John R. Commons *The Distribution of Wealth.* New York. Augustus M. Kelley. 1893. And John R. Commons *Institutional Economics*. Volume one and two. University of Wisconsin Press. Reprint Edition. 1961.
[10] Chang. *Globalization, Economic Development and the Role of the State.* Page 107.
[11] Ibid. Page 113.
[12] Ha-Joon Chang. *23 Things They Don't Tell You About Capitalism*. Allen Lane an imprint of Penguin Books. London. 2010. Page 255-256. To promote this principle, state capitalism takes advantage of both neo-mercantilist and neo-Keynesian theories and tools.
[13] John Kenneth Galbraith *The New Industrial State.* Princeton University Press. Princeton. First Princeton Edition 2007.
[14] As underscored by Galbraith's son, James K. Galbraith, the main policy in achieving this objective is through the state's capability in sustaining a low interest rate over a long term. The strategies opted in order to pursue this objective are various and often chosen based on social, geographical and historic experiences and expectations. This underscores the factor that a state's execution of the state capitalist principles more often than not results in a unique version of state capitalism based on that state's former experiences. For further information concerning James' argumentation see James K. Galbraith. *The Predator State: How Conservatives Abandoned the Free Market and Why Liberals Should Too.* Free Press, New York. 2008. And James K. Galbraith *Created Unequal: The Crisis in American Pay*. The University of Chicago Press. Chicago. 1998.
[15] As proven, economic specialization is insufficient in the long-term, a diversified economy is needed to ensure an overall high employment rate and the prospect of real growth. A combination of both the neo-mercantilist promotion of SOEs and a neo Keynesian focus on a diversified economy is relevant when underlining the basis

for this principle. Bergsager, "Neo-Mercantilist Conquest of the World? The Chinese Government and Companies in the Context of a Late Capitalistic World Economy and Interstate System". 2010. Also Chang. *23 Things They Don't Tell You About Capitalism*.

[16] Especially in regard to developing countries, governmental protectionism should be present in order to regulate foreign investment and protect and develop a competitive domestic industry. Chang. *23 Things They Don't Tell You About Capitalism*. Page 261. It is appropriate to trace this principle to the theory of Keynesian, neo Keynesianism and neo-mercantilist thinking.

[17] To name two see James K. Galbraith *Created Unequal: The Crisis in American Pay*. Ha-Joon Chang *Bad Samaritans: The Guilty Secrets of Rich Nations & the Threat to Global Prosperity*. Random House Business Books. London. 2008.

[18] I do want to emphasize that the Chinese Policy Banks are shareholder banks with the majority of the shares controlled by the state, making them state owned. However, as they are commercially operated, it is appropriate to define their own EBLs initiatives as commercially initiated, not politically initiated.

[19] I have chosen to rely on the statistics presented by Erica Srecker Downs in her paper "Inside China, Inc: China Development Bank's Cross-Border Energy Deals" John l. Thornton China Center at Brookings. Washington. 2011. The reason for primarily using Erica's statistics is because my own research statistics will not be fully completed until after my trip to Beijing this august.

[20] See Erica Strecker Downs "Inside China, Inc: China Development Bank's Cross-Border Energy Deals" John l. Thornton China Center at Brookings. Washington. 2011. Page 39.

[21] Ibid. Page 40.

[22] I do want to underscore that Rosneft and Transneft are state-owned companies, Rosneft 75 percent, Transneft 100 percent state-owned.

[23] Rosneft Oil Company "Information on major transaction" URL: http://www.rosneft.com/attach/0/54/72/prepare10en.pdf [Accessed 10.05.2011.] Source found through the paper: Downs "Inside China, Inc: China Development Bank's Cross-Border Energy Deals". 2011. Page 42.

[24] Rosneft Oil Company, "Management's Discussion and Analysis of Financial Position and Results of Operations for the years ended December 31, 2006, 2005 and 2004," page 7. URL: http://rosneft.com/attach/0/58/76/MDA_Eng_2006.pdf [Accessed 10.05.2011.] Source found through the paper: Downs "Inside China, Inc: China Development Bank's Cross-Border Energy Deals". 2011. Page 42 - 43.

[25] *The Russian Journal* "Rosneft gets Yuganskneftegaz" 22 December, 2004. URL: http://rumer.russiajournal.com/node/18969 [Accessed 10.05.2011.]

[26] Downs "Inside China, Inc: China Development Bank's Cross-Border Energy Deals". 2011. Page 44.

[27] Ibid. Page 49.

[28] Ibid. Page 50.

[29] See Henrik Bergsager "China's Growing Presence in Africa: A Neocolonization in Progress?" Unpublished paper, University of Oslo. 03.06.2010.

[30] China Development Bank, *2009 Annual Report.* Page 13.

[31] This point will be further elaborated on in my broader research on state capitalism's importance to the Chinese growth model which will be presented in November through my MA paper.

[32] See for example Bo Kong *China's International Petroleum Policy*. Greenwood Publishing Group, California. 2010.