

DIGITALES ARCHIV

Avendano, Lilliana Lorena

Article

Becoming a world power : the role of infrastructure alliances

Provided in Cooperation with:

KSP Journals, Istanbul

Reference: Avendano, Lilliana Lorena (2017). Becoming a world power : the role of infrastructure alliances. In: Journal of economics and political economy 4 (4), S. 318 - 328.

This Version is available at:

<http://hdl.handle.net/11159/1700>

Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/econis-archiv/>

Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte.

<https://zbw.eu/econis-archiv/termsfuse>

Terms of use:

This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence.

Journal of
Economics and Political Economy

www.kspjournals.org

Volume 4

December 2017

Issue 4

**Becoming a world power:
The role of infrastructure alliances**

By Lilliana Lorena AVENDANO [†]

Abstract. Hegemony is a struggle for influence. The leadership of a country respect to the power of capital is deeply related to the characteristics of the political economy of the leading state and its alliances. The prevalence of the economic character of international alliances has set a scenario where a country's power in the global economy might be perceived regarding the geographic spread of its international operations. In this work, we affirm that Chinese NOCs are a fundamental tool of the PRC's geoeconomic strategy, that China's geoeconomic strategy have resulted in infrastructure alliances and that those alliances have changed the way we understand the PRC's geoeconomic and geopolitical influence in the world.

Keywords. China, Geoeconomics, Geopolitics, Infrastructure alliances, NOC's.

JEL. F21, F23, F50, N75.

1. Introduction

The end of the Cold War had an important impact on military affairs, which lost some of the weight they have held until that moment. In contrast, economic affairs began to play a major role, and the use of military force became the last resort. Economic frontiers overstepped political boundaries and multinational corporations (MNCs) began to grow and spread geographically. Consequently, Geoeconomics surpassed Geopolitics. The prevalence of the economic character of international alliances set a scenario where a country's power in the global economy might be perceived according to the geographic expansion of its international operations. We do not imply that Geopolitics has disappeared from the world scene, just that it has become less evident in political discourse.

Nations and companies interact in the geoeconomic space. Luttwak (1990) considers that Geoeconomics may be understood as business and trade conducted by war strategies. In some cases, this would result in competition, in others it would result in alliances between nations and companies. Behrman (1972) considers Geoeconomic might as a case of home-country extended power through its MNCs and Ornellas (2010) claims that the strength of MNCs is an explaining factor of their country of origin hegemony.

Western nations typically consider that Geoeconomics is mainly propelled by private actors, but Geoeconomics can also be propelled by the government. One example is the People's Republic of China (PRC) that in 30 years has built an internationally integrated market economy thanks to the government impulse. Since the 1978 economic reforms the PCR, a former enemy of capitalist

[†] International Business Department, University of Veracruz, México. Currently, Academic Visitor at the School of Oriental and African Studies (SOAS), University of London, UK.

☎ . + 54 228 8421700 ext. 1900

✉ . la24@soas.ac.uk or lorena_aven@hotmail.com

economies, turned into a competitor and a promotor of south-south economic cooperation (Wenping, 2006).

In this work, we affirm that Chinese NOCs are a fundamental tool of the PRC's geoeconomic strategy, that China's geoeconomic strategy have resulted in infrastructure alliances and that those alliances have changed the way we understand the PRC's geoeconomic and geopolitical influence in the world. This work is organised as follows: in the first part, we present a brief theoretical approach on Geopolitics, Geoeconomics, MNCs and power. The second part describes Chinese NOCs' governance and policy. In the third part, we analysed NOCs as a geoeconomic tool in Asia, Africa and Latin America. Finally, we present the conclusions.

2. Theoretical approach

In the economic literature, Foreign Direct Investment (FDI) is described as the category of international investment that reflects the objective of an entity resident in one country to obtain a long-term participation in a company resident in another country (IMF, 1993). MNCs exist primarily for control reasons. The control exerted by MNCs confers them a large market power. The size and management structure enjoyed by MNCs allow them to reach a global presence and eliminate competition (Hymer, 1970; Buckley & Casson, 1976). FDI is a tool through which corporations extend their territory outside their home country, becoming agents of international production as well as instruments to face competition in industries that hold entry barriers and local monopolies.

Traditionally, MNCs' countries of origin have been developed economies. Giddy & Young (1982) have called them conventional MNCs because they are private enterprises that control a great part of the market in their home country and have developed managerial skills, know-how and differentiated products. By contrast, unconventional MNCs, have their origin in developing countries, are small enterprises that produce labour-intensive non-differentiated goods and tend to select markets geographically close to their home country using joint ventures as entry mode (Giddy & Young, 1982).

Numerous unconventional MNCs are state-owned enterprises (SOEs), either because they have been founded by the government, or because it acquired them. In any case, unconventional MNCs cover a wide range of industries and have played a very important role in developing countries (Jones, 1975; and Sheahan, 1976).

The fact that a SOE may grow to the point to held international branches does not exempt it from being controlled by the government. The majority of SOEs must respond to state agencies, and usually, their objectives are shaped by *political rather than economic* profit-making criteria. Consequently, while private companies are evaluated according to financial parameters, state-owned MNCs are evaluated through political guidelines (Walters & Monsen, 1977).

Behrman (1972) observed that many home governments tend to consider their MNCs as an extension of their international control and power, regardless if they are private companies or SOEs. Home governments also try to have some jurisdiction over their MNCs affairs. Because of their international character, MNCs may end up under the power of both, home and host country power. The home government may carry out certain actions to affect the MNCs, for example, prevent or promote technology transfer, government loans and purchase agreements, or even make changes to bilateral the terms of trade. The host government also has bargaining power. They may promote or restrict FDI in specific industrial sectors; they may also force MNCs to give them a certain degree of participation in the business, or even they may nationalise the MNCs' assets.

In this investigation, we will focus only in MNCs as a source of power for their home country. In this sense, it is relevant to clarify some notions related to the power and hegemony of a country in the international context. The power of a nation can be measured by its military and economic strength. Technology

development, natural resources endowment, population and territory size, are also indicators of power. The historical liaisons between a nation and the rest are known as hegemony. In the words of Agnew, hegemony is “the exercise of your power by convincing, cajoling, and coercing them that they should want what you want” (Agnew, 2005: 2).

In the Gramscian conception, hegemony describes how are related certain forces in a society where consensus, not coercion, distinguish the relations between society and state. These forces may be material forces, institutions and ideologies. Together, they build up a bloc which links the political and civil society. To succeed, a bloc must be based on a group of ideas that become the dominant ideology. Any bloc that aspires to replace a former one must exert power in both, civil society and economy. Additionally, it has to spread convincing conceptions and arguments to strengthen its political networks. Thus, the coercive expression of power retrocedes, and the consensual expression rises. (Gill & Law, 1989; Gill, 2008).

Hegemony is a struggle for influence. The leadership of a country respect to the power of capital is deeply related to the characteristics of the political economy of the leading state and its alliances. Countries that become more active internationally will seek, without doubt, greater freedom of action. The leader will try to contain and frame countries that may dispute its hegemony within its system of norms, i.e. the leadership of the USSR, guided Eastern Europe to constrain capital movements (Gill, 1989; Ornellas, 2010). Historically, hegemonic countries have exerted geopolitical influence in subjects such as territorial domination and the capacity to wield power overseas. But the end of the Cold War, the enlargement of MNCs and the globalisation of the world economy led countries to realise that war was no longer a feasible way to achieve hegemony. This new world order beyond politics allowed the emergence of new alliances between countries and regions on economic basis.

In that light, the prevalence of the economic character of international alliances sets a scenario where a country's power in the global economy might be perceived regarding the geographic spread of its international operations. With the advent of globalisation, the observations made by Hymer (1970) and Behrman (1972) became more relevant to study the implications of growing FDI.

Geoeconomic logic boosts non-state and private actors as well as the power of market which challenges the territorial boundaries of nations (Cowen & Smith, 2009; Baru, 2012). In the globalised world, the country's economic activities are delocalised, and the production is flexible. Global enterprises have no nationality, and their only flag is profit maximisation. Firms have formal and informal worldwide links with other firms, governments, organisations, and communities. The liberalisation of markets and reorganisation of production have led to the emergence of influential international and supranational organisations. Financing, investment and trade have increasing common rules. At the same time, domestic laws are increasingly shaped by international law (Agnew, 2003). The new economic alliances between countries and regions imply a powerful interaction between corporations and states. Increasingly, more corporations look for state defence in growing sectors (i.e. defence of property rights), and politicians support companies for their own interest, converting them in geoeconomic tools (Luttwak, 1990).

Under that light, the study of National Oil Companies (NOCs) FDI brings to the scene an interesting combination: these companies are investing abroad and extending their home country power (according to Behrman's vision), but at the same time they hold power derived from the management of natural resources. In a world where energy continues to play an essential role in the economy, the case of oil companies is a case of “reciprocal manipulation” (Luttwak, 1990:129) where the state use oil companies for its own purposes and vice-versa.

3. Chinese nocs' governance and policy

3.1. Governance

In the People's Republic of China, all mineral resources, including oil and gas, are owned by the State, according to the Mineral Resources Law. There is no provincial or private ownership. Mineral resources rights of ownership and mining licences to private investors are wielded by the State Council (SC). For years, investment in mineral resources has been a priority in China, especially in the oil sector (Bernasconi *et al.*, 2013, Zhan & He, 2016).

Oil supply is one of the main concerns on the agenda of the Chinese government (BP Energy Outlook, 2016). Currently, four NOCs are dominating Chinese upstream outward direct investment (OFDI): China National Petroleum Corporation (CNPC), Sinopec Group (SINOPEC), China National Offshore Oil Corp (CNOOC) and Shaanxi Yanchang Petroleum (Group) Co Ltd (YCPC).

In China, SOEs receive special treatment and protection. NOCs stand out from other SOEs and have even more privileges and autonomy. The Chinese OFDI in the oil sector started in 1994 when the domestic demand exceeded the country's oil production. The Chinese government allowed OFDI in the oil sector and boosted NOCs through diverse mechanisms to face this challenge (Downs, 2007; Houser, 2008; Palazuelos & García, 2008). During the decade of the 2000s, there were launched many laws to help SOEs internationalisation (Buckley *et al.*, 2008).

Different state agencies control NOCs. The SC is the higher authority on Chinese NOCs. After the SC, the State-owned Assets Supervision and Administration Commission (SASAC) and the National Development and Reform Commission (NDRC) exert the greatest influence in NOCs (Zhan & He 2016). The SASAC was established in 2003 to control central state-owned enterprises (SOEs) including NOCs. It is in charge of restructuring, preserving and increasing the assets of non-financial public enterprises (Mattlin, 2007). The NDRC holds the authority of approving of NOCs' local and overseas investments as well as the preparation and implementation of pricing policy of oil products and services (NDRC, 2009).

The Ministry of Commerce (MOFCOM) has offices all over the world that collect information about the business environment and work with the Chinese embassies to support economic diplomacy². It formulates the Guiding Directories of Target Nations and Industries for OFDI, designs the administrative measures and plans the oil imports and exports. (MOFCOM, 2016).

Despite the intervention of these government agencies, the truth is that, for many years, NOCs remained quite independent, in part because they have been allowed to do so for years, and in part, because their CEOs holds high positions in the Communist Party as we will describe later.

3.2. Policy

Policy on NOCs has helped them to retain market power, privileges and autonomy. The changes on NOCs policy are mainly related to supervision and financial aspects to enlarge NOCs operations in the domestic and the international market (Buckley *et al.*, 2008). Only recently there has been some changes in the law to allow private companies' involvement in the upstream activities.

The importance to keep the state ownership of SOEs was expressed in 1999 through the Fourth Plenum of the 15th CPC Central Committee in September 1999 (Chinalawinfo.com, 2016). The state ownership was reassured in 2006 when the SC and the SASAC announced that the state would keep absolute control in seven strategic industries³. Likewise, the state would hold deep influence in five pillar industries⁴ (Gang & Hope, 2013).

² Economic diplomacy refers to the achievement of an economic understanding with other countries, over political and ideological interests.

³ Defense, electricity generation and distribution, oil and petrochemicals, telecommunications, coal, civil aviation and waterway transport.

⁴ Machinery, automobiles, information technology, construction, steel, base metals and chemicals.

NOCs enjoy market protection, and their CEOs are also prominent members of the Chinese Communist Party (EIA, 2015; Francisco, 2013). Since the beginning of the decade of the 2000s, Chinese NOCs have purchased assets in the Middle East, North America, Latin America, Africa, and Asia and invested around \$73 billiondollars in overseas oil and gas assets between 2011 and 2013. These acquisitions respond to the increasing dependence on oil imports, the necessity for NOCs to acquire technical expertise to exploit remote, hard-to-access oil fields, and the development of shale oil production. (EIA, 2015; Gang & Hope, 2013).

To support the country's energy strategy, the 2007 white paper China's Energy Conditions and Policies and the 2012 China's Energy Policy established its engagement to enlarge international energy trade, continue energy imports and exports and motivate the increase of trading channels. China emphasised its support to outbound investments by domestic enterprises to engage in overseas markets and participate in international energy cooperation, construct overseas energy infrastructure, and gradually enlarge cooperation in energy engineering technology and services (China.org.cn, 2016b).

The 13th Five-Year Plan for Economic and Social Development (2016-2020) highlights the need to develop the Chinese energy market opening it to private investors (Meidan, 2016; Zhan & He 2016). The 13th China Energy Five Year Plan is pending to release. It is predictable that the new Energy Five Year Plan will seek to strength the goals related to opening the market for private investors. However, the Chinese market is still controlled by few local players. For example, import rights are monopolised by CNPC, Sinopec, CNOOC, Sinochem and Zhuhai Zhenrong. They dominate at least 90% of oil imports. CNPC and Sinopec also possess the majority of oil and gas infrastructure in China. Additionally, even though oil imports may be carry on by a private company, it is needed permission from either CNPC, SINOPEC or CNOOC as a prerequisite to realise the import (Zhan & He 2016).

To secure energy supply, the MOFCOM overseas offices collaborates with the China Development Bank (CDB) and Export-Import Bank of China (Exim Bank) to support projects related to the purchase or construction of home gas lines, oil drilling rigs, transportation and mining equipment. They offer oil-related loans that are often tied to the purchase of Chinese goods or investment from Chinese firms. Through this strategy, China has purchased of oil assets and created strategic alliances with resource-rich countries. (Downs, 2011; BankTrack, 2012; Gallagher *et al.*, 2013). As a result, Chinese NOCs have built a robust international upstream portfolio, acquiring assets in Asia, Africa and Latin America as we will discuss in the next section.

4. Nocs as a geoeconomic tool

Corporate interests have more importance since the markets became global. Agreements between nations comprise a broad range of economic aspects that, at the same time, strength geopolitical interests. Most countries recognise that geopolitical power in the 21st Century has more to do with economic partnerships, trade and investment than with military resources.

As the process of economic reforms launched in 1978 gradually extended, China has also understood that geopolitical aspirations must be built through geoeconomic means. The PRC's acceptance of domestic lack of oil reserves in 1986 drove the decision to import foreign oil and, eventually, invest in foreign oil fields. In the the 1990s Chinese leaders took a more global direction regarding FDI, especially in the oil sector. In 1993, the SC raised the CNPC, China National Offshore Oil Corporation (CNOOC), and Sinopec hierarchy level to be under direct control of the SC and ordered the State Economic and Trade Commission to supervised them with the aim to bring the NOCs efforts into the international field (UPI, 2017).

The disintegration of the Soviet Union opened the door to get alternative sources of oil from ex-Soviet republics (Christoffersen, 1998). By that time,

Chinese leaders were also talking about a Pan-Asia continental oil bridge with pipelines connecting China, Central Asia, Russia, the Middle East, Japan and South Korea. The idea was to create regional oil markets, encouraging oil trade and cooperation between eastern and western countries in Asia. To achieve that goal, the PCR's government boosted diplomatic talks in some Asian countries to support oil Chinese FDI (UPI, 2017).

The Going Out policy formally announced in October 2000 as part of the X Chinese Five-Year Plan (2001-2005), was an institutionalised effort towards the internationalisation of Chinese enterprises. This policy has been one of the most important geoeconomic instruments of Chinese expansion, allowing the country to become a solid trade and investor partner around the world. This policy has been executed through a strong engagement in trade, OFDI and the development of government agencies and robust financial institutions to support local firms to participate in international markets. This effort also was backed by the development of the manufacturing and services sector (Sauvant, 2005; Xinbo, 2016). The entry of China into the WTO in 2001 enhanced the Going Out policy (Buckley *et al.*, 2008).

More recent is the so-called One Belt, One Road (OBOR) which is a development strategy and framework to encourage China's connexion with Eurasia. It includes the Silk Road Economic Belt (to expand trade across the Eurasian region), and the 21st Century Maritime Silk Road (focused on the Association of Southeast Asian Nations). The Silk Road Economic Belt pretend to interconnect a group of countries that represent 55 percent of world GNP, 70 percent of global population, and 75 percent of known oil and gas reserves. Since 2013, this initiative has become central to China's economic diplomacy. The strategy embraces five focal areas of interest: policy coordination, infrastructure construction, free trade, financial integration and cultural links. (Cohen, 2015; Zhang, 2016). Infrastructure and economic diplomacy is a binomial formula that has been present in Chinese geoeconomic expansion for years. It was present in the Going Out policy, and it is present in OBOR strategy as well.

During the decade of the 2000s, the Chinese government established close contact with third world countries and signed numerous bilateral economic agreements (Foster *et al.*, 2008; UNCTAD, 2006). Chinese economic diplomacy was a very effective device for Geoeconomic expansion, and Sub-Saharan Africa (SSA) was the field selected to try and refine its geoeconomic strategy. Due to its success, the economic approach used in SSA was replied by the Chinese government in Asia and Latin America.

4.1. Africa

SSA was the perfect field to test different strategies to boost Chinese OFDI and financial institutions. At the same time, the economic and political fragility of Sub-Saharan countries facilitated the implementation of economic diplomacy, cooperation agreements and investment financing. For example, the Forum on China-Africa Cooperation (FOCAC), in 2000, was established to develop long-term cooperation on agriculture, science, education, tourism, health and others. This forum has had subsequent meetings in 2003, 2006, 2009, 2012 and 2015. Likewise, the China's African Policy Paper was issued in 2006 to express the objectives of Chinese policy in Africa and the measures to achieve them, as well as its proposals for cooperation in the years to come (Kragelund, 2009; Sautman, 2006; Tull, 2006).

The China-Africa Development Fund (CAD Fund), was created in 2006 to support Chinese companies, financing agriculture, manufacturing, generation and distribution of potable water and electricity, transport, telecommunications and natural resources projects, as well as industrial parks construction (China Daily, 2007). Along with these investments, large Chinese contractors arrived to build highways, railways, airports, hospitals, schools, and residential areas. Infrastructure engagement was a major outcome of Chinese involvement in the region but also an

Journal of Economics and Political Economy

expression of Chinese philosophy which promotes self-reliance, not dependency, technology transfer through technical assistance and quick results (Brautigam, 2011a).

4.2. Latin America

In 2007 China requested to be admitted to the Inter-American Development Bank (IDB), becoming a shareholder in 2009. China issued its first strategic document for the region, the China's Policy Paper on Latin America and the Caribbean (LAC), in November 2008. The document underscores the importance of the relationship between the PRC and LAC, considering the region as a "strategic area". The 2008 financial crisis provided Chinese banks with the opportunity to expand their business in LAC and enlarge Chinese geoeconomic power. As in the case of SSA, some projects supported by Chinese banks in LAC were related to the purchase or construction of home gas lines, oil drilling rigs, transportation, infrastructure, telecommunications infrastructure and equipment, roads and mining (Jubany & Poon, 2006; BID, 2016).

4.3. Asia

Asia hosts some of the most important Chinese hydrocarbon projects. Chinese NOCs are investing in oil pipelines in North, Central and Southeast Asia. Central Asia and the Caucasus are a crucial target in geopolitical and geoeconomic struggles. China is broadening its plans into Central Asia throughout infrastructure investments, primarily in Turkmenistan and Kazakhstan (the two most hydrocarbon-rich countries in the region), to foster its advance into the Middle East and Europe (Roker, 2016; Jiang & Ding, 2014).

The Turkmenistan-China gas pipeline begins in Gedaim, a city in the Turkmen-Uzbek border and crosses central Uzbekistan and southern Kazakhstan to reach the city of Khorgos in Xinjiang Autonomous region. The Central Asia-China gas pipeline crosses four countries: Turkmenistan, Uzbekistan, Tajikistan and Kyrgyzstan, before reaching China. The project started in 2006 and has been expanded through the years. The four countries have obtained financial support to develop infrastructure projects and have become China's allies. (Jiang & Ding, 2014; Meidan 2016a; Roker, 2016).

4.4. Oceania

Australia is the major receptor of Chinese OFDI in Oceania and also hosts important projects in the oil sector. As a developed country, it represents for Chinese NOCs the opportunity to invest and obtain know-how and high-tech through mergers and acquisitions. For example, PetroChina has bought 100 percent of the leading oil and gas exploration company Molopo Energy. Sinopec owns 25 percent in an Australian liquefied natural gas (LNG) project controlled by ConocoPhillips and Origin Energy. Sinopec also acquired 60% the Australian AED Oil Limited. Mergers and acquisitions are a common strategy among Chinese companies to accelerate technological transfer and innovation (Jiang & Ding, 2014).

Infrastructure projects in host economies reached a new level with the creation of the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank, to develop infrastructure projects in Asia, Africa and Latin America (Cohen, 2015). As in the past, CDB and Exim Bank were a financial alternative to Western banks for developing countries; the two new banks represent a multilateral, emerging countries-led financial opportunity that challenges traditional institutions like World Bank and International Monetary Fund. The new banks and OBOR strategy are the consolidation of Chinese geoeconomic recipe: free trade, economic cooperation and mutual benefit.

5. Discussion

China's geo-economic strategy have resulted in infrastructure alliances. China's infrastructure alliances have changed the way we understand its geo-economic and geopolitical influence. At the same time, Chinese MNCs, specially NOCs, are a core part of infrastructure alliances.

As we can see (Fig. 1) Chinese OFDI in energy projects has spread out all over the world. NOC's investment usually involve Chinese contractors' participation to build oil drilling infrastructure, highways, railways, airports, hospitals, schools, and residential areas. Financial institutions complete the virtuous circle through which the PCR has reached powerful worldwide infrastructure alliances (Foster et al., 2008).

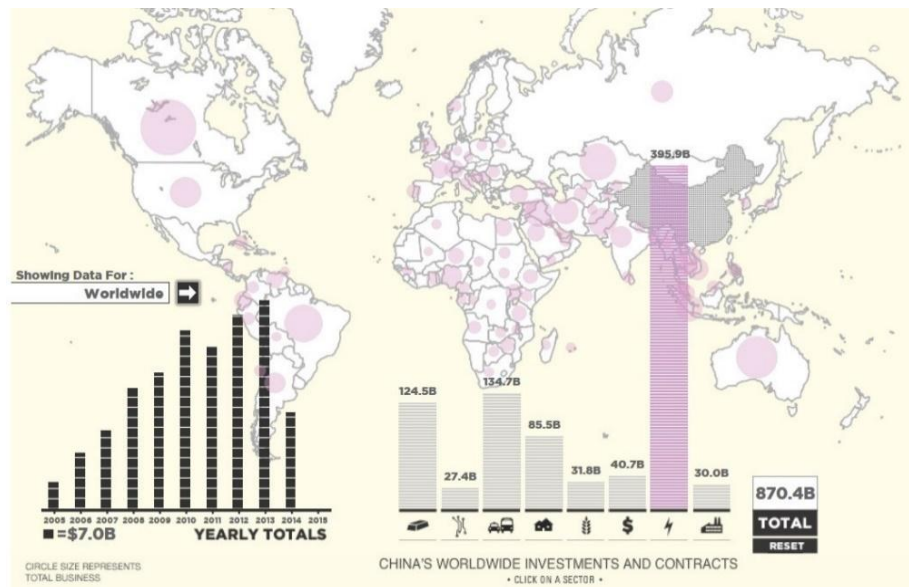


Figure 1. Chinese OFDI in Energy
Source: The Heritage Foundation, 2017.

The Chinese formula is based on the aid scheme used by the Japanese in the 1970s to help China to speed up the exploration of coal and oil. Japan supplied modern equipment, and China paid with the coal and oil they produced thanks to the new equipment (Brautigam, 2011b; Gallagher et al., 2013). Accordingly, Chinese funding seeks to improve the borrower's economic conditions using commodities to secure commercial loans. Under this logic, a country can finance a project and pay for it with its commodity production. Countries find more attractive this scheme because they are receiving something that is tangible and valuable. By contrast, the Western charitable aid scheme promotes education, health, and care of the environment which does not permit to observe results in the short term.

Chinese recent initiatives' timing seem very appropriate after President Trump abandoned the Trans Pacific Partnership (TPP) creating a leadership vacuum that only China could fulfil through its own Regional Comprehensive Economic Partnership (RCEP)⁵. RCEP members aspire to sign an agreement as soon as possible to contain growing protectionism in the world. China has also defended free trade at the 2017 World Economic Forum. At the same time the international community hopes that China is going to exert a responsible leadership to counterbalance recent US economic decisions (Goodman, 2017; Xu tongjan, 2017).

⁵ The RCEP is a proposal for a free trade agreement between the members of the Association of Southeast Asian Nations (ASEAN) which includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam and the nations with which ASEAN currently has free trade agreements (Australia, China, India, Japan, South Korea and New Zealand).

However, China also has to consider some obstacles in its way to take world leadership. For example, the negative image generated by its loans. Although the Chinese government affirm that loans for infrastructure projects are given with no conditions involved, the truth is that, in order to receive a loan, recipient countries have to recognise China as a market economy and refuse to accept Taiwan and Tibet as independent nations. Due to recipient countries must agree that only Chinese contractors carry out financed projects and buy only Chinese consumables (Sautman, 2006; Tull, 2006), Chinese projects also tend to have poor spillover effects. In consequence, some countries do not show the enthusiastic response to Chinese OFDI they had in the past (Broadman, 2007).

The negative image of Chinese loans probably will diminish with the AIIB loans due to the fact that this is not a Chinese bank but a multilateral institution. However, China holds 28.69% of voting power which gives it a great influence on the AIIB's decisions, which means that many of the approved projects might be projects with a geo-economic and geopolitical weight for China (AIIB, 2017).

Also, infrastructure alliances could be in danger if Chinese growth continues decreasing. Chinese economic growth has gradually slowed since 2012 falling from an average of 10 percent during three decades to 7 percent annual growth rate. The falling growth is the outcome of policies to contain rapid credit growth, restrain borrowing by local governments and diminish overcapacity in the industry. These policies aim to diminish the exposure of the economy due to increasing debt levels as a consequence of the financial package implemented to mitigate the effects of the 2008 global financial crisis. Therefore, the Chinese economy is changing from a heavy trade, manufacturing and OFDI dependant to services, domestic consumption and spending emphasis. For that reason, the 13th Five-Year Plan (2016-2020) underlines that private players need to embrace more significant roles and increase market openness (Meidan, 2016b; Hofman, 2016).

NOCs expansion has been successful in part because it has been linked to loans, infrastructure projects and Chinese contractors and suppliers. However, this successful formula could deplete if Chinese economy continues slowing down, bringing uncertainty in the short and medium-term for China's geo-economic role.

6. Conclusions

Luttwak wrote that Geoeconomics is "the logic of war in the grammar of commerce" (Luttwak, 1990:126) and China is the best example of a war that has been fought with every trade agreement, loan, and investment made by China all over the world. Even though the Geoeconomic logic privileges non-state and private actors as well as the power of the market, in the Chinese geoeconomic logic state actors, are more present than ever, and SOEs, not private companies, are challenging the territorial boundaries. The geoeconomic power of the country is more perceptible as industries and trade have become more dependent on Chinese routes, channels, suppliers and buyers. Chinese economic expansion also has permitted to boost the use of RMB as a reserve currency (Xinbo, 2016). However, the most outstanding feature of China's geoeconomic grammar is undoubtedly infrastructure alliances. We are witnessing the arrival of Geoeconomics with Chinese characteristics. China is making a big change in global geoeconomics.

China's bide time and low profile has ended. The 2008 economic crises represented a transformation in China's international profile. China's leadership has arrived to a high-profile diplomacy that was shown at the 2017 World Economic Forum. The US protectionism has generated a space that China can exploit to become the 21st Century leader.

Acknowledgments

The author gratefully acknowledges the funding from National Council of Science and Technology (Conacyt).

References

- Agnew, J.A. (2003). A World that knows no boundaries? The geopolitics of globalization and the myth of a borderless World, *CBR Working Papers in Border Studies*, No.WP03-2. [Retrieved from].
- Agnew, J.A. (2005). *Hegemony. The New Shape of Global Power*. Philadelphia. PA: Temple University Press.
- BankTrack. (2012). China development bank's overseas investments: An assessment of environmental and social policies and practices. BankTrack Report. [Retrieved from].
- Behrman, J.N. (1972). The theory of the international firm: Another view. In G. Pacquet (Ed.), *The Multinational Firm and the Nation State*. Toronto: Collier Macmillan.
- Brautigam, D. (2011a). Aid "with Chinese characteristics": Chinese foreign aid and development finance meet the OECD-DAC aid regime. *Journal of International Development*. 23(5), 752-764. doi. 10.1002/jid.1798
- Brautigam, D. (2011b). China in Africa: What can western donors learn? Norwegian investment fund for developing countries report. [Retrieved from].
- Bernasconi-Osterwalder, N., Johnson, L., & Zhang, J. (2013). Chinese outward investment: An emerging policy framework. The International Institute for Sustainable Development. [Retrieved from].
- BID. (2016). China seintegra al Grupo BID enceremoniaen Washington. [Retrieved from].
- Broadman, H. G. (2007). *Africa's Silk Road: China and India's New Economic Frontier*. Washington, D.C.: World Bank.
- Buckley, P.J., & Casson, M. (1976). *The Future of the Multinational Enterprise*. Houndmills: Palgrave MacMillan.
- Buckley, P.J., Cross, A.R., & Voss, H. (2008). *Thirty Years of Chinese Outward Foreign Direct Investment*. Available at: Chinese Economic Association (UK). [Retrieved from].
- Cohen, D. (2015). China's "Second Opening": Grand ambitions but a long road ahead. "One Belt, One Road": China's Great Leap Outward. China analysis. European Council on Foreign Relations/Asia Centre. London. [Retrieved from].
- Cowen, D. & Smith, N. (2009). After geopolitics? From the geopolitical social to geoeconomics. *Antipode*, 41 (1), 22-48. doi. 10.1111/j.1467-8330.2008.00654.x
- Christoffersen, G. (1998) China's intentions for Russian and Central Asian oil and gas. *The National Bureau of Asian Research*. NBR Analysis, Vol.9, No.2. [Retrieved from].
- Chinalawinfo.com, (2016). The decision of the central committee of the communist party of China on major issues concerning the reform and development of state-owned enterprises. [Retrieved from].
- China Daily. (14 May 2007). China approves China-Africa development fund. [Retrieved from].
- China.org.cn. (2016a). *China's Energy Conditions and Policies*. [Retrieved from].
- China.org.cn. (2016b). *China's Energy Policy 2012*. [Retrieved from].
- Chinese Government. (2008). China's policy paper on Latin America and the Caribbean. Chinese Government's Official Web Portal. [Retrieved from].
- Domínguez, J.I. (2006). China's relations with Latin America: Shared gains, asymmetric hopes. Weatherhead Center for International Affairs. [Retrieved from].
- Downs, E.S. (2007). The fact and fiction of Sino-African energy relations. *China Security*, 3(3), 42-68.
- Downs, E. (2011). Inside China, Inc: China Development Bank's cross-border energy deals. John L. Thornton China Center Monograph Series No.3. [Retrieved from].
- EIA. (2015). *China Energy Overview*. [Retrieved from].
- FMI. (1993). *Balance of Payments Manual*, (Quinta ed.). Washington, D.C.: FMI.
- Foster, V., Butterfield, W., Chen, C., & Pushak, N. (2008). Building bridges: China's growing role as infrastructure financier for Sub-Saharan Africa. The International Bank Reconstruction and Development. Washington, D.C.: The World Bank. [Retrieved from].
- Francisco, E.G. (2013). Petroleum Politics: China and its National Oil Companies. Master Thesis. European Institute. [Retrieved from].
- Gallagher, K.P., Irwin, A. & Koleski K. (2013). "¿Un mejor trato? Análisis comparativo de los préstamos chinos en América Latina". Cuadernos de Trabajo del Cechimex 1, 1-40.
- Gang, F., & Hope N.C. (2013). The Role of State-Owned Enterprises in the Chinese Economy. In China-United States Exchange Foundation, *US-China 2022: Economic Relations in the Next 10 Years: Towards a deeper engagement and mutual benefits*. [Retrieved from].
- Giddy, I.H., & Young, S. (1982). Conventional Theory and Unconventional Multinationals: Do New Forms of Multinational Enterprise Require New Theories? In A.M. Rugman, *New Theories of the Multinational Enterprise*. Londres: Croom Helm.
- Gill, S.R. & Law, D. (1989). Global hegemony and the structural power of capital, *International Studies Quarterly*, 33(4), 475-499. doi. 10.2307/2600523
- Gill, S. (2008). *Power and Resistance in the New World Order*. New York, Palgrave Macmillan, 2nd edition
- Hofman, B. (2016). China's medium-term Outlook: 2016-2020. In "One Belt, One Road": China's Great Leap Outward. China analysis. European Council on Foreign Relations/Asia Centre. London.
- Houser, T. (2008). The roots of Chinese oil investment abroad. *Asia Policy*, 5, 141-166.

Journal of Economics and Political Economy

- Hymer, S. (1970). The efficiency (contradictions) of multinational corporations. *American Economic Review*, 60(2), 441-448.
- Hymer, S.H. (1976). *The International Operations of National Firms: A Study of Direct Foreign Investment*. Cambridge, Mass.: The MIT Press.
- Jiang, J., & Ding C. (2016). Update on overseas investments by China's national oil companies: Achievements and challenges since 2011. France: International Energy Agency. [Retrieved from].
- Jones, L.P. (1975). *Public Enterprise and Economic Development: The Korean Case*. Seoul: Korean Development Institute.
- Jubany, F., & Poon, D. (2006). *Recent Chinese Engagement in Latin America and the Caribbean: A Canadian Perspective*. Canadian Foundation for the Americas. Ottawa: FOCAL. [Retrieved from].
- Kragelund, P. (2009). Knocking on A wide-open door: Chinese investments in Africa. *Review of African Political Economy*, 36 (122), 479-497. doi. [10.1080/03056240903346111](https://doi.org/10.1080/03056240903346111)
- Kindleberger, C.P. (1969). *American Business Abroad*. Yale University Press, New Haven, CT.
- Luttwak, E. (1990). From geopolitics to geo-economics: Logic of conflict, grammar of commerce. *The National Interest*, 20, 17-23.
- Mattlin, M. (2007). The Chinese government's new approach to ownership and financial control of strategic state-owned enterprises. *BOFIT Discussion Papers*, No.10. [Retrieved from].
- Meidan, M. (2016a). China's 13th five-year plan: Implications for oil markets. Oxford Institute for Energy Studies. [Retrieved from].
- Meidan, M. (2016b). The structure of China's oil industry: Past trends and future prospects. Oxford Institute for Energy Studies. . [Retrieved from].
- MOFCOM. (2016). *Sub-Websites of MOFCOM*. [Retrieved from].
- NDRC. (2009c). *Main Functions of the NDRC*. National Development and Reform Commission, The People's Republic of China. [Retrieved from].
- Naughton, B. (2007). *The Chinese Economy: Transitions and Growth*. Cambridge, Mass.: MIT Press.
- Palazuelos, E., & García, C. (2008). La Estrategia China de Aprovisionamiento Energético en el Exterior. En E. Palazuelos, *El Petróleo y el Gas en la Geoestrategia Mundial*. Madrid: Akal.
- Roker, S. (25 May 2016). *The Battle for Central Asia: Part 1*. Energy Global. [Retrieved from].
- SASAC. (2009b). *Policies Laws and Regulations*. State-owned Assets Supervision and Administration Commission of the State Council. [Retrieved from].
- Saunders, P.C. (2006). China's global activism: Strategy, drivers and tools. *Institute for National Strategic Studies*, Occasional Paper No.4. [Retrieved from].
- Sauvant, K.P. (2005). New sources of FDI: the BRICs, outward FDI from Brazil, Russia, India and China. *Journal of World Investment and Trade*, 6(5), 639-709.
- Sautman, B.V. (2006). *Friends and Interests: China's Distinctive Links with Africa*. Recuperado el 5 de mayo de 2009, de Center on China's Transnational Relations: [Retrieved from].
- Sheahan, J.B. (1976). Public enterprise in developing countries. In W. Sheperd (Ed.), *Public Enterprise: Economic Analysis of Theory and Practice*. Lexington, Mass.: Heath-Lexington Books.
- Solberg, K. (2012). *Geoeconomics*, London: Bookboon.com.
- The Heritage Foundation. (2017). China's worldwide investments and contracts in energy. [Retrieved from].
- Tull, D.M. (2006). China's engagement in Africa: Scope, significance and consequences. *Journal of Modern African Studies*, 44 (3), 459-479. doi. [10.1017/S0022278X06001856](https://doi.org/10.1017/S0022278X06001856)
- UNCTAD. (2006). *World Investment Report 2006: FDI from developing and transition economies*. New York; Geneva: UNCTAD. [Retrieved from].
- Walters, K.D., & Monsen, R. J. (1977). The nationalized firm: The politicians free lunch? *Columbia Journal of World Business*, 12(1), 90-102.
- Wenping, H. (11 November, 2006). Moving forward with the time: The evolution of China's African policy. Recuperado el 14 de mayo de 2009, de Center on China's Transnational Relations: [Retrieved from].
- Xinbo, W. (2016). China's geo-economic power. In *Geo-economics with Chinese Characteristics: How China's Economic Might is Reshaping World Politics*. Cologne, Geneva: The World Economic Forum. [Retrieved from].
- Zhan, L., & He Y. (2016). General structure of petroleum ownership and regulation. energy: Oil & Gas 2016. [Retrieved from].
- Zhang, J. (2016). What's driving China's one belt, one road initiative? Eurasia Forum. [Retrieved from].



Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal. This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by-nc/4.0>).

