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Corporate Social Responsibility in the Oil Industry---Comparative Case Studies of Chinese Oil Enterprises in Five Latin American Countries

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CORPORATE SOCIAL RESPONSIBILITY IN THE OIL INDUSTRY---
COMPARATIVE CASE STUDIES OF CHINESE OIL ENTERPRISES IN FIVE
LATIN AMERICAN COUNTRIES

By

Wenyuan Wu

A DISSERTATION

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CORPORATE SOCIAL RESPONSIBILITY IN THE OIL INDUSTRY---
COMPARATIVE CASE STUDIES OF CHINESE OIL ENTERPRISES IN FIVE
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This dissertation evaluates and compares social and environmental records of Chinese national oil companies (NOCs) operating in Latin America from the early 21st century to 2015. Five countries representing the entirety of Chinese NOCs’ physical presence are selected: Peru, Ecuador, Argentina, Colombia, and Venezuela. The project discovers that Chinese NOCs demonstrate the highest level of social responsibility in Peru and the lowest in Venezuela, with the other three countries constituting intermediate observations. The differences in social responsibility records are then causally traced to variances in the host countries’ regulatory frameworks and civil society capacities. Chinese NOCs are found to be most willing to commit to social responsibility under an enabling regulatory environment in which the host government facilitates competitiveness and decentralization in its hydrocarbons industry while upholding inclusive policies regarding its civil society. Moreover, these NOCs are most likely to follow through on their CSR commitments when faced with a unified and collaborative civil society. These major findings yield important policy lessons for both the host government and the civil society in developing countries with abundance in energy resources.
Dedication

To my grandparents, Zhongde Wu and Mingjuan Xu
whose love shines eternally and inspires me to
achieve great things beyond my wildest dreams.
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My enormous gratitude to my mentors Dr. Bruce Bagley and Dr. Laura Gomez-Mera for their academic guidance and professional support regarding this thesis project. Dr. Bagley has played an instrumental role throughout my doctoral studies and in my transformation into a scholar.

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Chapter 1

Introduction

On November 24th, 2016, China’s Ministry of Foreign Affairs published the country’s second Policy Paper on Latin America and the Caribbean, eight years after the first, ground-breaking white paper. Reflecting Beijing’s official attitudes toward a region where ardent exchanges in political, social and economic realms were only recently established, the policy paper reinstates China’s pursuit for comprehensive and strategic partnerships throughout Latin America and the Caribbean. Specifically, energy development is highlighted as a critical field of cooperation.¹

Notably, the second policy paper formalizes a new framework for collaboration, which was first proposed by the Chinese President Xi Jinping during his historical visit to four Latin American countries --- Brazil, Argentina, Venezuela and Cuba in July 2014. At the China-Latin America and the Caribbean Summit, Xi outlined a new "1+3+6" cooperation framework² that lists the energy field as one of the six cooperation priorities³.

It is imperative to notice that Chinese national oil companies (NOCs) are spearheading

² "1" means "one plan", as the 2015-2019 China-Latin American Countries and Caribbean States Cooperation Plan; "3" means "three engines" of promoting comprehensive development, namely trade, investment, and financial cooperation; "6" means "six fields" of priority, referring to energy and resources, infrastructure construction, agriculture, manufacturing, scientific and technological innovation, and information technologies.
energy investments in the region. Chinese state-owned oil enterprises entered Latin America in 1993. In addition to Venezuela, major destinations to receive Chinese investment include Brazil, Peru, Colombia, Ecuador and Argentina.

In an environment of intensifying global competition, Chinese oil companies are rapidly internationalizing their assets and operations by acquiring new oil assets, taking over existing exploration and exploitation projects, or merging with international oil companies for joint ventures. Under this expansive context, Chinese NOCs are increasingly committed to the theme of Corporate Social Responsibility (CSR) as an important vehicle to boost their image and competitiveness overseas. In 2013, China's largest NOC---CNPC just published its 8th annual Corporate Social Responsibility (CSR) report, highlighting its oversea social contributions. In the same year, the company produced its first rapport on social responsibility performance in Latin America, summarizing achievements from 1993 to 2012. Andespetro in Ecuador wholly owned by CNPC (55%) and Sinopec (45%) stood out in the report as an all-around social player by winning a series of international, national and local CSR awards. All other Chinese NOCs have also actively voiced their commitments to social affairs through similar programs to varying degrees.

Nevertheless, in spite of continuous attempts to pronounce their social connections, Chinese NOCs are oftentimes criticized in Latin American countries in part due to their

---

6 For instance, according to CNPC's 2013 CSR report, the company invested about RMB 29 million in infrastructure and public welfare for local communities in Venezuela and Peru.
7 "中国石油在拉美 (CNPC in Latin America)," CNPC, accessed September 15, 2014.
lack of international experience as well as due to the contentious nature of the oil sector. Indigenous populations in Ecuador, for example, are adamantly skeptical of Chinese oil operations in the country’s Amazon forest. Other allegations point to Chinese NOCs' biased hiring toward Chinese workers and their corruption records.

So how are Chinese oil companies actually doing on the social responsibility front in Latin America? Do they respond to host countries' sociopolitical contexts in devising and executing their CSR strategies in a similar way as conventional oil investors in the region?

This project intends to systematically assess Chinese oil companies’ CSR records in five Latin American countries—Venezuela, Colombia, Ecuador, Peru and Argentina in the 21st century. There are two research questions: First, how do Chinese NOCs behave in the social dimension? Second, under what circumstances do these companies tend to assume positive roles in fostering socially responsible practices? By focusing on the relationship between oil corporations and host-country-specific factors such as host government regulations and local civil society groups, this project seeks to reach a nuanced understanding of CSR in the oil industry of emerging economies.

1.1. Project Overview

Since the endorsement of the "Go Out" policy in 1999, the Chinese government has encouraged, through official guidelines and economic incentives, Chinese companies to expand their operations overseas. Since 2010, Chinese direct investments in Latin America have averaged about $10 billion per year. Today, Latin America has become the

---

8 The research time frame is set from the early 2000s to present as Chinese enterprises didn't start outward investment systematically on a global scale until the Chinese government launched the "Go Out" policy in 1999.
second largest recipient of Chinese outward foreign direct investment (OFDI), 87% of which "came from public companies." As Chinese monies spearheaded by large state-owned energy companies steer deeper into terrains of Latin America, their records on delivering social responsibility become a focus of scrutiny by local civil society groups, transnational environmental and human rights organizations, and various media outlets.

This project is interested in evaluating and comparing CSR records of Chinese oil companies in Latin America. Most Chinese oil projects in the region are owned by one or two of China’s four state-owned oil corporations--- China National Petroleum Corporation (CNPC), China Petroleum & Chemical Corporation (Sinopec), Sinochem, and China National Offshore Oil Corporation (CNOOC). These state-owned enterprises were unknown to the international oil market until very recently but their global profiles have grown exponentially in less than a decade. CNPC (or PetroChina as its primary subsidiary) was ranked as the world’s fifth largest oil company in terms of production levels by Forbes.

My analysis is theoretically informed by scholarly research on the subjects of CSR and more specifically, CSR in the oil and gas sector. Broadly speaking, there are two opposing theoretical standpoints in this arena. The first view is often referred to as “the Business Case for CSR”, which states that a company conducts socially responsible activities because they add to the bottom line of profit maximization. Occupying a dominant position in the field of CSR research, the business case viewpoint has been amplified through a succession of empirical studies focused on the oil and gas industry.

---

Perceiving the hydrocarbons sectors as highly controversial and vulnerable to environmental, social and political risks, scholars in this camp tend to view CSR as internally driven by oil companies to strategically smooth oil operations and transactions.

On the opposite side, the counter-hegemonic view argues that a firm is socially responsible because it responds to pressures from other societal groups. This second standpoint emphasizes the intertwined relationship among state, society and business. Corporations are ultimately responsible for a broad range of stakeholder constituent groups including international organizations, national governments and civil society actors. This counter-hegemonic view is further examined in the case of oil and gas operations, with an emphasis on the roles of national and local governments as well as the civil society in advancing CSR agendas.

This theoretical debate, along with scholarly insights on China’s overseas business ventures, which are explained laboriously in Chapter Three, provides a nuanced context under which motivational factors for CSR can be systematically examined. A gainful endeavor to comprehend Chinese oil companies’ social behavior must take into account of all thematically significant factors informed by relevant literature.

For the purpose of analyzing Chinese oil giants’ social activities in different Latin American destinations, factors from the perspective of specific host countries are emphasized. These factors include: the host country’s oil sector outlook and regulations, the government’s policies toward its civil society, capacity and strategy of the civil society, its participation in relevant international frameworks, as well as its economic relations with China. Such cross-country comparison is guided by existing theoretical
insights on the subject of CSR and that of Chinese enterprises’ overseas endeavors. Figure 1.1 integrates all potential explanatory factors in relation to CSR records.

**Figure 1.1. An Overview of Explanatory Factors**

- Host Government Regulatory Frameworks: Hydrocarbons + Civil Society
- Host Country Civil Society Capacity: Strategy and Strength
- Host Country’s Participation in International CSR
- Host Country’s Economic Ties With China

In a nutshell, Chinese NOCs are found to be most willing to commit to social responsibility under an enabling regulatory environment in which the host government facilitates competitiveness and decentralization in its hydrocarbons industry while upholding inclusive policies regarding its civil society. Moreover, these NOCs are most likely to follow through on their CSR commitments when faced with a unified and collaborative civil society. While correlated with case outcomes, the other two factors are not causally significant until demonstrated empirically otherwise. The best case scenario is demonstrated by figure 1.2.
1.2. Hypotheses and Operationalization

Hypotheses and Sub-sets of Expectations

To test relevance of these factors and build a rigorous understanding of Chinese NOCs' social behavior in Latin America, this dissertation project intends to analyze the roles of oil corporations’ pursuit of commercial competitiveness, host countries' regulatory framework in the oil sector, civil society engagement, and international regulatory frameworks in influencing CSR records among Chinese NOCs. In light of all pertinent scholarly works, the project forms four main hypotheses:

**H1:** Oil companies pursue CSR voluntarily because it creates bottom-line benefits.

**H2:** Oil companies display more socially responsible behavior when they operate in areas with a more proactive civil society presence.

**H3:** Oil companies display more socially responsible behavior when they are subject to an international regulatory framework.

**H4:** Oil companies show a higher level of social commitments when investing in host societies where the government effectively regulates corporate and civic affairs.

The four main hypotheses are formulated under theoretical frameworks of CSR and are sequentially broken down into four sub-sets of more observable prepositions.
These sub-sets of expectations are inter-related under each overarching hypothesis and serve as empirically testable assumptions to be verified or invalidated by subsequent case inquiries.

**H1:** Oil companies pursue CSR voluntarily because it creates bottom-line benefits.  
   **H1a:** Oil companies engage in CSR to defend its organizational legitimacy in socially and environmentally controversial areas.  
   **H1b:** Oil companies engage in CSR to boost their public image in response to public disapproval and media criticisms.  
   **H1c:** Oil Companies engage in CSR to strategically improve its competitive advantage in multi-player settings.

**H2:** Oil companies display more socially responsible behavior when they operate in areas with a more proactive civil society presence.  
   **H2a:** Oil companies are more socially responsible when confronted with civil society groups unified by a collaborative strategy.  
   **H2b:** Oil companies are more socially responsible when interacting with a cohesive civil society-NGO network.

**H3:** Oil companies display more socially responsible behavior when they are subject to an international regulatory framework.  
   **H3a:** Oil companies are more socially responsible in host countries that ratify a mandatory/legally binding international CSR regime.  
   **H3b:** Oil companies are more socially responsible in host countries that subscribe to voluntary international CSR regimes.  
   **H3c:** Oil companies are more socially responsible when directly participating in international CSR regimes.

**H4:** Oil companies show a higher level of social commitments when investing in host societies where the government effectively regulates corporate and civic affairs.  
   **H4a:** Oil companies are more socially responsible where there is a stable and liberal regulatory framework toward the oil and gas sector.  
   **H4b:** Oil companies are more socially responsible where there is an accommodating legal/political system toward minority communities affected by oil developments.

**The Dependent Variable: CSR Record**

This project defines Chinese NOCs’ CSR records in the five Latin American countries as the dependent variable. CSR records encompass both CSR commitments and their actual...
delivery. While comparing CSR footprints of each company, it is imperative that some
degree of enforcement follows after the firm making the initial promises. Any observed
discrepancy between commitment and delivery exemplifies a negative record. In some
cases, it is possible to measure the actual delivery by assessing the impacts of the CSR
initiatives. These impacts include: follow-up actions to the promise, measurement of
people or communities benefited from the CSR initiatives, social and environmental
awards. In other cases, as Chinese oil investments were made rather recently, it is too
early to address the practical impact of Chinese NOCs’ CSR policies, if any. Thus, only
CSR commitments are available to be examined in the latter cases.

Via analyses of both self-reporting and third-party assessments, this project ranks
Chinese NOCs’ CSR records in each host country as exemplary, intermediate, and
deficient. An exemplary case outcome results from a combination of high commitments
and corresponding enforcement judging by positive self-reporting and matching public
opinions. An intermediate case shows varying degrees of departure in Chinese oil
companies’ CSR delivery from initial promises in certain host country. A deficient case
describes a host country where Chinese NOCs neither made meaningful CSR
commitments nor attempted to provide socially positive results. Table 1.1 presents the
value measurements of the dependent variable.

<table>
<thead>
<tr>
<th>Exemplary</th>
<th>Both High Commitments and Actual Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediate</td>
<td>Varying Degrees of Commitments, Discrepancy between Commitments and Performance.</td>
</tr>
<tr>
<td>Deficient</td>
<td>No Commitment nor Performance.</td>
</tr>
</tbody>
</table>
Arguably, CSR entails a large array of issues that connect a company and the embedding society. To approximate a balance between parsimony of the comparative research design and nuance of the small-N qualitative case analysis, the project will narrow its scope to three subtypes of CSR commitments: environment, workplace, and community. In each case, certain issues pertaining to the particular host context will be emphasized. For instance, Chinese oil investments in Ecuador and Peru are mainly situated in the remote, ecologically vulnerable Amazon region. Thus, the corresponding case analysis will pay special attention to NOCs' environmental impact on the rainforest (incidents of oil spill, adoption of globally embraced environmental standards) and community relations (engagement with the local indigenous population). Figure 1.3 offers a visual breakdown of the dependent variable.

**Figure 1.3. Components of the Dependent Variable**

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11 See Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (MIT Press, 2005), 78 for how a building block procedure can boost theory development in case analysis.
Independent and Intervening Variables

For the purpose of standardizing case explanation, this dissertation submits four independent variables: oil company’s economic profile (demonstrating the firm’s bottom-line considerations), host country's civil society capacity, host country’s participation in international CSR schemes, host government's regulatory frameworks. Each variable is measured qualitatively. As the theoretical review (Chapter Three) and subsequent case inquiries on Peru, Ecuador, and Venezuela (Chapters Four and Six) unfold, the prevalence of host country’s regulatory frameworks and its civil society capacity in explaining CSR outcomes is highlighted vis-à-vis the other two variables. Thus, regulatory frameworks and civil society capacity are identified as the project’s two major independent variables.

Each of these two major independent variables connotes two sub variants, informed by corresponding CSR literature. To explain a host country’s regulatory frameworks in relation to oil sector CSR, one must analyze both the part of government regulations for the extractive industries and those concerning civil society governance. By the same token, the second major variable, a host country’s civil society capacity consists of two sub-variants. The first variant specifies the civil sector’s internal strength, whether it operates on a unified front or it is currently fragmented. The second variant tackles the civil society’s outreach strategy, especially in regards to its government and corporate counterparts.

A central task of this dissertation is to compare the importance of each of these two variables in explaining case outcomes. Which factor carries more weight in accounting for differences in CSR records under the individual case scenario? Do they
each bear independent explanatory power or these two factors are somehow interrelated to each other?

In addition, this project also takes into account two intervening factors, the host country’s energy trade with China and the importance of the oil sector in the host economy. Selection of these two variables is informed by both practical judgment and empirical studies on Chinese enterprises’ overseas activities, which identify bilateral commercial ties and oil dependency as factors influencing Chinese corporate behavior.

Chapter 3 theorizes, in great detail, the interconnectedness of the two major independent variables as well as that of the intervening factors.

1.3. Research Design

Methodology

This project's research objective is to test competing hypotheses outlined above and develop contingent theoretical generalizations to identify factors that push national oil companies to behave socially in developing markets. The method of structured, focused comparison is employed as the main methodology: each case of Chinese oil companies operating in one particular host country will be systematically examined by standard of the two general research questions. In explaining case outcomes, the influence of civil society capacity and host government regulations will be emphasized.

Essentially, the research follows an inductive logic of heuristic case studies aimed at identifying new causal mechanisms between exogenous factors in the context of host countries and social behavior of NOCs. In the initial stage of "soaking and poking",

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12 George and Bennett, *Case Studies and*, 86.
13 Ibid, 75.
most relevant and accessible literature on each case is gathered. Subsequently, values of all variables in each case are established according to academically recognized, authoritative yardsticks. First, the capacity and strategy of civil society can be assessed through interpreting available reports and news coverage in each individual case. Second, legal documents such as the Hydrocarbons Law and related governance of the civil society in each host country are analyzed to gauge the outlook of national regulatory framework. Moreover, membership profiles and country analysis in influential international organizations (EITI, the Global Compact i.e.) are examined to obtain key information regarding the international regulatory environment faced by each host country. Lastly, bilateral trade statistics and the World Bank's data on oil rents are used to capture variances of intervening factors.

To circumvent reporting bias, my research will combine each company's self-reporting on CSR (annual reports, CSR/sustainability reports, codes of conduct/ethics) and available third-party assessments (NGO report, news coverage) to capture a fuller picture of CSR record.

In the stage of analyzing implications of case findings for theory development, within-case findings be systematically compared with one another. As most literature on Chinese oil investments in Latin America and works on CSR in the oil industry are empirical in nature and fall short of providing deterministic/substantial theoretical findings, congruence analysis as a theory-centered approach cannot work here. Moreover, another major case study method---co-variational analysis is also not applicable because such a dataset-based technique draws inference from established values of independent

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14 George and Bennett, *Case Studies and*, 111-5.
and dependent variables and reduces observations to operationalization of an input-outcome mechanism.\(^{15}\)

Rather, causal process tracing is most fit to explain the idiographic nature of each case and explore the potential complex and multiple causal pathways by probing plausibility of competing interpretations. This method enables spatially and temporally contiguous analysis of causal mechanisms that focus on lower-level units \(^{16}\) (each specific Chinese NOC operating in one host country). Finally, cross-case, controlled comparisons are used to reach middle-range, contingent generalizations \(^{17}\) on the interplay between sociopolitical conditions in certain Latin American countries and CSR of oil companies.

**Case Selection**

Chinese NOCs led by CNPC started their Latin American journey in 1990s with investments in Venezuela's Intercampo and East Caracoes fields as well as Peru's Talara field. Since 2009, Chinese firms have scaled up their investment through large-scale acquisitions in Peru, Colombia and Argentina on one hand and government-backed oil loans in Ecuador and Venezuela on the other. Based on empirical observation, this dissertation focuses on all the five Latin American countries where Chinese NOCs have major assets and a physical presence. These country cases include: Venezuela, Ecuador, Argentina, Colombia, and Peru. The five cases encompass the universe of Chinese major oil assets in the region.

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\(^{15}\) For a comparison of co-variational, causal process tracing, and congruence analyses as major competing approaches in case study, see Joachim Blatter and Till Blume, "In Search of Co-variance, Causal Mechanisms or Congruence? Towards a Plural Understanding of Case Study," *Swiss Political Science Review* 14 no. 2 (2008), 315-56.

\(^{16}\) Blatter and Blume, "In Search of," 321-2.

\(^{17}\) George and Bennett, *Case Studies and*, 81-3.
More importantly, each country is unique in the sense of variances by the aforementioned independent factors. The two OPEC members, Venezuela and Ecuador are virtual petro-states with heightened practices of resource nationalism. Meanwhile, the two national governments exhibit hostile attitudes toward anti-oil civil society actors. Gradually pivoting toward greater nationalization of its oil sector, Argentina unleashed its 2014 hydrocarbons reform that aims at shifting the oil industry power from the provincial to the national levels while increasing incentives for foreign investors. Its oil sector organization is endowed with both progressive and liberal elements. While diverse and active, the Argentine civil society has lost its autonomy due to politicization and a dual legacy of Peronism and neoliberalism. In spite of a center-left president, Peru has a relatively liberal oil industry and its recent legislations showcase accommodations for indigenous communities where oil interests are concentrated. Similarly, Colombia hosts an open oil sector and a vibrant civil society that has experience in battling misbehaving oil companies such as Canada's Pacific Rubiales Energy. But the country’s decades-long armed conflict destabilized its rural areas where most oil developments are located, creating frequent disruptions to hydrocarbons operations and difficulties to carrying out CSR initiatives.

Regarding commitments to international CSR standards or initiatives, all four host governments but Venezuela’s recognize the United Nations’ Global Compact, a

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18 Evidenced by Correa’s continuous attempts to criminalize Amazon-based indigenous groups protesting foreign oil investments and Maduro’s crackdown on any anti-government dissent.
20 Peru’s 2011 Law of Prior Consultation gives its indigenous people the right to prior and informed consent to projects affecting them and their lands.
21 In 2013, over 500 rural and indigenous activists condemned the Canadian oil company for violations of environmental, social, and labor rights at a Bogota-based ethical and political trial.
voluntary initiative aimed at bringing together national governments, civil society organizations and corporations to encourage sustainable corporate practices.\footnote{The UN Global Compact is the world’s largest corporate sustainability initiative. Proposing ten principles, the initiative covers areas of human rights, anti-corruption and environment and aligns with UN’s broader sustainability goals. For more information, see \url{https://www.unglobalcompact.org/what-is-gc/mission/principles}.

\footnote{EITI, "EITI Countries," accessed April 25, 2015, \url{https://eiti.org/countries}.} In addition, Peru and Colombia are the only two nations that actively participate in the global standard to promote accountable natural resource management, the Extractive Industry Transparency Initiative (EITI).\footnote{22 In addition, Peru and Colombia are the only two nations that actively participate in the global standard to promote accountable natural resource management, the Extractive Industry Transparency Initiative (EITI).\footnote{EITI, "EITI Countries," accessed April 25, 2015, \url{https://eiti.org/countries}.}}

Each country case also differs by the importance of the hydrocarbons industry in the national economy. Venezuela, for instance, generated over 26% of its 2015 GDP from oil production. On the contrary, only 1.6% of the Peru’s GDP derived from oil production. It is stipulated that the more a host country relies on oil production to support its economy, the less responsibly a Chinese NOC will behave in that country. Table 1.2 shows a preliminary summary of case differences.

\begin{table}[h]
\centering
\begin{tabular}{|l|l|l|l|l|}
\hline
 & Venezuela & Colombia & Argentina & Ecuador & Peru \\
\hline
\textbf{Regulatory Frameworks} & Resource nationalism; paternalistic civic governance. & Competitive oil sector governance; unstable civic governance. & Liberal/progressive oil regime; politicized civic governance. & Resource nationalism; biased civic governance. & Liberal oil regime; inclusive civic governance. \\
\textbf{International Regulatory Frameworks} & Global Compact; EITI Candidate & Global Compact & Global Compact & Global Compact; EITI Compliant \\
\textbf{Civil Society Capacity} & Politicized and Polarized & Constrained by conflicts. & Vibrant but politicized. & Politicized, Marginalized & Relatively unified. \\
\textbf{Oil Rents} & 26.7% & 8.2% & 2.9% & 19.1% & 1.6% \\
\hline
\end{tabular}
\caption{Table 1.2. Case Differences by Independent and Intervening Variables}
\end{table}

Source: US EIA’s Country Analysis web pages; legal documents; media reports; the World Bank Oil Rents data; OECD STAN Bilateral Trade in Goods by Industry and End-use.
1.4. Expectations, Contributions and Limitations

The project expects to find: Chinese oil companies are more socially committed when they operate in host countries where supportive government regulations and civil society oversight are mutually reinforcing. For instance, CNPC's Peruvian subsidiary SAPET is expected to outperform Andespetro in Ecuador in engaging with indigenous communities to foster local development and preserve natural heritage because major indigenous organizations in Peru collaborate with the accommodating regulatory institutions proactively in crafting a virtuous environment for oil investments.

This work places its original contributions mainly on two academic subjects of inquiry. First, it complements the existing CSR literature by addressing behavior of national oil companies and bridging the gap between CSR theories and CSR performance specific to the hydrocarbons industry. Most importantly, the project represents a systematic attempt at connecting exogenous, sociopolitical factors to practices of CSR in the business world. In a broad sense, political and social actors influence economic agents. Government regulations and civil society engagement create an environment that can either inhibit or enable responsible corporate behavior. CSR does not exist in a vacuum.

Second, through probing the behavior of Chinese oil corporations in Latin America, my research strengthens the micro/corporate-level foundation of the emerging field of China-Latin America studies. Traditionally, these studies focus on issues such as diplomatic ties, cross-national economic exchanges, and geopolitical influences. In most earlier works on this subject, China is treated as a holistic unit, encompassing the Chinese
state, corporations and other societal agents. All these actors have a collective interest in Latin America in search for raw materials, export destinations and political friendship. Later works (represented by the Boston University’s Global Economic Governance Initiative) start paying attention to the sub-national dimensions of corporate governance, firm performance and firm-civic engagement. This project supplements the sub-national research on China and Latin America with a more focused and extensive research agenda. It incorporates theoretically informed hypotheses with rich case narratives.

By focusing on Chinese NOCs’ physical presence (as opposed to general energy trade trends), this project does not, however, endeavor to explain a full picture of China’s energy cooperation with Latin American countries. Nor does my research strive to provide statistically rigorous results on the totality of Chinese corporate behavior overseas, due to the limited scope of small-N case studies. Instead, it prioritizes case-specific investigation over variable-centered reasoning, causal mechanisms over causal effects, and propositional depth over breadth. As a result, strong causal relations with internal validity are established to generate middle-range, conjunctive understanding of the various factors that influence CSR commitments and performance and to furnish relevant policy recommendations for governments in developing countries facing an influx of foreign direct investment by powerful multinational energy conglomerates. Future research can benefit from this project’s observations and further test its hypotheses with a larger sample, formal modeling and the possibility of developing a more universal theory of corporate social responsibility.
1.5. Chapter Outline

The proceeding chapters are organized as the following. Chapter 2 maps the terrain of Chinese oil investments in Latin America, with a detailed analysis on main actors, behavioral patterns, and social impacts. After establishing the importance of evaluating Chinese NOCs' social behavior on a case-by-case basis with attention to the special sociopolitical circumstances in host countries, the chapter develops and justifies research questions and empirically identifies motivational factors that affect CSR. Chapter 3 presents a systematic examination of scholarly debates on CSR, more specifically, the endogenous and exogenous factors that motivate or discourage CSR. Theoretically-driven hypotheses and expectations to evaluate motivational drivers of Chinese oil companies' social initiatives in Latin America. Business calculation for profitability and long-term viability, government regulations, civil society engagement and international CSR initiatives are all theoretically important variables.

Chapter 4 examines Chinese NOCs' experience in indigenous Amazon regions of Ecuador and Peru. Chinese NOCs are found to be more socially responsible in Peru's Amazon territories because the country's indigenous organizations successfully engage their Chinese counterpart toward socially sound outcomes including well-designed CSR programs and even divestment from vulnerable areas. More fundamentally, the collaborative civil society is encouraged by on one hand, the country's political configurations that accommodate indigenous populations, and on the other, its competitive oil sector framework. In Ecuador, on the contrast, indigenous organizations often clash with the government that poses a nationalist oil regulatory framework biased toward Chinese NOCs. Chapter 5 explores how the centrality and liberal/progressive
orientation of the host country's oil regulatory framework affect levels of CSR commitments, with consideration of resource dependency and China ties as intervening variables. Civil society is found to have a limited exploratory power in the divergence of Chinese NOCs' CSR commitments in Argentina than in Colombia while a lack of civic engagement in both cases explains poor CSR delivery. Chapter 6 presents the final case analysis of Chinese NOCs in Venezuela where lack of exogenous incentives along with dire business prospects tentatively open space for a business case for CSR. A cross-examination of Chinese companies’ CSR reporting and independent evaluations discredits the business case. In Venezuela, an extremely inflexible and centralized oil sector biased toward Chinese investments, coupled with an institutionally politicized civil society, forms systematic hindrances on CSR.

The conclusion chapter, Chapter 7, summarizes case findings, analyzes these findings by synthesizing implications of and interactions among all variables. Policy recommendations for civil society actors in host countries and host governments are provided at the end.
Chapter 2
Chinese Oil Investments in Latin America: Evolution, Behavior, and Motivations

With domestic energy production stagnated, China accelerated its overseas quest for oil during the early 21st century. In September 2013, China became the world's largest net importer of petroleum and other liquids, surpassing the United States on a monthly basis. In 2014, with a domestic supply of 4.61 million barrels per day, China satisfied its tenacious demand for petroleum and other fuel liquids with net imports of 6.24 million barrels per day. In 2015, the gap between supply and demand was projected to widen to about 6.5 million barrels of crude oil a day. This upward trend, undeterred by recent global oil price drops and growth of alternative energy sources, is illustrated by figure 1.

Chinese oil and gas upstream acquisitions in 2013 were valued at $38.04 billion. In Latin America, in 2013, PetroChina acquired 100% shares of Petrobras' Peruvian subsidiary, Petrobras Energia Peru. In the same year, CNOOC and CNPC jointly won a 35-year production sharing contract to develop Brazil's Libra oil field, a pre-salt oil discovery. What are Chinese national oil companies (NOCs)? What are the push and pull factors behind China's adventure into Latin America's oil sector? Who are the main

27 PetroChina is CNPC’s main subsidiary listed on the New York Stock Exchange, the Hong Kong Stock Exchange, and the Shanghai Stock Exchange. For more information, see http://www.petrochina.com.cn/ptr/gsjj/gsjjs_common.shtml.
actors? What are the social implications of China's oil bid for Latin America's oil rich countries?

Figure 2.1. China: Supply, Demand and Import of Crude Oil and Liquid Fuels (2000-2015) (Unit: million barrels per day)


Chinese NOCs are new but powerful players in the region's oil markets.28 Their heightened oil quest evidenced by progressive takeovers in recent years has profound implications for Latin American societies, the region's ecosystems, national development and the overall political economy of resource-abundant countries such as Venezuela, Ecuador and Colombia. Such significance is perplexed by the fact that these state-owned companies are novice to market mechanisms and CSR themes as private investors were not allowed to participate until the early 2010s. The complex relationship between Chinese oil companies and the Chinese state adds another layer of obscurity to the puzzle.

28 Large-scale upstream oil and gas acquisitions by Chinese NOCs in Latin America did not take place until the late 2000s but most of these new deals were made in multi-billion dollars, rivaling western-headquartered international oil companies that were present in the region much longer than Chinese NOCs.
This chapter strives to unravel the myths of Chinese NOCs and map the terrain of Chinese oil investments in Latin America. The first part provides an overview of the Chinese oil industry and its relationship with the Chinese government, highlighting historical trajectories and critical junctures. The second part dissects China's engagement in Latin America's energy fields, with detailed attention to Chinese NOCs' behavior and the Latin American perceptions on their behavior in host societies. Subsequently, the third part offers a preliminary analysis of main actors and key drivers in China's oil pursuit overseas.

2.1. The Chinese Oil Industry and its Global Reach: An Overview

History
The dawn of China's modern oil industry was closely linked with developments in the world oil industry. As oil became a strategic commodity fueling modern transportation in the mid nineteenth century, it was also utilized as the third major tools for the western powers to forcefully open the Chinese market, with the first two being opium and cotton. The United States started to export crude oil and other petroleum products to China in 1867. From then until the establishment of the PRC in 1949, "yang you" (foreign oil) had sustained a monopolist position on the Chinese market. From 1904 to 1948, total domestic crude oil production was only estimated to be 2.78 million tons. During the same time period, China imported about 28 million tons of crude oil from advanced countries. With insufficient investment and fierce foreign competition, the domestic oil industry developed sluggishly, relying mainly on manual operation and

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animal power. Before 1949, China's reliance on oil imports to fuel its sprouting industrialization was over 90%.

Since the establishment of the PRC in 1949, the country's oil sector has undergone major transformations in many aspects. Domestic production picked up at a rapid pace. In 1959, national crude oil production reached 3.73 million tones and the sector was systematically developed based on four major oil fields: Yumen, Xinjiang, Qinghai and Sichuan. An oil boom in the late 1960s and early 1970s helped China achieve its oil self-sufficiency with a 20% annual growth in domestic production and transformed the country into the world's fourth largest oil producer outside the Middle East.

An oil boom in the late 1960s and early 1970s helped China achieve its oil self-sufficiency with a 20% annual growth in domestic production and transformed the country into the world's fourth largest oil producer outside the Middle East. An oil boom in the late 1960s and early 1970s helped China achieve its oil self-sufficiency with a 20% annual growth in domestic production and transformed the country into the world's fourth largest oil producer outside the Middle East.

Over-drilling of oil wells and lack of discovery in the 1970s shadowed the newly established industry. In 1978-79, prospectors drilled over fifteen million meters of new wells and discovered only one new field, resulting in a critical juncture in which oil output nationwide dwindled to less than 3% per year over the next decade and the short-lived oil boom was called to an end. Meanwhile, the Chinese economy started to industrialize under the 1978 framework of Open and Reform. Rapid expansion of the country’s industrial sectors contributed to heightened demand for oil as a critical capital goods but oil production continued to fall behind. In 1993, China became a net oil

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31 "A Hundred Years."
33 ibid, 144.
importer.\textsuperscript{34} Ever since, the gap between China's huge demand for oil and its limited domestic production capacity has been widening. Table 2.1 reveals the large discrepancy. In the last two decades (1990-2010), the global consumption of crude oil has been growing at 1.3\% per year while China's annual consumption growth rate hit an astonishing 5.7\%.\textsuperscript{35} To solve the energy shortage and secure steady flows, the Chinese government began to restructure its oil industry by gradually introducing market principles and later encouraging its oil companies to seek overseas opportunities.

Table 2.1. Supply, Demand and Import of Crude Oil and Liquid Fuels in China (1992-2014) (Unit: million barrels per day)

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumption/Demand</th>
<th>Production/Supply</th>
<th>Net Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>10.85</td>
<td>4.61</td>
<td>6.24</td>
</tr>
<tr>
<td>2013</td>
<td>10.61</td>
<td>4.46</td>
<td>6.05</td>
</tr>
<tr>
<td>2012</td>
<td>10.28</td>
<td>4.37</td>
<td>5.91</td>
</tr>
<tr>
<td>2011</td>
<td>9.85</td>
<td>4.29</td>
<td>5.56</td>
</tr>
<tr>
<td>2010</td>
<td>9.19</td>
<td>4.27</td>
<td>4.92</td>
</tr>
<tr>
<td>2009</td>
<td>8.32</td>
<td>3.99</td>
<td>4.33</td>
</tr>
<tr>
<td>2008</td>
<td>7.83</td>
<td>3.97</td>
<td>3.86</td>
</tr>
<tr>
<td>2007</td>
<td>7.58</td>
<td>3.9</td>
<td>3.68</td>
</tr>
<tr>
<td>2006</td>
<td>7.27</td>
<td>3.84</td>
<td>3.43</td>
</tr>
<tr>
<td>2005</td>
<td>6.9</td>
<td>3.8</td>
<td>3.1</td>
</tr>
<tr>
<td>2004</td>
<td>6.5</td>
<td>3.6</td>
<td>2.9</td>
</tr>
<tr>
<td>2003</td>
<td>5.6</td>
<td>3.5</td>
<td>2.1</td>
</tr>
<tr>
<td>2002</td>
<td>5.3</td>
<td>3.4</td>
<td>1.9</td>
</tr>
<tr>
<td>2001</td>
<td>4.9</td>
<td>3.3</td>
<td>1.6</td>
</tr>
<tr>
<td>2000</td>
<td>4.6</td>
<td>3.2</td>
<td>1.4</td>
</tr>
<tr>
<td>1999</td>
<td>4.3</td>
<td>3.2</td>
<td>1.1</td>
</tr>
<tr>
<td>1998</td>
<td>3.9</td>
<td>3.2</td>
<td>0.7</td>
</tr>
<tr>
<td>1997</td>
<td>3.9</td>
<td>3.2</td>
<td>0.7</td>
</tr>
<tr>
<td>1996</td>
<td>3.6</td>
<td>3.1</td>
<td>0.5</td>
</tr>
<tr>
<td>1995</td>
<td>3.4</td>
<td>3</td>
<td>0.4</td>
</tr>
<tr>
<td>1994</td>
<td>3.2</td>
<td>2.9</td>
<td>0.3</td>
</tr>
<tr>
<td>1993</td>
<td>3</td>
<td>2.9</td>
<td>0.1</td>
</tr>
<tr>
<td>1992</td>
<td>2.7</td>
<td>2.8</td>
<td>-0.1</td>
</tr>
</tbody>
</table>


\textsuperscript{35} Zhang and Yuan, "China's Overseas," 27.
Before the oil sector reform, under the central-planning economy, oil exploitation, processing, and distribution in China were tightly supervised by the Ministry of Petroleum Industry (MPI). The MPI was created in 1955 to replace the Fuel Industry Ministry and to oversee both upstream production and downstream retail activities. In 1970, the agency was merged with the Ministry of Chemical Industry and the Ministry of Coal Industry into the Ministry of Fuel and Chemical Industries (MFCI). Five years later, the MFCI was again divided into the Ministry of Petroleum and Chemical Industry and the Ministry of Coal Industry. In order to promote scientific exploitation, augment production, and stabilize distribution, these succeeding government agencies controlled both market quantities and prices of petroleum products, in accordance with the State Planning Commission's economic blueprints. Nevertheless, political mandates disregarding market principles and institutional inconsistency led to inflexibility, inefficiency and cumbersome bureaucracy, worsening problems in the oil industry. From the late 1970s, structural reforms to rejuvenate the oil industry became an imminent task for the Chinese government in the early period of open and reform. Against this backdrop, China National Petroleum Corporation (CNPC), China Petroleum & Chemical Corporation (Sinopec), Sinochem and China National Offshore Oil Corporation (CNOOC) were founded to effectively divide functions of petroleum ministries. Establishment of large national oil companies (NOCs) constitutes an early attempt of structural reforms. However, at the beginning, these companies' operations still carried many characteristics of the command economy.

37 Ibid.
Modern Developments: 1990-2015

Throughout the 1990s, Chinese NOCs were organized in a fashion characterized as "three divisions and four oligopolists". The oil industry undertook three divisions of labor among the four oligopolistic companies. The divisions were: 1) "between onshore exploration and production and offshore exploration and production," 2) "between upstream business and downstream business," 3) "between domestic trading and international trading." CNPC was responsible for onshore E&P as well as upstream business. Sinopec was involved in domestic and downstream activities. CNOOC was in charge of offshore and international businesses while Sinochem was mandated for international trade of crude oil and chemical products. All operations of these companies were directly financed by the Chinese government.

During the crisis of Chinese SOEs from 1996 to the end of the decade, these divisions gradually disappeared and NOCs started to vertically integrate. Industry reform and restructuring dismantled NOCs' financial dependence on the state, and introduced market mechanisms, including a twin pricing system and the manager incentive system. This modern reform was intended to fulfil rising demand of the national economy by slashing state bureaucracy and boosting industry efficiency. As a result, Chinese NOCs are today, to some degree, exposed to market competition and investor oversight. In addition, although downstream prices for refined oil products still remain tightly controlled by the government, upstream exploration and production activities, especially controlled by the government, upstream exploration and production activities, especially

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those from abroad, as well as crude oil prices, were "almost entirely liberalized" to follow movements on the global market.\(^{41}\) These changes created winners and losers. Sinopec, which was originally assigned to take charge of domestic downstream business was hit the hardest. CNOOC, the most internationalized company of the four, enjoyed the greatest returns on their overseas investment. To improve financial performances, these companies often cooperated and sometimes competed with each other to acquire upstream assets overseas. They also took advantage of innovative ways such as government-backed loans and mergers & acquisitions with international oil companies (IOCs) to enhance their global competitive edge. For instance, CNPC in April 2014 signed a global alliance agreement with Shell for the purpose of strengthening long-term collaboration in unconventional energy.\(^{42}\)

Table 2.2 below provides key information on major Chinese NOCs in terms of their sizes, workforce, production levels, and other financial indicators, based on each company's 2014 annual report. The statistics below reveals some important differences within the Chinese oil industry that persist after the divisions subsided. Since the petroleum industry was originally focused on the domestic realm, both CNPC and Sinopec led significantly ahead of CNOOC and Sinochem by asset and production standards and the former two companies enjoyed a semi-competitive duopoly in the Chinese home market. The two more "internationally minded" enterprises--- CNOOC and Sinochem are overshadowed by the former duo's financial might but CNOOC has sustained an impressive profitability record. From a global perspective, Chinese NOCs

\(^{41}\) Houser, "The Roots," 146.

today keep pace with many Western majors in many aspects that have been in the oil business for over two centuries and in some areas (such as current assets and output in CNPC’s case) triumph their western peers.

Table 2.2. A Quantitative Overview of Chinese NOCs

<table>
<thead>
<tr>
<th>Company</th>
<th>CNPC</th>
<th>Sinopec</th>
<th>CNOOC</th>
<th>Sinochem</th>
<th>PetroChina</th>
<th>Western IOC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Current Assets (RMB bi.)</td>
<td>1,038.93</td>
<td>498.57</td>
<td>218.85</td>
<td>158.43</td>
<td>391.31</td>
<td>338.62</td>
</tr>
<tr>
<td>Total Profit (RMB bi.)</td>
<td>173.41</td>
<td>78.85</td>
<td>105.2</td>
<td>11.35</td>
<td>153.88</td>
<td>208.13</td>
</tr>
<tr>
<td>Oil &amp; Gas Output (mtoe)</td>
<td>254.94</td>
<td>67.23</td>
<td>N/A</td>
<td>N/A</td>
<td>203.06</td>
<td>202.82</td>
</tr>
<tr>
<td>Oil Production (mt)</td>
<td>164.17</td>
<td>50.50</td>
<td>68.68</td>
<td>N/A</td>
<td>132.37</td>
<td>107.88</td>
</tr>
<tr>
<td>Overseas Oil Production (mt)</td>
<td>50.5</td>
<td>6.98</td>
<td>29.04</td>
<td>N/A</td>
<td>20.61</td>
<td>89.12</td>
</tr>
<tr>
<td># of Employees</td>
<td>1,500,200</td>
<td>358,571</td>
<td>115,000</td>
<td>47,920</td>
<td>544,083</td>
<td>75,300</td>
</tr>
<tr>
<td>International Operation</td>
<td>30</td>
<td>27</td>
<td>21</td>
<td>13</td>
<td>N/A</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: Author Compilation based on these companies’ 2014 annual reports. (a. Even though Sinochem was established in 1950 under its predecessor’s name of China Import Co., Ltd., it was not until 2003 when the Sinochem group started to undertake energy/oil exploration and production as core business; b. PetroChina is included here because it is one of the largest oil producers in China and in spite of being CNPC’s listed arm, it is independent from the parent company in all operational aspects; c. The data on Western IOC is based on the example of ExxonMobil whose earnings and asset values are manually converted from US dollars to RMB).

**Brief Analysis: State-owned but "Marketized"

In general, China's hydrocarbons industry has been partially privatized since the late 1970s to allow private partaking so that market incentives can be instilled into the sector then troubled with inefficiency and economic losses. This liberalization process has deepened and reached the international sphere in recent years, with all four major Chinese NOCs vowing to become world-class enterprises in their mission statements. At the 12th National Congress in March 2014, the Chinese central government announced plans to accelerate structural reforms in the public sector that include further introducing non-state capital in holding shares of major state-owned enterprises (SOEs) and
improving management incentives and restraints in SOEs. The electricity, petroleum, and natural gas industries are emphasized in the final report on the congress.\textsuperscript{43}

In response to the government proposal of capital structure reform, Chinese NOCs are now "reportedly planning to sell some of their stakes to social and private investors...to improve the oil sector's capital efficiency and avoid corruption"\textsuperscript{44}. In September 2014, Sinopec "unveiled a plan to sell a $17.5 billion stake in its retail business, marking the country's biggest privatization push (since 2012)"\textsuperscript{45}. Even though skeptics dub Sinopec's offering as a mere symbolic move to satisfy state demand and a financial calculation of the company's outbound senior management to draw cash, the plan is a significant step in upholding a continuous series of ownership diversification among SOEs since Sinopec is the country's second largest hydrocarbons producer and the downstream retail aspects of the oil sector have traditionally been put under tighter state control than upstream operations.

Although the Chinese hydrocarbons industry has gradually commercialized and NOCs as market agents are now taking charge of day-to-day industry affairs, the Chinese government still plays a crucial role in the sector's strategic planning, personnel appointment, and other important matters as long as the nature of state ownership (in majority) is unaltered. There is a natural connection between China's state-owned oil companies and the Chinese government. Overall, these companies at the group level are


\textsuperscript{44} Jiang and Chen, "Updates on Overseas," 15.

owned by the people and authorized by the state. The State Council holds the ultimate authority over all state-owned enterprises and a number of government agencies are involved in strategic planning, financing, and evaluation processes of the NOCs. The State-Owned Assets Supervision and Administration Commission (SASAC) has been these companies' dominant shareholder since 2003 and monitor their transnational ventures. The Ministry of Commerce provides ex ante review of each company and the State Administration of Foreign Exchange (SAFE) organizes NOCs' outward direct investment (ODI). On the other hand, the National Development and Reform Commission (NDRC) offers NOCs policy recommendations for overseas investment locations and its price bureau sets retail prices for refined petroleum. At last, these companies need to obtain their upstream oil and gas extraction licenses from the Ministry of Land and Resources before they start every new operation. Whether the complex bureaucratic structure showcases political mandates or gives NOCs room to prioritize commercial considerations is under heated debates. The complex relationship between the Chinese state apparatus and NOCs will be examined in detail in the third session.

2.2. China's Oil Ambitions in Latin America

Taking the lead of Beijing’s Going Abroad policy, Chinese NOCs began actively cultivating their international profiles in the early 2000s. At the beginning, Chinese oil investments, in the forms of equity share agreements, service contracts and government-backed loans, were concentrated in Africa, Middle East and Central Asia/Eastern

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In more recent years, Chinese oil corporations shifted their geographic focus from these traditional regions to new territories in North America and Latin America. The two regions represented nine and ten percent of Chinese overseas oil production in 2013. Latin America was increasingly favored due to the region’s large untapped energy potential and relative stable political environments compared with those conventional areas. This section provides a succinct analysis of Latin America’s hydrocarbons industry and China’s evolving role.

**A Brief Introduction to Latin America's Hydrocarbons Sector**

Major oil producing countries in Latin America hold huge, untapped oil reserves and the region's relatively sound political climate helps attract foreign oil investors. According to experts, "Latin America is estimated to hold 13.5 percent of the world’s proven oil reserves but accounts for only 6 percent of total output." Recent discoveries in Brazil's deep-water pre-salt oil fields, as well as reforms in Mexican and Colombian oil sectors have renewed passion among resource-hungry countries, especially China. The oil sector is also a major source of government finance and a significant recipient of foreign direct investment (FDI) in countries such as Mexico, Venezuela, Colombia, Ecuador, and Brazil. For example, Mexico's oil sector accounted for 13% of the country's total export earnings.

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and 32% of total government revenues in 2013.\textsuperscript{51} In Colombia, the oil industry received $5.39 billion FDI in 2012, making up 34% of total FDI the country obtained.\textsuperscript{52}

According to the U.S. Energy Information Administration (EIA), Brazil is Latin America's top oil producer and the world's ninth largest producer. Producing 2.69 million barrels per day of total oil liquids in 2014, Venezuela is the third largest oil producer in the region and the largest exporter of crude oil.\textsuperscript{53} The country also contains some of the world's largest oil reserves. Table 2.3 below offers a comprehensive picture of oil industry development in Latin America's top oil producers.

Table 2.3. An Overview of Latin America's Oil Sector Development

<table>
<thead>
<tr>
<th>Country</th>
<th>Proven Oil Reserves (Billion Barrels)</th>
<th>Oil Liquids Production (Million Barrels/Day)</th>
<th>Crude Oil Production (Million Barrels/Day)</th>
<th>Crude Oil Exports (Million Barrels/Day)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>15</td>
<td>2.96</td>
<td>2.2</td>
<td>0.52</td>
</tr>
<tr>
<td>Mexico</td>
<td>9.8</td>
<td>2.81</td>
<td>2.4</td>
<td>1.14</td>
</tr>
<tr>
<td>Venezuela</td>
<td>298</td>
<td>2.69</td>
<td>2.5</td>
<td>1.83</td>
</tr>
<tr>
<td>Colombia</td>
<td>2.4</td>
<td>1</td>
<td>N/A</td>
<td>0.68</td>
</tr>
<tr>
<td>Argentina</td>
<td>2.4</td>
<td>0.711</td>
<td>0.519</td>
<td>N/A</td>
</tr>
<tr>
<td>Ecuador</td>
<td>8.2</td>
<td>0.557</td>
<td>0.556</td>
<td>0.33</td>
</tr>
</tbody>
</table>

Source: US EIA's Country Analysis web pages (Data based on the 2014 level).

Since late 2014, changes in the global oil market (mainly demonstrated by price drops and production increases in America) on one hand signify declining exports of crude oil to the U.S., but on the other hand encourage Latin oil producers' to upgrade their hydrocarbons industry and intensify cooperation with extra-hemispheric partners. Almost all oil-rich nations in the region are now tapping the controversial method of

hydraulic fracking to extract unconventional shale fuel resources in hope of rejuvenating their oil markets. Furthermore, the region's oil exporters are increasingly trading with Asian countries. For example, India and China have become Venezuela's second and third-largest as well as fastest-growing destinations for crude oil export. China is also credited as a savior to Latin America's struggling oil companies suffering profit losses to oil price cuts. In November 2015, Sinopec was reported to reach a landmark deal with US Virgin Islands' Governor and Limetree Bay, a Caribbean oil refinery on the verge of bankruptcy. According to the deal, Sinopec pledges 370 million dollars to the local government and Hovensa's bankruptcy estates while commits an additional 125 million in investment over the next two years.

The Expanding Chinese Footprint in Latin America

China first began to invest in Latin America's oil industry in the early 1990s. Besides conventional oil trade, China's burgeoning demand for petroleum is also satisfied through overseas investment in various forms, including upstream mergers and acquisitions (M&As), engineering service (ES), loan-for-oil deals, and oil pipeline constructions. In many cases, Chinese oil companies, often backed by the government, are the primary facilitators of these overseas investments. The largest Chinese NOC, CNPC, signed a service contract on Block 7 in Peru's Talara Oilfield on October 23, 1993, marking its

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55 "Venezuela Overview".

beginning of international operations. In June 1997, CNPC won a bid for Venezuela's Intercampo and East Caracoles Oilfields.

Initially, Chinese overseas oil investment proceeded in the fashion of direct acquisition or inter-NOCs cooperation. As late comers, Chinese NOCs often avoided competition with established international oil companies (IOCs) and chose to devote their assets to oil fields left by or uninterested to IOCs. Because of exploration and production experience from domestic oil fields, Chinese oil companies developed expertise in sweet (low sulfur) and light (high API gravity) crude oil and were constrained to invest in similar oil fields overseas. As a result, they were often "forced to operate in areas of greater political risk...and settle for smaller-scale onshore operations."  

Since 2000, as the Chinese government began to institute its implementation of the "going out" policy, Chinese NOCs have expanded their oil cooperation in Latin America and have progressively stepped out of their comfort zone to engage in innovative ways of overseas investment. Even though the majority of their foreign assets are located in conflict-burdened Middle East and Africa, Chinese oil companies are intentionally moving their operations to more politically stable climate such as OECD countries and several South American nations. Furthermore, they are now more focused on unconventional oil assets and actively seek opportunities of cooperation with IOCs. For instance, CNPC and CNOOC each bought 10% of stakes in a 35-year Production Sharing Contract (PSC) in Brazil's Libra Oilfield, making themselves partners with

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58 "Major Events."
59 Houser, "The Roots," 156.
Petrobras, Shell, and Total in exploring Brazil's pre-salt oil discovery. By the end of 2013, China has generated 2.5 million barrels of oil equivalent per day in combined oil and gas overseas production. Latin America accounts roughly for 11% of Chinese NOCs' overseas production. During 2011 and 2013, China invested a total of $73 billion in global upstream M&A deals and $29 billion in long-term loan-for-oil projects. Of the $73 billion M&A deals, about $10 billion went to oil cooperation projects in Latin America. Table 2.4 summarizes Chinese NOCs' major investments in Latin America from 2002 to 2014.

Table 2.4. Major Chinese Upstream Acquisitions in Latin America 2002-2014

<table>
<thead>
<tr>
<th>Company</th>
<th>Assets</th>
<th>Stake %</th>
<th>Deal Size (bi.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNPC</td>
<td>Jul 2014, signed a fuel oil trading agreement with PDVSA;</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Jul 2014, pledged investment in Cuba’s Seboruco Oilfield;</td>
<td>10</td>
<td>1.4</td>
</tr>
<tr>
<td></td>
<td>Oct 2013, won a 35-yr PSC to develop Brazil’s Libra Oilfield with CNOOC;</td>
<td>100</td>
<td>1.47</td>
</tr>
<tr>
<td></td>
<td>2006, purchased Encana for oil and pipeline interests in Ecuador with Sinopec.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PetroChina</td>
<td>Oct 2013, purchased Petrobras’s Peruvian subsidiary;</td>
<td>100</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td>Aug 2012, bought Respol’s Ecuadorian subsidiary;</td>
<td>20</td>
<td>0.0137</td>
</tr>
<tr>
<td></td>
<td>Nov 2011, acquired 33 oil blocks in Galp Energy’s Brazilian unit.</td>
<td>30</td>
<td>5.16</td>
</tr>
<tr>
<td>Sinopec</td>
<td>Oct 2010, purchased Brazilian subsidiary of Respol;</td>
<td>40</td>
<td>7.1</td>
</tr>
<tr>
<td></td>
<td>2006, purchased Ominex de Colombia for oil sand.</td>
<td>25</td>
<td>0.4</td>
</tr>
<tr>
<td>CNOOC</td>
<td>Feb 2012, agreed to buy stakes in Brazil’s Espirito Santo oil blocks from Perenco;</td>
<td>10</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Jan 2012, purchased Total SA’s Colombia subsidiary;</td>
<td>n/a</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Jan 2012, acquired shares in 5 deep-water exploration blocks in Espirito Santo;</td>
<td>10</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Mar 2009, acquired assets of Argentina’s Bridas Corp.</td>
<td>50</td>
<td>3.1</td>
</tr>
<tr>
<td>Sinochem</td>
<td>Mar 2010, purchased Brazil’s Peregrino Oilfield from Statol;</td>
<td>40</td>
<td>3.07</td>
</tr>
<tr>
<td></td>
<td>Aug 2009, acquired Emeralds’ assets in Colombia;</td>
<td>100</td>
<td>0.878</td>
</tr>
<tr>
<td></td>
<td>2003, purchased Block 16 in Ecuador from Conocophilips.</td>
<td>14</td>
<td>0.1</td>
</tr>
</tbody>
</table>


63 ibid.
Acquisition of overseas upstream assets is a main goal for Chinese NOCs. Seizing foreign oil assets through production entitlement is a long-term alternative to regular oil imports, which are vulnerable to changes in the international economic system, such as oil price fluctuations and exchange rate movements. In 2013, 59% of China's oil demand was satisfied by imports. According to the 12th Five-Year Plan for Energy Industry Development, the Chinese government plans to cap the country's oil import dependency at 61% by 2015. This means that China has to utilize more sustainable methods to obtain oil. While mergers and acquisitions is the most direct way to give Chinese oil companies long-term entitlements to overseas production, other modes of cooperation are also gaining significance in China's oil quest in Latin America.

After the global financial crisis in 2008-9, China has targeted long-term cooperation with a few oil-rich countries through the loan-for-oil supply project. The financial meltdown caused rampant capital flight and deprived many oil-exporting countries of foreign investment necessary to develop their domestic oil industry. Under this background, these countries "were more eager to find money but reluctant to sell assets" and some sought long-term supply arrangements with China. Although each loan-for-oil deal is unique, the project generally involves three parties—a Chinese bank as the financer, a Chinese NOC as the buyer, and an oil company from the resource-rich country as the supplier. In other words, the Chinese bank offers long-term financing to a foreign government or a foreign oil company from China's foreign reserve pool. In

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64 "Short-term Energy".
66 Jiang and Sinton, "Overseas Investments By," 22.
parallel, the foreign entity makes a long-term contract with a Chinese NOC to supply a guaranteed volume of oil at an agreed-upon price.

So far, China has signed loan-for-oil deals\(^{67}\) with nine countries, four of which are from Latin America. Chinese loans to Bolivia, Brazil, Ecuador, and Venezuela account for approximately 45% of the total amount of loan-for-oil deals and the majority goes to Brazil and Venezuela.\(^{68}\) On the supply side, longstanding financing from China provides these countries with desired investment capital to develop their oil infrastructure and enhance their production capacity. Strategically, this alternative channel of fund helps these countries to diversify their oil trading partners.\(^{69}\) For the four Latin American countries whose oil traditionally goes to North America, Chinese financing consequently lessens their reliance on the U.S. market. Brazil, for example, is in desperate need for foreign capital to delve into its rich offshore oil reserve on its southern coast. Chinese loans greatly compliment the country's five-year investment plan of $174 billion for the new oil discovery.\(^{70}\) In Venezuela, China has injected more than $50 billion into the Joint China-Venezuela Fund since 2008 to help the country build infrastructure and combat economic problems. In return, in addition to 250,000 barrels per day Venezuelan oil from regular trade and Chinese NOCs' entitlements, another 250,000 barrels are shipped to

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\(^{67}\) In these deals, the Chinese government extends a loan to a developing oil-producing country through several Chinese state-owned banks. These loans often require repayment by oil products at a fixed price or market price. Moreover, these loans include conditions that mandate collaboration between a Chinese NOC and its counterpart in the receiving country.

\(^{68}\) Data come from Jiang and Chen, "Update," and Jiang and Sinton, "Overseas".


\(^{70}\) Gao, Yang, and Dong, "Loan-for-Oil."
China every day to pay off the loans. On the demand side, the long-term loan-for-oil arrangement serves to stabilize overseas oil supply, counteract depreciation risks of China's huge foreign reserves, evade oil trade barriers, and aid Chinese NOCs' "going global" venture. Table 2.5 summarizes China's long-term oil supply loans to Latin America since 2009.

<table>
<thead>
<tr>
<th>Country, Date</th>
<th>Lender</th>
<th>Borrower</th>
<th>Amount $</th>
<th>Beneficiary</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia Apr 2009</td>
<td>Ex-Im Bank</td>
<td>Government/YPFB</td>
<td>1 bi. 60 mi.</td>
<td>N/A</td>
<td>Build oil infrastructure (home gas lines, oil drilling rigs...).</td>
</tr>
<tr>
<td>Brazil Apr 2010</td>
<td>CDB</td>
<td>Petrobras</td>
<td>10 bi.</td>
<td>Sinopec</td>
<td>Cooperation in deep-water exploration, production, refining and transport.</td>
</tr>
<tr>
<td>Ecuador Jul 2009</td>
<td>CDB</td>
<td>PetroEcuador</td>
<td>1 bi. (6% interest)</td>
<td>CNPC/PetroChina</td>
<td>96 kb/d for two years.</td>
</tr>
<tr>
<td>Venezuela Feb 2009</td>
<td>CDB</td>
<td>Bandes (PDVSA)</td>
<td>4 bi.</td>
<td>CNPC/PetroChina</td>
<td>200 kb/d to CNPC at market price, term contract, 1-2 bi. discount, monthly invoice.</td>
</tr>
<tr>
<td>Venezuela Apr 2010</td>
<td>CDB</td>
<td>Bandes (PDVSA)/Government</td>
<td>10 bi. + RMB 70 bi.</td>
<td>CNPC</td>
<td>Joint venture to develop Junin 4 block for production of 2.9 mb/d of heavy oil.</td>
</tr>
<tr>
<td>Venezuela 2012</td>
<td>CDB</td>
<td>PDVSA/Government</td>
<td>10 bi.</td>
<td>N/A</td>
<td>Develop the Orinoco Oilfield; agricultural, industry, and housing projects, to be paid with 230 kb/d for 3 years.</td>
</tr>
<tr>
<td>Venezuela 2013</td>
<td>CDB</td>
<td>PDVSA/Government</td>
<td>4 bi.</td>
<td>N/A</td>
<td>Increase production level of Orinoco fields, to be paid with 310 kb/d for 4 years.</td>
</tr>
<tr>
<td>Venezuela Jul 2014</td>
<td>N/A</td>
<td>PDVSA/Government</td>
<td>4 bi.</td>
<td>N/A</td>
<td>Further support to Orinoco.</td>
</tr>
<tr>
<td>Venezuela Sep 2015</td>
<td>N/A</td>
<td>PDVSA/Government</td>
<td>5 bi.</td>
<td>N/A</td>
<td>Increase Venezuela's oil production.</td>
</tr>
</tbody>
</table>


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In addition to upstream investments, China is also deepening its engagement in Latin America's oil industry in middle stream and downstream areas. NOCs "recognize that building refineries or pipelines can help them to quickly respond to local markets... and show their commitment to host countries, thus gaining credibility and strengthening relationships"72. CNPC's subsidiary, BGP Inc. has been providing engineering services to Latin America since the early 1990s and so far has 179 service teams working in Venezuela, Ecuador, Cuba, Peru, Mexico etc.73 In 2012, CNPC won contracts on 3D seismic, drilling, and offshore mud logging for the Block Junin-4 project in Venezuela.74 Earlier this year, CNPC has expressed interest in a $4 billion gas pipeline project in Peru.75 The Sinopec-Petrobras joint venture, financed by CDB, aims for cooperation in transportation and refinery in Brazil's oil fields. In Nicaragua, after the government granted a 50-year concession for a Chinese company to build and manage a cross-national canal, plans were revealed that an oil pipeline will be constructed linking the Caribbean and Pacific coasts.76

**Chinese NOCs' Regional Reputation: Perceptions and Beyond**

Since the mid-2011, as the rising trend of commodity prices came to a halt, worries have been that the region's commodity exporters would experience mediocre growth and have their traditional economic problems (low savings/investment rate, low productivity, poor

73 "中国石油在拉美 (CNPC in Latin America)," CNPC, accessed September 15, 2014.
infrastructure) exposed. Meanwhile, surging resource nationalism and concerns about the manner in which Chinese NOCs operate have generated various sorts of criticisms toward China. Unlike an overall good image in Africa, China receives mixed reviews in Latin America, with an average of 58% of Latin Americans surveyed in the 2014 Pew Research Center's *Global Attitudes Project* in favor of China. Venezuelans are the most optimistic about China with about 70% of them seeing China as a considerate partner. On the opposite side, China's image is much less affirmative in Argentina, Bolivia, Brazil, and Mexico. Even though only few people from these countries view it as an enemy, the majority regard China as self-serving and disapprove Chinese way of doing business. About 24% of Mexicans consider China as an enemy. (Appendix 1). In regard to Chinese business practices, a 2012 AmericasBarometer's *Latin American Public Opinion Project (LAPOP)* survey finds that, while people from Central America and the Caribbean (Dominicans (72%), Jamaicans (75%) and Nicaraguans (74%)) hold the best opinions of Chinese business, fewer people from resource-rich South America (Argentinians (37%) and Ecuadorians (44%)) share the same stance. (Appendix 2).

In socioeconomic terms, attacks on China's involvement in Latin America's oil development often point to Chinese NOCs' *employment practice, environmental records, and local engagement*. A fourth kind of criticism draws on the politicized connotations carried by some Chinese oil investments and targets Chinese NOCs as (indirect) *benefactor of leftist/populist regimes* in Latin America. Table 6 highlights some media exposure on corporate misbehavior by Chinese NOCs in the region. These gloomy stories seemingly fit into some general criticisms against China's global oil claims. A 2014 New York Times article castigates China for forging ties with South American governments
with a socialist agenda and describes Chinese NOCs' clash with African oil-rich nations such as Chad when the latter suspended CNPC's operations due to oil spills in 2013.77

Indeed, even though China's NOCs now often prioritize commercial goals that are concrete and profit-oriented, one cannot overlook the existence of state influence. Almost as a given, state-owned enterprises must respond to the overall objectives established in the state's 5-year plans. These facts tie to the fourth contention that these companies will politicize their investment abroad and undermine host countries' financial discipline and transparency in governance. The recent political scandal of former CPC senior leader Zhou Yongkang tends to justify such worries. More than a hundred people are implicated in Zhou's case and as he rose to political power through his involvement in China's oil and gas industry, most of them work or worked for NOCs. The overall picture of corruption among senior officials in NOCs feeds into the fear that these companies could extend their corrupt behavior overseas, especially to unstable political regimes where the cost of collusion is relatively low.

Table 2.6 gives an overview of criticisms against Chinese NOCs in various Latin American countries.

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### Table 2.6. Examples of Negative Claims Against Chinese NOCs

<table>
<thead>
<tr>
<th>Location</th>
<th>Time</th>
<th>Major Complaints</th>
<th>Issue Area</th>
<th>News Source</th>
</tr>
</thead>
</table>
| **Venezuela** | 2012 | • Conditions of Chinese oil loans implied an influx of Chinese workers: 43% in Barinas housing project; 75% in Los Dos Caminoes project.  
• Tensions btw. local workers and Chinese managers on three job sites regarding work safety. | Employment    | Bloomberg; Venezuelan state-run paper Correo del Orinoco. |
| **Colombia**    | 2012 | • Sinochem oil spills on Gigante field in southwest state of Huila resulted in halted operations and local community protests.                                                                                     | Environment    | Market Watch; Upside Down World.org.             |
| **Ecuador**     | 2013-2015 | • Chinese oil loans are considered non-transparent and invasive ("sovereign immunity waiver").  
• Chinese companies mainly hire Chinese workers.  
• Indigenous complaint of inadequate consultation in the Andes oil project.  
• Andespetro's grave environmental records in Amazon spur social conflicts within local communities. | Governance; Local engagement; Environment; Employment | Amazon Watch; The Guardian; Twitter               |
| **Argentina**   | 2012-2015 | • Sinopec's JV w. YPF in shale gas exploration in Vaca Muerta is contested by local indigenous community on pollution and ownership issues.                                                            | Local engagement; Environment | Intercontinentalcy.org; Inter Press Service.       |

Source: Author compilation from multiple news sources.

These stories certainly speak to the ill nature of Chinese oil operations in Latin America to some extent and play a part into negative perceptions on Chinese business among South Americans, as identified by the 2014 Pew Research Center survey. Nonetheless, albeit well grounded in factual information in some instances, these allegations can only be validated on a case-by-case basis and a generalization that Chinese NOCs are not socially responsible will be over-simplistic. Just as these companies' misbehavior abroad is recorded in various exposés, there are also well-documented cases counteracting the criticisms.
The denouncement that NOCs hire mainly Chinese contracted workers and make little contribution to local employment might be true when the company is new to the territory or when lax regulations in the host country allow such practices. However, there are also proven cases of NOCs committed to workforce localization. Andes Petroleum Ecuador Ltd. of which CNPC holds 55% shares and Sinopec the rest, for instance, has reported to employ over 453 local workers, over 95% of its total workforce since 2006.\(^{78}\) These self-reported localization efforts are validated by credible external sources.\(^{79}\) Furthermore, Andespetro's good performance on labor issues can be attributed to Ecuador's oil sector regulatory framework under which foreign investors are required to hire Ecuadorian workers for 95% of unskilled and 90% of skilled jobs. Although numbers can be deceiving and mask bigger, not-so-benevolent ambitions (to capture oil concessions at the cost of the Amazon, as analyzed in Chapter four in detail), these numbers are still important in invalidating the assertion of "Chinese only hiring Chinese".

Moreover, it is imperative to keep in mind the environmentally vulnerable nature of the oil business. Negative instances of Chinese businesses polluting the host societies do abound but the Chinese are not unique in this sense as suggested by past poor environmental up-keeping of Chevron and in Ecuador or Pluspetrol in Peru. In Argentina, an aggregate statistical analysis of greenhouse gas water intensity of Chinese economic activity indicates that Chinese firms are not necessarily more polluting than their western counterparts and often they are wrongly blamed for the endemic damage inflicted by

\(^{78}\) \textit{"CNPC,"} 11.

\(^{79}\) A Spring 2015 Report on \textit{China in Latin America: Lessons for South-South Cooperation and Sustainable Development} by the Global Economic Governance Initiative at the Boston University (April 2015) corroborates the self-reported data of 95% in local workforce composition by Andespetro.
earlier oil investors.\textsuperscript{80} The same study also argues that Chinese firms (deduced from the experience of CNOOC and Sinopec) are more environmentally responsible when "in a merger with a western firm (or) when civil society and provincial governments apply pressure"\textsuperscript{81}.

In a similar light, suspicion that Chinese state-owned oil oligarchs use their political advantage to rub shoulders with nontransparent host governments and disregard demands from local civil society is a reductive account of ever more complex Chinese economic activities in the region. It is convenient to assume that these newcomers are feeble in community engagement given their inexperience with public shareholders, let alone stakeholders. However, this can hardly be a ubiquitous fact as in Peru (discussed in Chapter four in length), empirical evidence suggests that SAPET, CNPC's Peruvian subsidiary actively sought consultation with local communities before its operations were withdrawn from the country's MDD basin in the heart of Amazon jungles.

Little information corroborates the collusive and politicizing effects of NOCs' overseas investments, as illustrated by the last connotation. Even though Chinese oil companies' close ties with the central government and the ongoing corruption scandals sweeping the arenas of both political apparatus and state-owned enterprise are alarming, logical connections between such domestic turmoil and oversea wrongdoing have not been effectively established. There is indeed a trend of China reaching loan-for-oil agreements with left-leaning governments in the region, but it is rather diplomacy serving


\textsuperscript{81} ibid, 2.
economic interests than the other way around. China's focus at present is more about resource availability and regime stability instead of political rightfulness, shown by a recent shift of Chinese NOCs moving their investment to resource-rich OECD countries. 82 In March 2015, two days after the Obama Administration declared Venezuela as a national security threat, China's Foreign Ministry publicly reinstated its unwillingness to be dragged into the US-Venezuela disputes. 83 Aside from a "keeping business as business" attitude, Chinese NOCs are also trying innovative ways to upgrade their CSR programs on governance issues in some countries. In Peru, CNPC has participated in the country's most recent (2004-7) reconciliation of Extractive Industry Transparency Initiative (EITI) by disclosing its payments of oil resources. 84

When it comes to assess social performance of newly globalized Chinese oil firms, information as well as misinformation abound. In general, there is a lack of transparency and clarity and results are circumstantial at best. But history does not end with this stylized interpretation. Albeit enlightening, evidence both for and against Chinese NOCs as social players are loosely connected narratives mostly found in news articles, company reports and NGO advocacy pieces. A shared superficial characteristic stems from insufficient understanding of more fundamental issues regarding the evolving state-NOC relationship and the very circumstantial ingredients that affect NOCs' social commitments. These issues will be grappled in the next section.

2.3. Dissecting China's Global Oil Hunt: Main Actors, Motivational Factors and Social Behavior

The State-NOC Nexus: Complex Interdependence

Multiple actors and interests are at play in China's inroad in Latin America's oil markets. Chinese oil companies spearhead China's oil investments in the region, as field operators and joint venture partners with their foreign peers. Behind these giant NOCs are a multitude of government agencies that hold major shares, authorize production, certify overseas practices, and review performances of these companies. The Chinese Central government, in general, provides important political and strategic guidelines to NOCs.

As demonstrated in Part 1, Chinese oil companies are state-owned and answer to the government as their biggest stakeholder. In spite of the state ownership, each of these major Chinese NOCs has a subsidiary (PetroChina, Sinopec Corp., CNOOC Ltd. and Sinochem Ltd.) listed on the New York and Hong Kong Stock Exchanges with clear financial objectives. The parent companies (CNPC, Sinopec, CNOOC, and Sinochem) collect regular dividends from the listed arms and sometimes use them to offset losses elsewhere. From an economic perspective, the Chinese government's "going out" policy facilitates and supports NOCs' global ambitions by offering easy financing options, diplomatic assistance and tax rebates. Today, PetroChina is the world's 5th largest petroleum company in terms of oil production level\(^85\) and Sinopec ranks 5th among 500 multinational corporations on the Fortune Magazine.

Many argue that Chinese NOCs, albeit state-owned, are not state-run:

"China's oil majors--with their subsidiaries listed on foreign stock exchanges, global business portfolios, and vast profits earned from the high oil prices of recent years---are powerful and relatively autonomous actors with their own domestic and international interests that do not always coincide with those of the party-state." 86

Layers of state regulatory institutions often with overlapping functions created a structure of fragmented bureaucracy that leaves substantial room for NOCs to maneuver. While NOCs' general managers assume both commercial and political roles, they are given party ranks of ministers, the same position given to their majority shareholder---SASAC. In other words, managerial personnel at NOCs have more direct and concentrated administrative capacity than the bundle of government agencies designed to oversee NOCs activities separately.

For example, CNPC's decision to internationalize its operations by investing in Peru in 1992 preceded the "go out" policy. Back then, Chinese government officials paid little attention to overseas upstream investments and CNPC's decision did not obtain government approval. 87 Instead, the company took the initiative to enter Latin America. On the grand level, oil companies have the same objective as the government, to expand oil reserves, diversify supplies and ensure energy security of the country. However, their interests are also deeply rooted in commercial grounds. For example, NOCs want to make profits on the international market to compensate their losses at home due to retail price control.

More importantly, NOCs’ desire to raise their international profile, develop a matured supply chain, and obtain technical know-how and managerial capabilities. At times when industry interests are at odds with government interests, NOCs managers are increasingly prioritizing "their economic identities over their political ones, representing corporate interests". In 2006, as world crude oil prices rose, Sinopec and CNPC successfully persuaded the NDRC to impose a 15% increase on retail gasoline and diesel prices. Emphasizing economic interests at the cost of political ones is more obvious in their overseas ventures where their market shares are not under the influence of the command economy. Moreover, NOCs often compete with each other to acquire overseas assets. For instance, Sinopec collaborated with a Malaysian company MMC and outbid CNPC to build a Sudanese pipeline in 2003, while the latter had been the Chinese government's designated company to develop oil fields in Sudan since 1995.

Chinese NOCs have a certain degree of autonomy from the central government. Reforms of the 1990s and 2000s corporatized these companies and two decades of international experience has shaped their behavior more toward standard business practice of IOCs. Nevertheless, it will be unrealistic to assume that they have gained complete independence from the party-state. Being state-owned and given political functions, Chinese oil enterprises are intricately interconnected with the Chinese government through multiple channels.

From the start, their transformation into corporate actors has deep institutional backgrounds in the central government's reforms to dissolve the companies' financial

89 Liou, "Bureaucratic Politics and," 677.
90 Ibid, 679-82.
dependence and to create oligopolistic competition among them. Although NOCs respond to market mechanisms better nowadays, their managers are still appointed by the Department of Organization and the SASAC. Their foreign investments in excess of $30 million need to be signed off by the NDRC and those over $200 million need approval by the State Council.\textsuperscript{91} More recently, NOCs are "working with the Chinese government under the framework of the Shanghai Cooperation Organization to engage in dialogue and enhance co-ordination with host countries"\textsuperscript{92}. In Latin America, major loan-for-oil deals were often reached during official visits through the so called energy diplomacy.

In cases of conflicted interests, although NOCs have increasingly chosen to focus on their commercial concerns, the central government has also taken political measures to counteract. In the Sudanese case, the Ministry of Commerce authorized CHINCA to negotiate an agreement between Sinopec and CNPC to moderate competition. Also, under the pressure to balance money-hungry NOCs wanting to charge more and angry citizens over higher prices, the Beijing government collected "a windfall tax on (NOCs') profits to compensate farmers and cab drivers"\textsuperscript{93}.

The complex relationship between NOCs and the state endorses a dualistic feature. On one hand, layers of political supervision brought by the Chinese government onto the hydrocarbons industry expose bureaucratic weaknesses to be capitalized by the companies to push their commercial pursuit. On the other hand, rather than a passive owner, the state keeps its hands off NOCs' day-to-day operations but still retains control

\textsuperscript{91} Downs, "Who's," 76.  
\textsuperscript{92} Jiang and Chen, "Update," 8.  
\textsuperscript{93} Houser, "The Roots," 153.
over essential matters, such as personnel appointment, development blueprint, and comprehensive plans of cooperation.

Motivations for "Going Out" and Behavioral Patterns

On the supply side, Chinese state's policy support (crystalized around the going out policy) is one major push factor behind Chinese companies' outward investment. In particular, the country's strategic quest to secure oil resources is often cited as an outlining consideration for Chinese NOCs to invest internationally.\(^9^4\) Chinese investments in the developing world are mainly driven by a nationally unified appetite for natural resources.\(^9^5\) Moreover, commercial motives are also highlighted, as discussed in 3.2.

On the demand side, such an appetite interacts with various institutional ingredients in different host country settings, such as political stability, rule of law, market mechanisms, and economic ties with China. There has been little consensus with regard to the role of political stability in influencing Chinese oil investments abroad. Some scholars, through statistical analysis of general Chinese FDI trends, argue that Chinese natural resource investments in developing countries often flow to politically unstable areas.\(^9^6\) On the contrary, others, drawing from different data samples, have argued that Chinese extractive investments are drawn to countries with greater political

\(^{9^4}\) For example, see analysis of China-Latin America Cross-Council Taskforce, "Chinese Foreign Direct Investment in Latin America and the Caribbean," *ECLAC Working Document* (November 2013), 9.


stability. A case study on Chinese extractive investments in Latin America finds that Chinese companies are more attracted to areas with better political stability but weaker rule of law. Endogenous to the second factor is an environment in which "economic transactions are less regulated by the market mechanism." Additionally, other statistical analyses have located new independent variables. For example, Quer, Claver and Rienda reason that presence of overseas Chinese, volume of Chinese exports and firm size have a positive influence on OFDI.

Research on the behavior of Chinese NOCs overseas is also inconclusive. On one hand, there is the view that Chinese oil giants behave qualitatively different from private IOCs in terms of their risk tolerance and location choices. Because these companies enjoy competitive advantages of "risk-safeguard mechanism established through government help" including "bilateral investment treaties, double taxation agreements and mutual protection agreements with other developing countries," they tend to eschew political and market risks and advance boldly in places considered unfriendly by western investors. Some critics even regard Chinese NOCs as puppets of the Chinese government that their behavior reflect "Beijing's political will and political alliance with the undemocratic states" and "Beijing's resource-based foreign policy (which) has no room for

98 Jing-Lin Duanmu, "Firm heterogeneity and location choice of Chinese Multinational Enterprises (MNEs)," *Journal of World Business* 47 no. 1 (January 2012), 64.
100 Diego Quer, Enrique Claver and Laura Rienda, "Political Risk, Cultural Distance, and Outward Foreign Direct Investment: Empirical Evidence from Large Chinese Firms," *Asia Pacific Journal of Management* 29 (2012), 1090.
102 Yadong Luo, Qiuzhi Xue, and Binjie Han, "How Emerging Market Governments Promote Outward FDI: Experience from China," *Journal of World Business* 45 no.1 (January 2010), 75.
morality. The opposite argument submits that Chinese NOCs embrace a great degree of independence and often prioritize commercial objectives over political agenda. More importantly, there is a converging pattern of Chinese NOCs with IOCs in terms of general business strategies and CSR strategies. In Latin America, judged by their strategy of "vertical integration and a hedge against price fluctuations," Chinese oil and mining companies are considered to be similar to their American and European peers.

Both sides are right. Chinese NOCs are convoluted entities immersed in the dual arena of political economy, both at home and abroad. In their calculations to fund foreign projects, financial bottom lines are weighted against political opportunities (provided by "friendly diplomacy" between the PRC and certain host governments), leading to both risk-averse and risk-tolerant behavior. Among Chinese NOCs, there is indeed a growing trend of entering more mature and secured markets in OECD countries, evidenced by CNOOC's $15.1 billion take over of Canadian oil company Nexen and Sinopec's venture in America's shale blocks. On the other hand, CNPC's continuous investments with Beijing's diplomatic support in Sudan where violence and social unrest had cumulated in the separation of South Sudan from the former country in 2011 testify the company's

104 ibid.
107 Jiang and Sinton, "Overseas Investments By", 22.
109 Miguel Perez Ludena, "Is Chinese FDI Pushing Latin America into Natural Resources?" Perspectives on Topical Foreign Direct Investment Issues by the Vale Colombia Center on Sustainable International Development no. 63 (March 2012), 2.
relaxed attitude toward political instability and market uncertainty, given the right incentives. In the Sudanese case, economic rewards (the country being the fourth largest non-OPEC oil producer in Africa with vast reserves in the newly-independent, conflict-laden South Sudan\textsuperscript{113}) clearly overrides a newfound caution against turbulence. In Latin America, examples of such "schism" abound. At the same time when Chinese oil companies tap into comparatively reliable markets, often in partnerships with IOCs (Brazil, Argentina, i.e.), they are also significant contestants in countries with little IOC footprints (such as Ecuador and Venezuela).

Even though little consensus has been reached regarding what attracts Chinese NOCs to invest abroad and how they behave, a rich body of scholarly works on these subjects introduce: first, interesting propositions such as how host political factors (stability, rule of law) and economic factors (bilateral ties, trade volume, i.e.) affect the companies; second, meaningful debates on how NOCs' behavior can be compared to their western counterparts.

**Drivers of CSR**

In the social dimension, all Chinese NOCs are riding the train of Corporate Social Responsibility (CSR), at least self reportedly. On paper, all pledge to care for their employees, support local communities, and preserve the environment via generous donations, dialogues, and activities. However, as evidenced by 2.3, there have been mixed reviews regarding these companies' social behavior in Latin America. Given the complex interdependence between these state-owned enterprises and the Chinese state, as

well as their dualistic nature in overseas investment decision-making, a unique set of motivations/pressures are at play in these companies' implementation (or non-implementation) of CSR norms.

At home, the Chinese government has promulgated a series of political guidelines and legislations to promote socially responsible behavior in economic sectors. In general, the 2006 Company Law, the 2001 Code of Corporate Governance for Listed Companies in China, the 1995 Labor Law, the 2001 Trade Union Law, the 1994 Consumer Rights Law, and the 1989 Environmental Protection Law all have articles that explicitly address CSR of Chinese companies. Targeting state-owned companies, the SASAC issued Guidelines on Fulfilling Social Responsibility by Central Enterprises in 2008, and the China Exim Bank issued Guidelines for the Environmental and Social Impact Assessment of Loan Projects. Emphasizing that Chinese companies comply with all local rules and regulations, these policy guidelines offer statutory basis and official instructions for NOCs operating abroad. Nonetheless, these legal documents are inadequate in constructing a socially conscious business culture among Chinese companies for three reasons.

First, major CSR legislations in China only list broad guidelines for doing business in a socially good way. For example, article 18 of the 2006 Company Law requires each company to "provide necessary conditions for its labor union to carry out activities", without specifying what constitutes necessary conditions. Albeit necessary

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115 Matisoff, Crude Beginnings, 18.
from a statutory perspective, such ambiguous language can be subject to multiple interpretations. To many scholars, CSR provisions are dubbed as exhortatory rather than mandatory.\textsuperscript{117} Second, lack of proper enforcement in the Chinese legal system leaves gaps between "the law on the books and the law in practice"\textsuperscript{118}, playing at least partially in frequent CSR failures from Chinese businesses. Third, in terms of holding outbound investments responsible, Chinese CSR legislations are weak as most discussions focus on the domestic arena\textsuperscript{119} and lack reachability abroad due to jurisdictional issues. The ones that include provisions for overseas activities (the SASAC guidelines i.e.) overwhelmingly emphasize a company's compliance with host country regulations rather than a "go beyond" (legal requirements) approach prominent in the international concept of CSR.\textsuperscript{120}

On the sideline, inadequacies of a domestic regulatory regime highlight the importance of motivational factors in host societies and in the international system. Some suggest that Chinese energy companies shall progressively participate in existing international CSR standards and guidelines such as the United Nations Global Compact, the Social Accountability 8000 Protocol, and the Voluntary Principles on Security & Human Rights.\textsuperscript{121} The pros and cons of relying on international quasi-regulatory regimes as CSR drivers will be discussed in length in the next chapter. What can be agreed upon here is that international instruments, although non-binding in a legal sense, "help to

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\textsuperscript{118} Lin, "Corporate Social Responsibility," 64.

\textsuperscript{119} Yang, "Corporate Social Responsibility," 4.

\textsuperscript{120} Matisof, \textit{Crude Beginnings}, 18.

\end{footnotesize}
build a normative community... (and) enable increased market pressures for CSR compliance"\textsuperscript{122} for Chinese NOCs whose home state weakly enforces CSR regulations and whose long-term benefits from operating in a captive domestic market breed insensitivity to market-based CSR efforts.

Moreover, situational factors from host country settings are gaining attention with regard to their relevance to prompt/inhibit Chinese NOCs' CSR imperatives. A 2011 World Bank report utilizing a large-N case study on NOCs around the world claims that a NOC is more likely to create social values when it is from a country with relatively small resource endowments and subject to market-oriented sector governance.\textsuperscript{123} Another quantitative study on Chinese corporations associates low CSR with institutional factors, including: low income-per-capita, high corruption, low civil liberties and political rights, low harmony, and low egalitarianism.\textsuperscript{124} On the other hand, the Global Economic Governance Initiative (GEGI) at the Boston University has published contextually rich qualitative works on the environmental and social performance of Chinese investments in Latin America that are highly concentrated in primary products.\textsuperscript{125} Drawing from examples of best practice such as Andespetro in Ecuador, these case studies argue that sound social and environmental safeguard from host governments and community engagement are paramount in holding Chinese firms responsible.

\textsuperscript{122} Wolfe and Evans, "China's Energy Investment," 95.
In summary, although the Chinese government has instituted a succession of CSR legislations, ambiguity and insufficient enforcement problematize these official guidelines’ power in checking social performance of Chinese enterprises, especially the outbound ones. Against this backdrop, external factors such as international regulations and guidelines, host country's sector structure, host government regulations and host civil society should be more emphasized in influencing CSR of Chinese companies/ NOCs.

Conclusion

After over sixty years of development, the Chinese hydrocarbons industry has leaped over the central-planning stage to embrace gradual liberalization. Chinese NOCs, state-owned but increasingly assuming economic/commercial functions are now tapping into the vast oil resources in Latin America. Their footprints have intensified since the mid 2000s with multi-billion oil deals struck in all major Latin American oil-producing countries.(Table 4). It is not the sheer volume of Chinese energy investments but the astounding pace of expansion that is significant. Taking into account of Chinese NOCs' financial might in combination with ties with the Chinese state, their experience in Latin America constitute unique cases for examining the role of CSR in shaping Chinese firms' overseas practices.

As Chinese oil giants' commitments in Latin America deepen, their actions are increasingly put under a microscope via media coverage. In often times, these reports adopt a negative tone about the companies' employment practices, community relations, environmental records and transparency issues. Criticisms follow naturally from the remarkable speed of growth in Chinese energy investments, combined with the region's
unfamiliarity with the newly internationalized Chinese NOCs. However, empirical evidence substantiated in length in 2.3 demonstrates that NOCs' CSR commitments should be evaluated on a case-by-case basis with attention to cross-country and cross-company differences.

More importantly, a deep understanding of Chinese NOCs' complex, dualistic nature must be stressed in analyzing their business decisions and behavioral patterns. In overseas markets, these companies mainly display standard business behavior in their daily operations. Out of concerns for financial certainty, they are now gearing their investments toward politically stable areas with rule of law and market fundamentals. But with diplomatic assistance from the Chinese government, their traditional boldness to go to unstable countries has not completely disappeared. In the CSR dimension, given the right incentives such as host government regulations, civil society oversight, international initiatives, Chinese companies are found to outperform their western counterparts in certain occasions.\textsuperscript{126}

In the last session, a preliminary analysis on sorts of motivational factors behind implementation (or non-implementation) of CSR policies introduce empirically relevant propositions on how host country's sociopolitical circumstances can influence a company's social performance. However, while a large number of studies are focused on CSR of Chinese companies, few specialize in oil & gas investments that represent over 65% of Chinese direct investments in Latin America\textsuperscript{127} and fewer focus on Latin American countries with the exception of the GEGI papers. The very few pieces of

\textsuperscript{126} See Section 2.3 in this chapter.
\textsuperscript{127} Ray et al., "China in Latin America," 5.
analysis that discuss social footprints of Chinese hydrocarbons companies or Chinese energy investments in Latin America are insufficient in providing theoretically significant hypotheses for this dissertation project for two reasons. First, these studies mainly induce policy recommendations for a wide range of actors (the Chinese government, host governments, NGOs, companies) based upon merely descriptive accounts of isolated cases. There are no attempts to systematically connect presented facts into conjunctional arguments. Second, these research papers are theoretically lacking with outdated and reductive views of theories pertaining to CSR, a growing field of scholarly research.

This chapter thus maps the terrain of Chinese oil investments in Latin America, with a detailed analysis on main actors, behavioral patterns, and social impacts. Against this background and context, the research questions are developed and justified. To formulate theoretically informed hypotheses that guide the research, the next chapter presents a systematic examination of scholarly debates on CSR, more specifically, the endogenous and exogenous factors that motivate or discourage CSR.
Chapter 3
Determinants of CSR Commitments: A Theoretical Dimension

Studies on theories of Corporate Social Responsibility and CSR in the oil sector, inform this research with recent intellectual trends and insights on the topic under exploration. By reviewing and organizing key scholarly debates on these relevant subjects, this chapter aims to generate theoretically-driven hypotheses and expectations to evaluate motivational drivers of Chinese oil companies' social initiatives in Latin America.

The first part provides a succinct examination on the historical and evolution of CSR in both business and academic worlds. A historical perspective is helpful for the overall case investigations because it establishes a rich context for discussing CSR and makes the quest for CSR drivers relevant and meaningful. Moreover, one can deduce from the chronological account of CSR that, throughout time, social responsibility has been undertaken with different emphases for various purposes. While earlier efforts were devoted to community-based philanthropic work in order to preserve business legitimacy and prevent labor backlashes, modern CSR exercise is more layered into several dimensions and carried out not only to improve social image of the corporation, but to strategically channel resources for the business's long-term viability.
The second part discusses the Business Case as one major camp in contemporary CSR studies. The Business Case for CSR emphasizes enhancement of the bottom line as the primary driver of social activities carried out by modern corporations. This endogenous theory is frequently used to explain oil companies' social care as defense of self-interests. The most developed paradigm in the field of CSR, the business case encompasses a wide range of theories, grounded in economics and management literature. After reviewing and analyzing important theories in the business case camp, this section surveys recent empirical works in the oil sector in line with the business case, emphasizing strategic concerns for reputation and risk management toward an end result of better company performance as the major driver of CSR. Both merits and limitations of the theory are considered at the end of this section.

In the third segment, an opposite theoretical strand of CSR with attention to exogenous factors such as host governments' regulatory frameworks, civil society engagement, and certain international regulations is considered. A holistic view is endorsed upon an assumption that self-regulation ignores the interplay between market and the sociopolitical arena and falls short of providing an effective framework for responsible business. As in the previous analysis, this section further canvasses application of this theory into empirical analysis of CSR in the oil industry. Building on skepticisms of the business case in its apolitical and market-driven nature, scholars in this camp emphasize the critical role played by external actors (governments, civil society, and international organizations) in advancing CSR in an industry that is "intimately intertwined with national stratagems of global politics and power"128, but also

simultaneously "vulnerable to environmental risks, health and safety risks, liability risks, and reputational risks."\textsuperscript{129}

Throughout the second and third parts of the chapter, four hypotheses are developed, correspondingly, from theoretical discussions on internal and external ingredients accounting for CSR performances and commitments. Four actors: oil companies, civil society groups, international organizations and host governments are highlighted respectively in each hypothesis. These analytically rooted propositions introduce key independent variables for later investigations and serve as conceptual roadmaps for case studies in subsequent chapters. The last part of this chapter discusses metrics of the variables and their sub-variants, along with the mechanisms that connect each variable, so as to shed light on the research design of the following case studies.

3.1. History and Evolution of CSR

CSR is not a novel concept, although in time it might have appeared under different names, such as "corporate philanthropy", "corporate citizenship", "social enterprise". As early as the Middle Ages, regional and local authorities in much of Europe chartered organizations like monasteries, universities, cities, and guides as corporations, which were expected to perform public and religious functions. "A recurring theme in the history of corporations is that they should exist to serve some public purpose, and they are granted certain privileges to facilitate this."\textsuperscript{130}


Economic historian and CSR scholar Archie B. Carroll traces CSR's roots to the period of the Industrial Revolution. In Great Britain and America, the industrial welfare/betterment movement accompanying the revolution "sought to prevent labor problems and improve performance by taking actions which could be interpreted as both business and social".131 As they became a standard business practice incorporated by registration instead of state monopolies, corporations also widely practiced philanthropy. Whether for concerns of self-survival or those of the society, infamous "robber barons" donated large sums of money to build schools, churches, hospitals and other community facilities, most of which were translated into social welfare otherwise unavailable to the public. For example, American industrialist George Pullman founded a company town, Pullman in Chicago to provide modern dwellings, education, and leisure to his 6,000 company employees and their dependents.132 In this early form, CSR was launched to enhance legitimacy of nascent corporate businesses and counter social pressure mainly from the newly emerged working class.

Carroll pinpoints the time from 1918-1929 as the "community chest movement" that "helped to shape business views of philanthropy, one of the earliest forms of CSR".133 In response to drawbacks inherent in the early era of capitalism where profit maximization was the golden rule for companies, he argues that "Philanthropy or corporate contributions, have assumed a central role in the development of CSR"134 in the 1870s to 1930s. Thus, CSR in its infancy was often associated with businessmen's

133 Carroll, "History of CSR," 22.
134 ibid, 23.
paternalistic actions toward their employees and the communities where they conduct operations. An individualistic, patronizing element was characteristic of early CSR.

Modern, conceptual works on CSR emerged in the 1950s. Economist Howard R. Bowen's groundbreaking book *Social Responsibilities of the Businessman* in 1953 opened the contemporary chapter on the study of CSR. He asked: "what responsibilities to society can business people be reasonably expected to assume?" Bowen argued that: "The doctrine of social responsibility rests upon the idea that business should be conducted for the effects of business operations upon the attainment of valued social goods." Carroll has called Bowen the "Father of Corporate Social Responsibility".

A social responsibility idealist, Bowen's tone of CSR was sympathetic and philosophical. Without proclaiming businessmen's act of social obligations as panacea, he subtly related economic self-interest and social objectives, the free market and business morality as interlocking connotations. Bowen's prescription regarding business's public responsibility mainly targeted philanthropy and sound labor standards. Following Bowen's tone-setting work, another prominent scholar of CSR, Morrell Heald, by observing the economic reality of accelerated industrialization from the 1920s to the 1950s, wrote in 1957: "Management stood in a 'position of balance' between the other claimants and must reserve to itself the final determination of their interests." Morrell advocated corporate donations, and a quasi sense of stakeholder engagement. Views of

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Bowen and Heald were shared by their contemporaries in writings such as: Richard Eels's *Corporate Giving in a Free Society* (1956) and Benjamin M. Selekman's *A Moral Philosophy for Management* (1959). As an idea in its early development, CSR was chiefly endorsed as an attitude rather than a code of conduct. "The decade of the 1950s was more 'talk' than 'action'."\(^{140}\)

In the 1960s and 1970s, CSR research has mushroomed as an outgrowth of societal changes reflected in "civil rights movement, increasing consumerism and environmentalism" \(^{141}\). Proliferation of CSR studies also resulted from growing intellectual interests. Some scholars attempted to formalize definitions of CSR. Keith Davis defines social responsibility as "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interests"\(^{142}\). William C. Frederick conceptualized "the social responsibilities of the businessman" as: "a public posture toward society's economic and human resources and a willingness to see that those resources are utilized for broad social ends"\(^{143}\). In 1971, Harold Johnson offered a "multi-interest" definition of CSR that resembled the stakeholder approach: "A socially responsible firm is one whose managerial staff balances a multiplicity of interest."\(^{144}\) Perhaps most influential CSR definition of this period came from Carroll's four-part conceptual model, which later was developed into the pyramid of CSR: "The

\(^{142}\) Keith Davis, "Can Business Afford to Ignore Social Responsibilities?" *California Management Review* 2 no.3 (Spring 1960), 70.
social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time."¹⁴⁵

A dominant feature of CSR research in the 1960s and 1970s, consistent with earlier scholarship was that businessmen, not the corporations, were considered main actors and practitioners of social responsibility. This focus on managerial initiatives carried an individualist token and would be washed out of fashion as big corporations further evolve into powerful institutions with more complex channels of decision-making. With regard to specific issues of fulfilling CSR, corporate contribution (philanthropy) continued to receive much attention of scholars of this period. However, other issues such as workplace welfare and environment also started to appear on the discussion agenda. Davis, for example, described a business's "socio-economic and socio-human obligations"¹⁴⁶ as two sides of social responsibilities. Elbirt and Parket surveyed large companies engaged in CSR activities in the 1970s and found that 95% of firms surveyed expressed concern for the environment while conducting CSR.¹⁴⁷

Deviating from discovering ontologically what CSR is, researchers in the 1980s and 1990s sought to develop alternative concepts such as "corporate social responsiveness, corporate social performance, public policy, business ethics, and stakeholder theory/management"¹⁴⁸. R. Edward Freeman proposed a stakeholder approach to study strategic management and business morals in his influential 1984 book, arguing that a business needs to create values for a multitude of actors--- owners,

¹⁴⁸ Carroll, "A History," 34.
employees, suppliers, government agencies, customers, activists, communities....

Although originally a theory of general business management, Freeman's stakeholder approach has far-reaching implications for future CSR studies, often serving as a theoretical foundation.

In addition, some CSR writers in the 1980s started to operationalize social responsibility as a process rather than an outcome. Per Thomas M. Jones, "corporations need to analyze the social consequences of their decisions before they make them and take steps to minimize the social costs of their decisions when appropriate." The most significant advances to CSR in the 1990s came in the realm of business practice. By this, Carroll points to the creation of the Business for Social Responsibility (BSA) as a non-profit institutional platform to organize and represent companies engaging in CSR.

In the new millennium, there has been growing attention to the subject of CSR among business, government and civil society on a global scale. The issue at the core is the intensifying wave of economic globalization. On one hand, primary forces of globalization—privatization, liberalization and deregulation empower corporations to an extent that their agents now grapple with resources and leverages of a supranational nature. On other hand, corporations and their enabling capital "outcompete" their traditional hosts, nation-states and local societies, which are still confined by geographical boundaries and localized constituencies. There is a widening gap between the rampant transnational market and national laws. In turn, other actors of economic globalization— consumer groups, labor unions, government agencies and civil society

organizations, per se, have increasingly put pressure on multinational corporations to "humanize" their business practices. These actors opt to promote CSR as a soft form of business regulation. "Growing interests in making global capitalism more humane may be the most visible link between globalization and the rise of CSR... it (globalization) has also given this strategy (civil regulation) added bite."\textsuperscript{152}

As a field of academic inquiry, CSR has become a broad and diverse arena of scholarship, "encompassing debates from many perspectives, disciplines, and ideological positions"\textsuperscript{153}. Although originated in the management literature, the issue of CSR is now approached by political scientists, economists, sociologists, historians and scholars of development studies, among others. In his popular book \textit{The Market for Virtue}, political scientist David Vogel offers a comprehensive analysis of CSR, summarizing its pros and cons in areas of development, labor sustainability, and environment.\textsuperscript{154} Sociologist Gerald Hanlon studies CSR in connection with capitalist social relations and post-WWII regimes of accumulation in terms of fordism and post-fordism.\textsuperscript{155} In the realm of development studies, scholar Michael Blowfield examines the effect of CSR on international development by constructing a development case for business

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\textsuperscript{154} Vogel, \textit{The Market}, 1-16.

\textsuperscript{155} Gerald Hanlon, "Rethinking Corporate Social Responsibility and the Role of the Firm-On the Denial of Politics," in \textit{The Oxford Handbook of Corporate Social Responsibility}, edited by Andrew Crane, Abigail McWilliams, Drik Matten, Jeremy Moon, and Donald S. Siegel (New York: Oxford University Press, 2009), 158.
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sustainability.\textsuperscript{156} This is just to name a few examples of cross-disciplinary scholarly efforts to address CSR in the 21st century.

Furthermore, CSR has also been institutionalized and brought to the mainstream society in the sense that a growing number of prominent international/regional organizations are now dedicated to research and policy analysis on the subject. In 2000, the United Nations proposed the \textit{U.N. Global Compact} as a policy initiative to encourage businesses to engage in socially responsible behaviors based on a globally acknowledged framework of ten principles.\textsuperscript{157} As "the world's largest corporate citizenship and sustainability initiative", the U.N. Global Compact today has "more than 12,000 participants, including over 8,000 businesses in approximately 145 countries around the world".\textsuperscript{158} In addition, the Organization for Economic Co-operation and Development (OECD) offers CSR \textit{Guidelines for Multinational Enterprises} to member governments to help business develop a sustainable code of conduct.

Among all major institutions of regional cooperation in the world, the European Union has positioned itself at the forefront of promoting CSR and CSR-related business practices. \textit{The European Commission}, for instance, has an explicit CSR agenda for action, offers policy support, guidelines to European businesses of all sizes, and hosts a multistakeholder dialogue on CSR. According to a volume on CSR across Europe, CSR

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\textsuperscript{156} Michael Blowfield, "Corporate Social Responsibility: Reinventing the Meaning of Development?" \textit{International Affairs} 81 no. 3 (May 2005), 515.


is now one of the most important topics for discussion among business people, politicians, trade unions, consumers, NGOs and researchers.\textsuperscript{159}

Finally, the issue of corporate conscience is also well received in less developed countries where conversations on CSR were virtually nonexistent a decade ago. The \textit{Asia-Pacific Economic Cooperation (APEC)} now publishes extensively on the state of CSR in different sectors (mining, supply chain, agriculture etc.) among APEC economies. Established in 2003, CSR Asia is a research and consulting center specializing in promotion and integration of sustainable business practices in Asia. In Latin America, NGOs like \textit{Instituto Ethos} (Brazil), \textit{Accion Empresarial} (Chile), and \textit{Fudemas} (El Salvador) also emerged to help spread norms of ethical business practices in the region.

\subsection*{3.2. The Business Case for CSR}

\textbf{Endogenous Theories}

Predominantly, corporate actors have expressed interest in advancing a CSR agenda for their companies and the business community at large. Vogel summarizes the position of these corporate adherents as "the Business Case for CSR": "(according to the business case), the most important driver of corporate interest in CSR is the argument that good corporate citizenship is also good business."\textsuperscript{160} Such a stance focuses on explaining motivations of corporate citizenship on the supply side, that economically-minded corporations are at the heart of promoting CSR in pursuit of self-interest.

\textsuperscript{159} Habisch, Andre et al. eds, \textit{Corporate Social Responsibility across Europe} (Berlin: Springer Berlin Heidelberg, 2005).
\textsuperscript{160} Vogel, \textit{The Market}, 11.
Paradoxically, claims for a business notion of CSR are developed from arguments of CSR's most prominent antagonist---the late Milton Friedman. Addressing the old-style corporate responsibility when businesses exclusively undertook philanthropic activities to showcase their care for the society, Friedman emphasized the overarching principle of financial bottom line as the only social responsibility of business. In his view, corporate executives have a primary fiduciary responsibility to stockholders by conducting "the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom". In line with neoclassical economics, Friedman's theorization of business social responsibility presumes "a full separation of the functions of the public and private spheres" and is later summarized as one main approach to study CSR, the Shareholder Value Theory (SVT).

More recently, proponents of The Business Case for CSR have come to embrace SVT's market fundamentalism by emphasizing CSR's correlation with corporate profitability. A recent management study, through microeconomic analysis of the altruistic and the strategic approaches to CSR, harmonizes Friedman's position and CSR. It draws attention on "the conditions under which profit maximization and social performance are congruent" by calculating the optimal level of social output a firm can produce.

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The most straightforward attempt to build a business case for CSR is to identify a positive association between a firm's social responsibility and its financial vitality. Margolis and Walsh document a thirty-year empirical literature connecting CSR with corporate financial performance (CFP). They find that out of 109 studies that treat CSR as an independent variable, "almost half of the results (54) pointed to a positive relationship".\(^{164}\) Of the remaining 22 studies where CSR is operationalized as the dependent variable, "the majority of results (16) pointed to a positive relationship between corporate financial performance and social performance".\(^{165}\) Furthermore, to overcome widely criticized problems of poor measures and weak theory construction, Orlitzky utilizes meta analysis and observes a mutually virtuous cycle between corporate citizenship (CC) and CFP. In conclusion, "CC and CFP are positively correlated, most likely because social performance helps enhance corporate reputations, and, to a lesser extent, improve managerial learning and internal efficiencies."\(^{166}\)

Adopting the same assumption that CSR and a firm's financial goals can be compatible, other scholars have sought more mid-level analysis, using organization and management theories per se, to explain and expand the business case. In a call for conceptualizing CSR in non-generic ways, Porter and Kramer expand Porter's \textit{Competitive Advantage Theory} to construct a strategic framework that companies can use to achieve the most productive potential of CSR. They urge corporate actors to engage in CSR proactively through locating points of intersection between business and society,

\(^{164}\) Joshua D. Margolis and James P. Walsh, "Misery Loves Companies: Rethinking Social Initiatives by Business," \textit{Administrative Science Quarterly} 48 no. 2 (June 2003), 274.

\(^{165}\) Ibid.

choosing certain social issues to follow through, and developing a corporate social
agenda that aids "reinforcing corporate strategy through social progress". Essentially,
"the most strategic CSR occurs when a company adds a social dimension to its value
proposition, making social impact integral to the overall strategy." The most important
method to enhance competitiveness through CSR is to avoid "ad-hoc", "piecemeal", or
unfocused donating.

Similar to the Competitive Advantage Theory's assertion that a firm can create
financial value and showcase goodwill simultaneously, the Triple "P" Bottom Line
theorem developed by John Elkington distinguishes "Profits, People, and Planet" as three
areas of cost-benefit calculations for corporations. Mainly an accounting framework, the
Triple Bottom Line (TBL) organizes practical advises for modern firms to compute social
and environmental dimensions through measures such as life-cycle technology and
sustainability auditing, in their pursuit for financial performance if they want to prosper
in the long run. The ultimate goal of TBL, according to Elkington is to restructure and
sustain capitalism on a global scale via corporate actions.

The Pyramid of CSR constructs the idea of social responsibility into four
components. The theory submits that "the total corporate social responsibility of business
entails the simultaneous fulfillment of the firm's economic, legal, ethical and
philanthropic responsibilities" with "the basic building block notion that economic

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170 John Brett Elkington, Cannibals with Forks: The Triple Bottom Line of 21st Century Business (Oxford:
171 Ibid, 17.
performance undergirds all else". Carroll further expounds his pyramid theory by endorsing a broad view of the business case as opposed to the narrow view that insists on a clear link of CSR and financial performance as the basis for a firm's social initiative. The broad perspective underlies a complex relationship between CSR and firm performance, one that's often non-linear and indirect.

In congruence with this broad view, Kurucz, Colbert and Wheeler propose a more nuanced and robust business case for CSR. In turn, companies should "acknowledge system complexity, build integrative capacity, and take a pragmatic approach". Eventually, a synergistic model of value creation is developed in which win-win-win outcomes among the company and multiple stakeholders can be observed. Drawing from cross-sectional regression analysis of CSR ratings based on the German _oekom_ database, Schreck finds that a positive CSR-CFP link is contingent upon two intermediate factors, firm size and past social performance. Situational contingencies play another important role in affecting the relationship between CSR and CFP. A positive relationship depends on the ability of a firm to interact with various stakeholders and form an intangible, pro-CSR asset.

Common to both narrow and broad understandings of the business case is their emphasis on corporate actors as the central agents to carry out CSR. In the SVT model,
owners shall exercise social good will to create more values for the business. According to other theories, firm managers are assigned the tasks to design CSR policies and channel social initiatives into financial sustainability. Good social activities must be based on good economics. Such an agency-centered, interest-based reasoning is comparable to the methodological individualism and a material focus inherent in the *Rationality Paradigm of Comparative Political Economy*.

On an aggregate level, even the broadest variant of the business case (one that assigns relevance to stakeholders) is still firmly grounded in market fundamentalism that a *lassez-faire* market giving considerable leeway to corporations is self-regulating and capable of solving related social ills. To frame this position in the debate on state-market dynamism under globalization, an important topic in *International Political Economy*, the business case reflects a neoliberal perspective that nation-states are in retreat and become embedded in corporate and civic interests. Emerging from this view is a rising demand for private governance when non-state actors fill the void left by the retreating state. Thus, the business case also resonates with both the functionalist and rationalist positions from an emerging literature on transnational/global private governance. The functionalist thesis explains the involvement of private actors in governance due to inability of public actors to provide public goods, while the rationalist thesis submits that companies become engaged in governance only when there is a sufficient overlap in the

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interests of private and public actors. In the case of CSR, companies do social good because they can and because it is embedded in their corporate interests.

**The Business Case in the Oil Industry**

The hydrocarbon industry constitutes a unique test for CSR research. Unlike many other economic sectors, the oil and gas industry is "intimately intertwined with national stratagems of global politics and power," but also simultaneously "vulnerable to environmental risks, health and safety risks, liability risks, and reputational risks." Possibly as a strategic response to complicated operational environments, the sector "has been among the leading industry sectors in championing CSR." In line with the theories outlined above, a number of scholars reason CSR in the oil sector as internally driven by oil companies to strategically smooth oil operations and transactions.

A 2012 *Journal of Business Ethics* article analyzes website contents of six U.S. oil companies during 2011 and 2012 and embraces a strategic legitimation approach to CSR. The authors focus on these firms' voluntary CSR practices (social, community, and environmental initiatives) and CSR communication tactics (CSR framing mechanisms, social audits, external partnerships). In a controversial industry featured by high levels of stakeholder skepticism, they reason, the communication aspects of CSR must be strengthened, which includes integration of CSR into company's mission, extensive use of factual arguments, usage of two-sided messages, industrial-level collective CSR.

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actions and showcasing of CSR awards. Moreover, their case analysis confirms that size matters in delivering CSR credibility, that large firms usually have more extensive and diversified CSR engagement.\textsuperscript{183} Most importantly, this study conforms to a standard business case logic by emphasizing the following underlying assumption:

"In response to the widespread negative media publicity, as well as the increased level of stakeholder sensitivity to ethical, social, and environmental issues, oil companies are embracing corporate social responsibility as a strategic means to counter negative public sentiments, build reputational capital, and ultimately attain legitimacy essential for their long-term prosperity."\textsuperscript{184}

Via interviews with senior public relations managers from one unnamed U.S. oil company, a longitudinal computer-assisted textual analysis by Spangler and Pompper examines these officials' perspectives on CSR for the past five decades (1966-2010), stressing the importance of \textit{ex-ante} actions in designing CSR strategies.\textsuperscript{185} Their research identifies the oil company's public relations personnel as key figures impacting CSR strategies. The expected end result of curbing public distrust is similar to the strategic legitimation approach. Here again, corporate actors are given the central role in undertaking social initiatives, an enduring theme in the business case for CSR.

A CSR management study on the British Petroleum's (BP) venture into new territories where the host government's regulatory agencies did not impose specific social


\textsuperscript{184} ibid.

guidelines for oil companies reveals that incorporation of CSR as an integral part of the overall business strategy is beneficial to both "reputation and profit". In Faroe Islands, although its Ministry of Petroleum awards operational licenses to companies promising to drill oil in a safe and environmentally acceptable manner, a company's previous CSR record is only secondary to its operational performance in securing licenses. Through conducting stakeholder consultation and social audits, BP made a decision to invest in the islands' fiber-optics industry to boost local economy. At the corporate level, this social investment bid was seen as a result of the firm's management belief that there is a link between CSR and business profit from increased competitive advantage. More importantly, upholding CSR as a central business strategy, the study argues against strict external regulatory codes of conduct as prompting oil companies to assume CSR as an "add on". This standpoint resonates with the rationalist position of the global private governance literature.

Empirical research of the business case in oil-rich developing countries is also emerging, mainly as part of a strategic management literature. David B. Spence embraces CSR as a centerpiece of oil companies’ business decision-making process to alleviate reputational risks in the absence of governmental regulation. Assuming that oil-producing developing nations lack effective legal standards to hold foreign oil companies responsible, Spence studies social behavior of Shell in Nigeria, ExxonMobil in Indonesia, and ChevronTexaco in Ecuador. He concludes that international oil companies (IOCs) carry out CSR because reputational harm from irresponsibility is "just as damaging to the

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187 Spence,“ Corporate Social Responsibility,” 63.
bottom line as legal liability and investments in socially responsible behavior may earn positive returns". In other words, in developing countries where governments are corrupt and irresponsible to public demands, IOCs must step in to fill the void, as the functionalist thesis in global private governance literature asserts.

A case study on Shell's CSR activities in the Niger Delta Region (NDR) submits that CSR is "a frame of reference for addressing environmental problems and socioeconomic dislocation caused by the operations of oil transnational corporations". In countries where systematic corruption has been rampant and the oil-producing areas are politically marginalized, a coherent CSR agenda to tackle oil spills and pollution in terms of community assistance, community development, and community empowerment is much needed to help alter negative images and minimize impacts of oppositional social movements. According to this work, corporate attitudes, more than those of host governments and communities determine the direction of CSR.

In summary, the business case as a major paradigm in the field of CSR encompasses a number of related theories. On one hand, a narrow view of the business case presents a reductive account of corporations' exercise of social initiatives in relation to clear financial gains. Studies done in this fashion usually strive to identify a positive, linear relationship between social programs and financial performance through statistical, cross-sectional analysis. This macro-social level standpoint is represented by the Shareholder Value Theory and has lost its appeal among the business science community. On the other hand, an expansive view of the business case exploring the complex

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188 ibid, 76.
interdependences between business and society is gaining popularity in the academia. This broad perspective is supported by several organizational theories such as Competitive Advantage and Pyramid of CSR. Syncretic models that identify intermediate variables and situational contingencies are also inherent in this view.

All these theories are categorized as the business case because of their overriding focus on the centrality of corporate actors and a shared position on market fundamentalism. A number of observational studies in the hydrocarbon sector follow this neoliberal trend and place oil companies' strategic concern for long-term prosperity at the heart of CSR. What can be deduced from the discussions above is a business-school orthodox hypothesis with three inter-related, empirically testable expectations:

\[ H1: \text{Oil companies pursue CSR voluntarily because it creates bottom-line benefits.} \]
\[ H1a: \text{Oil companies engage in CSR to defend its organizational legitimacy in socially and environmentally controversial areas.} \]
\[ H1b: \text{Oil companies engage in CSR to boost their public image in response to public disapproval and media criticisms.} \]
\[ H1c: \text{Oil Companies engage in CSR to strategically improve its competitive advantage in multi-player settings.} \]

**Merits and Limitations**

Born from a management literature, the business case for CSR is well received in the business community. In a review for the bottom-line case, Carroll and Shabana cite a 2003 Fortune survey of business executives, 73% of whom "indicated that 'cost savings' were one of the top three reasons why companies are becoming more socially
responsible". Reputation Institute, a leading international think-tank and advisory firm for CSR-themed reputation management makes the value case for CSR. The organization's 2014 CSR report explicitly endorses a business case where "firms with better CSR reputation have a much higher ability to foster desired supportive behavior among customers."

Although the business case presents a clean-cut understanding of CSR, theoretical constructions in this line simplify and sometimes overlook larger sociopolitical contexts under which companies operate. Firms are studied in an isolate manner and the market's negative externality a mainly strategic (rather than fundamental) constraint. Surveying a list of socially responsible firms from the 1970s to the present, a practical critique of the business case finds that many of these companies (including Polaroid, Chiquita and Merck, among others) filed bankruptcy or experienced declining market shares, evidence countering the argument that "in the long run the more responsible firms will perform better". Statistically, the direction of causality might be reversible that well-performing companies possess better resources to be more responsible. At the same time, many omitted variables such as consumer preferences, product quality, host risk environment make the CSR-CFP relationship even more dubious. Methodologically, quantified measurements of both CSR and financial performance are inconclusive at best and arbitrary at worst.

The studies on oil industry along this line of reasoning suffer three major setbacks. First, by assuming that oil companies conduct CSR in a standard business case and focusing on CSR’s micro foundations, they ignore the intricate state-society relationship. States and other non-corporate actors are treated as a black box, the passive recipients of CSR. As oil has become a strategic resource central to "states engaged in national security planning"\(^{194}\), assessments on oil firms' social responsibility must forgo such a market/firm centrism. Second, relying heavily on internal data (company self-reporting on CSR), these works are inadequate in providing measures on oil companies’ actual CSR fulfillment. Last, they rarely include analysis on state-owned oil companies, which make up a significant portion of oil wealth in the world today.

### 3.3. A Holistic Framework for CSR

The power interplay between foreign hydrocarbon firms and their important stakeholders including the host state, the very communities where firms operate, and these communities' civil society representatives can be stylized by two opposing intellectual positions regarding the ever-changing state-market relationship under the globalization. A neoliberal perspective holds the view that nation-states are in retreat\(^ {195}\) and become embedded in corporate and civic interests\(^ {196}\). Emerging from this view is a rising demand for private governance when non-state actors (civil society and international community) fill the void left by the retreating state. On the contrary, neorealist supporters assert that

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\(^{195}\) Strange, *The Retreat of*.

\(^{196}\) Cerny, "Globalization and the,” 601.
national governments are still the primary actors in economic affairs. In terms of CSR, the state devises social initiatives and guidelines for multinational corporations to follow.

**Exogenous Theories**

Building from criticisms against the business case, the second strand of intellectual works advocate the role of external actors (government agency, civil society, NGOs, international organizations, etc.) in advancing CSR. This view claims that a firm is socially responsible when it recognizes its multiple roles in a society beyond satisfying the bottom line and when non-corporate actors seek to influence the CSR agenda by regulating, partnering, and co-governing. In other words, this standpoint emphasizes the intertwined relationship among state, society and business. Even though the applicability of business case in Chinese oil companies' oversea social responsibility still needs to be empirically tested in the following chapters, my project in a theoretical light sides with a more holistic perception of CSR, as espoused in the following passage.

An early proponent, business ethics professor R. Edward Freeman started a new intellectual trend to study CSR opposite the traditional business case by streamlining a value-based, holistic theory. The *Stakeholder Theory* assumes that success of a business depends on value creation of stakeholders, including financiers (shareholders), customers, employees, local communities, suppliers. CSR must be designed to balance a multiplicity of stakeholder interests and eventually achieve maximum cooperation between stakeholders and the corporation. Thus, value-driven (instead of profit-driven)

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relationship-building is an ultimate goal of CSR since each single stakeholder group has the capacity (to varying degrees) to affect the business and its other stakeholders.

While Freeman initiates one of the most important CSR theories, his hypothesis is broad, and his theory, mainly normative, is still largely based upon theories of firm as predominantly an economic entity. Moreover, Freeman does not weight impacts of different stakeholders. More recent theoretical constructions on CSR in line with a holistic focus of the Stakeholder Theory strive to provide more middle-range implications by identifying certain important actors and micro-level institutional factors for a corporation's subscription to CSR.

**Role of Civil Society:** Recent scholarly contributions to CSR also scrutinize the salience of another non-corporate actor, civil society organizations that represent various populations affected by firm investments. In the broadest context, civil society as an arena of politics "where citizens seek...to shape rules that govern social life" has the capacity to hold corporations accountable through social movements by engaging with corporate and state actors to change norms governing economic activity at the level of political economy. This means that via a series of cognitive building dialogues, civil society actors can influence both the official political discourse and corporate decision-making on social issues of their concern, ultimately transforming the ontology of CSR from a market-based firm strategy to a genuine, meaningful social practice.

Coming from a *Shareholder Value Theory* perspective, Gary Johns, Australian writer and former politician examines the rhetoric of CSR as firm managers respond to

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stakeholder pressures and submits, "Corporate Social Responsibility is really Civil Society Regulation in disguise."\textsuperscript{200} The language of CSR utilized by corporations under Johns' analysis centers around grievance-settlement in society and opens room for civil society, mainly transnational NGOs to set standards for business behavior. Particularly, a stakeholder-focused CSR approach subjects corporations who fear repercussions of being singled out to civil society organizations who utilize a host of techniques ranging from naming and shaming to collaborative partnerships.

Political scientists have engineered a theoretical framework, coined as \textit{deliberative democracy} in which actors, traditionally with unequal power, state elites and lay citizens alike, can engage in political decision-making by partaking in discursive deliberation. NGOs and grassroots organizations as prominent civil society actors can justify decisions in a reciprocal and dynamic process to reach consensus with other actors.\textsuperscript{201} Under this framework, CSR becomes a bridge between state, civil society, and corporations (now a political actor) through political processes of participatory dialogue between market and non-market actors to allow for more "democratic control on the public use of corporate power"\textsuperscript{202}.

Civil society actors, especially influential NGOs with capacity to mobilize transnational social movements are stepping up in the age of economic globalization as a powerful force to regulate multinational corporations. This argument is based on a

\textsuperscript{201} Amy Gutmann and Dennis Thompson, \textit{Why Deliberative Democracy?} (Princeton University Press, 2004), 4-7.
neoliberal predisposition that heightened international trade and finance restrain governance capabilities of nation-states to regulate their once homegrown firms that are now operating in global spheres. Newell describes the market-state asymmetry under globalization as a "regulatory vacuum" in which environmental NGOs fill by "forging alliances with consumers, institutional investors" and more importantly by "targeting companies directly." \(^{203}\)

Newell further argues that NGOs in the absence of government regulations can hold corporations responsible through collaborative strategies (eco-consumerism, shareholder activism, stewardship councils, etc.) under the banner of *liberal governance*. As these NGOs grow in size and may become more vulnerable to litigation risks from corporations, traditional confrontational tactics such as consumer boycotts, exposure of misconduct and non-compliance have been pushed to the side. Most importantly, enabled by modern communication technologies, these civil society associations are now able to take up the challenge of transnational societal governance through a dense network connecting local communities, local NGOs and international NGOs.\(^{204}\)

With reference to several South African experiences in the mining and chemicals sector, a critique of the business case supports *critical cooperation* as one efficient approach for NGOs and other civil society actors to shape the CSR debates.\(^{205}\) With the main objective of increasing or maintaining the bottom line, purely business motivations for CSR underpinned in accommodation of societal pressures and for purpose of


\(^{204}\) Ibid, 123-9.

legitimization prelude businesses from making sincere, sustainable efforts to improve social and environmental affairs. Against this backdrop, civil society groups should counter such a narrow focus and infuse their own interests with a broader CSR agenda through cooperative means.

Empowered by a global network of civil society organizations, NGOs nowadays gain extra leverage in engaging with companies through interest-based (as opposed to position-based) negotiations. Such negotiations should be focused on identifying shared interests for partnership, building alliances, and incorporating credible warnings of negative consequences if the partnership fails. However, confrontational tactics should be used only in the last resort as a complementary to collaborative methods.206 This position of critical cooperation is based upon a theoretical framework of the same name developed by Covey and Brown.207 This framework, proposed as an effective model of civil society-business engagement, calls forth civil society organizations to build dialogic relationships based on mutual benefits and "complementary core competencies", instead of using traditional adversarial techniques such as boycotts, pickets, and demonstrations:

"From a civil society perspective, partnerships can be beneficial because business has important resources and capabilities that can, and should, be harnessed for development purposes. Infrastructure required by a new mine in a remote area, for instance, could also contribute significantly to provision of services such as electricity and water to local settlements... A mining company’s logistical and engineering capacities and financial and human

206 ibid, 262-7.
resources can thus be complemented by the local knowledge and social capital of CBOs or NGOs."^{208}

A recent case study on CSOs' partaking in CSR in Vietnam reveals that symbiotic measures such as technical cooperation, dialogue and consultation constitute the major forms of civil society-private sector relationship while confrontation is seldom used.^209 Based on fieldwork and interviews with representatives of Vietnamese civil society organizations, this NGO-sponsored project purports a *win-win approach* for CSOs to collaborate with the business sector to create positive impacts by firms on issues including environment, workforce and local communities. Moreover, CSOs in developing countries are suggested to undertake capacity building on CSR knowledge and network building to enhance information sharing.

In summary, civil society actors in forms of both NGOs and more horizontally structured grass-root organizations are enhancing their position as a key player in the arena of promoting and implementing CSR. The theoretical propositions considered above suggest varied responses that civic organizations can apply to develop a CSR agenda. While the *deliberative democracy* model focuses on a constructivist approach of discursive consensus-building, both the *critical cooperation* and *win-win* models pay a great deal of attention to rationalist calculations of mutual benefits and opportunity cost (what will happen if cooperation fails?). Lastly, the *liberal governance* model explores, in a functionalist twist, what civil society can do with the business world in the age of globalization.

\(^{208}\) Hamann and Acutt, "How Should Civil," 261.
These metaphysical prototypes do share three common characteristics. First, the concept of CSR is presumed to have transcended narrow business criteria (CSR as a monothematic approach) to become a holistic focal point between the private sector and other social actors. Second, cooperative methods (consultation, dialogue, partnership...) are recommended as an optimal, sustainable strategy of business-civil society engagement, whereas antagonist approaches are only deemed as the "last resort" to achieve immediate results, may negotiations fail to bring cooperation. Third, connections between international, regional, national, and local civil society organizations can boost visibility, information exchange, fund raising, and technological diffusion among these actors so they are better situated to engage with CSR.

**Role of Intergovernmental Organizations**: Since today's economic reality indicates that a wide range of commercial activities now assume a transnational nature and once provincial social life is presently affected by multinationals, intergovernmental organizations (IGOs) and forums are increasingly entrusted by nation-states and their constituents to supervise international/regional markets, to provide guidance to what is considered responsible and appropriate corporate conducts. "Clearly, an effective international solution to the social and environmental problems posed by multinationals requires international co-operation."  

The importance of IGOs in overseeing transnational affairs is illuminated by a rich literature on *Global Governance*. In its broadest form, *Global Governance* embodies an internationalized coordinating and distributional mechanism that relieves the tensions

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between the growing global economy and the continuingly fragmented national politics. Concretely, it is "a complex of rules and regulatory institutions that apply to transplanetary jurisdictions and constituencies."\textsuperscript{211} In this realm, there are four major theoretical stances. Neorealists, especially proponents of the Hegemonic Stability Theory, plead that a functional system of global economic governance rests upon the political will of its most powerful member(s). Per Robert Gilpin, "the ways in which the world economy functions are determined by both markets and the policies of nation-states, especially those of powerful states."\textsuperscript{212} Neoliberal institutionalists, on the other hand, place the emphasis of global governance on inter-governmental institutions that have the capacity to manage the global economy by reducing transaction costs, preventing moral hazard problems, and improving information-gathering. Two other alternative hypotheses of global governance, New Medievalism and Transgovernmentalism find quarrel with the traditional notion of nation-state, in favor of horizontal and decentralized models of governance. Modeled upon Western Christendom in the Middle Ages, the New Medievalism aims to disentangle governance from government.\textsuperscript{213} Global governance arguably "can be achieved through networks of public and private groups and institutions at various levels."\textsuperscript{214} Slipping away from normative prescription toward technical specificities, Trasngovernmentalism bears resemblance to transnationalism and neofunctionalism by arguing that nation-states can be divided into their component parts.


\textsuperscript{212} Gilpin, \textit{Global Political Economy}, 23.


\textsuperscript{214} Gilpin, \textit{Global Political Economy}, 392.
and that the intergovernmental bodies deal with particular technical and functional issues pertaining to global governance.215

Mainly observational in nature, studies regarding the impact of IGOs on CSR is loosely connected to the broader literature outlined above. In the context of CSR, IGOs have devised a list of sustainability/ accountability guidelines to regulate business behavior in the global community. Prominent examples of general frameworks on CSR include: the United Nations’ Global Compact, the G20/OECD Principles of Corporate Governance, the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the European Multi-Stakeholder Forum on CSR from the European Commission. These international initiatives promote good social and environmental business practices through a top-down approach of giving guidance to member states to regulate or incentivize good corporate governance (the OECD Principles, i.e.), as well as a bottom-up approach of partnering with civil society organizations to encourage good corporate behavior (the Global Compact, i.e.). These codes of practices fall under the jurisdiction of "soft law":

"'Soft law' in the international law context refers to principles and policies which have been negotiated and agreed between states, or promulgated by international institutions, but which are not mandated by law or subject to any formal enforcement mechanisms."216

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While most of these soft law instruments (as part of customary international laws) are not legally binding, there are also treaties espousing stricter regulations of member states and/or businesses with monitoring and enforcement systems. Often, these international regulatory regimes are devised to tackle specific CSR-related areas or particular industries, such as corruption (*the 1997 OECD Bribery Convention*), oil pollution (*the 1969 Civil Liability Convention*), human rights (*the 1999 ILO Child Labor Convention*), consumer health (*the 2003 Framework Convention on Tobacco Control*) and industrial hazard (*the 1998 Rotterdam 'PIC' Convention*).\(^{217}\) Compared with customary and soft laws that are normally binding on all states, international treaties are contractual agreements at an international scale that obligate signatory states in a more straightforward fashion.\(^{218}\) *The 1997 OECD Bribery Convention*, for example, requires state parties to punish bribery of a foreign public official from an OECD-headquartered company with criminal penalties. Under this treaty, strict implementation and follow-up procedures are prescribed, as featured by a "peer review" system.

Several criterion apply to differentiate the myriad of international standards and guidelines on CSR. The aforementioned classification in terms of general frameworks or specific regimes is measured by distinguishing CSR initiatives as generic, theme-specific, and targeted.\(^{219}\) *The OECD Guidelines for Multinational Enterprises*, for instance, constitute a generic regime for CSR that covers all relevant themes including labor standards, environmental protection, consumer rights, supply chain and sustainable

\(^{217}\) Detailed explanation of such international conventions can be found in Zerk, *Multinationals and Corporate*.

\(^{218}\) Zerk, *Multinationals and Corporate*, 69.

development. On the other hand, a theme-specific guideline, such as the Extractive Industry Transparency Initiative (EITI) concerns a particular issue area (transparency in extractive sectors per se). Furthermore, some other regulatory regimes are targeted toward certain stakeholder groups (indigenous population in the ILO Convention 169, i.e.) or specific regions (the EU's CSR Forum, i.e.).

Another criteria to distinguish existing international regimes on CSR considers operationalization of a company’s social conscience by performance or process. A performance-oriented protocol such as the ILO Tripartite Declaration emphasizes the minimum level of attainment a business shall achieve on general or specific CSR issues, while a process-centered guideline focuses on necessary procedures in a management system for a company to shape its CSR program.\(^{220}\) Nearly all current intergovernmental standards and guidelines on CSR are anchored toward performance while several nongovernmental reporting standards such as the Sustainability: Integrated Guidelines for Management (SIGMA) Project and the Global Reporting Initiative are process-oriented. In other words, performance is a common yardstick used by authoritative international organizations in their CSR campaigns.

Emerging from international public discourses traditionally dominated by national governments, IGO guidelines should be viewed as “the initial steps of developing an international forum to monitor Corporate Social Responsibility”\(^{221}\). This introductory stance suits the CSR needs of Chinese NOCs as relatively new players in the global oil

\(^{220}\) Ibid, 72.
market. In Cramer’s cyclical, iterative action plan for CSR, a novice firm is encouraged to use generic guidelines to assess its current CSR status and then use various theme-specific initiatives to elaborate main CSR focal points.\textsuperscript{222} Cramer's proposal on combinations of CSR regimes at various levels can be said to fit a New Medieval standpoint of cross-collaboration. The same could be said about a World Bank project that suggests, in the area of environmental responsibility, a global commonly accepted CSR framework from collaboration of different CSR initiatives, to first, curtail confusion arising from richness of international public and private initiatives, and second, overcome low enforcement capacity of developing countries.\textsuperscript{223}

Most influential international initiatives on CSR propose a set of recommendations for governments and businesses, covering a wide range of relevant issues and mainly concentrating on performance. Although a few precedent international treaties go beyond this normal/moral approach to establish contractual obligations for signatory states, such regulatory regimes are narrowly focused while enforcement varies at best and is lacking in many cases. Thus, it is safe to deduce that the majority of international frameworks by IGOs utilize \textbf{“soft law” instruments} by normally engaging national and corporate parties.

Although not legally binding, these instruments are rather legally significant "as a way of testing attitudes, developing consensus around an issue and shaping future norms"\textsuperscript{224}. Complementing each other, these international guidelines are postulated to

\textsuperscript{222} Cramer, "Applying International Standards,” 74-5.
\textsuperscript{224} Zerk, \textit{Multinationals and Corporate}, 262.
“establish a common international basis for responsible business conduct.” 225 Furthermore, they “may serve as inspiration and for establishing an overall framework for the work with social responsibility for all types of enterprises, irrespective of industry and geographic location”226.

A recent OECD comparative overview of the OECD Guidelines, the ILO Tripartite Declaration and the UN Global Compact submits that these three regimes are the foremost international instruments related to CSR that, in spite of a voluntary nature, are high-profile and legitimate sources of acceptable business behavior in an international context.227 In relation to proliferating private principles, IGO guidelines, argues by the study, “complement privately-developed CSR initiatives and are key expressions of the broader systems of public and private governance from which the private initiatives emerge.”228

Besides a voluntary, normative nature that is legally significant as a baseline and subsequently a comprehensive purview of CSR, IGO guidelines share two more common characteristics. First, all these regimes ontologically derive from and refer to broader international normative frameworks, a source of legitimacy and authority. For example, both the ILO Tripartite Declaration and the UN Global Compact are based upon the UN

226 Ibid, 15.
228 Ibid, 235.
Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Millennium Goals.229

Second and more importantly, national governments play a significant role in shaping and enforcing IGO frameworks on CSR. With a few exceptions (the Global Compact), most international guidelines on social responsibility address nation-states directly and engage businesses indirectly. After governments ratify or recognize certain international regimes on issues like environmental sustainability, social policy, industrial relations, they inform/sensitivize and incentivize businesses operating from and/or within their territories, (re)enforcing international guidelines through various national programs.230 In his book, Zerk's extensive survey of existing international regimes on human rights finds scant evidence of international regulations targeting companies directly but plenty of cases where human rights standards are imposed indirectly on companies by national governments, under the stamp of "international regulatory responsibilities of states"231. In this sense, the emphasis on nation-states as primary actors in global governance is reminiscent of a neorealist stance.

Role of Government: Criticizing the business case on both substantial and methodological grounds, David Vogel questions the effectiveness of CSR as a purely market-driven, voluntary approach because fundamental aspects of negative externalities such as free-riding can not be addressed by private-/self-regulations alone. For CSR to go beyond a niche market (consumer goods in developed countries as a prominent example) and a marginalized position in many firms, Vogel advocates a double mechanism of

231 Zerk, Multinationals and Corporate, 84.
cooperation between civil and government regulation.\textsuperscript{232} He further argues that, "the effectiveness of much civil regulation depends on a strong and well-functioning public sphere." \textsuperscript{233} In western countries, public policies regulating corporate behaviors, exemplified by the Alien Tort Claims Act in the U.S. and the European Union's legal requirements on climate change, are essentially binding instruments to underpin social behavior of Western-headquartered corporations. In turn, these corporations, assisted by their home governments, can also pressure developing states to enhance their capacity to "develop and enforce their own environmental, labor, and human rights standards."

Vogel's position on public regulations is shared by many. Evidencing theoretical and practical limitations of CSR as spearheaded by corporate actors in a voluntary manner, a 2007 book by an Australian professor Subhabrata Bobby Banerjee proposes a Political Economy approach to construct CSR as a sociopolitical process to go beyond the narrow, abstract focus of traditional business case models that are biased toward economic criteria. Noticing institutional, economic, and discursive power imbalances in the neoliberal global economic system, Banerjee argues for a dual theory of CSR in which firms engage in social processes (equally interdependent with their economic and political activities) to produce benevolent social outcomes that are not only judged by financial yardsticks. Essentially, these power-laden processes and outcomes should be monitored and enforced by political entities, notably national governments, whose norms of economic reality are influenced by growing social movements aimed at altering the

\textsuperscript{232} Vogel, \textit{The Market for}, 9.
\textsuperscript{233} ibid, 170.
\textsuperscript{234} ibid, 170.
neoclassical, ultra-economic notions of corporations. In delivery of social results concerning disadvantaged communities, the importance of state regulations is especially urgent.

"While marginalized communities can work with NGOs and advocacy groups to demand rights, their capacity to obtain those rights is contingent on the institutional capabilities and political will of those that are responsible and accountable for delivering rights."236

In a similar light, a comparative case study of leading multinational firms in the global market furnishes a statist assertion that national political and economic structures continue to exert an enduring influence on corporate strategies and structures, to the contrary of a converging pattern predicted by neoclassical economics.237 Extending such a divergence position to CSR, a 2008 book finds "a symptomatic similarity between the models of public policies on CSR ...and the various welfare state models."238 Lozano et al. demonstrate the fundamental role of European governments and the European union in crafting a public policy on CSR in accordance with EU's political and social values.239 Taking on a European context, this work proposes a co-responsibility mechanism in which able governments/political institutions must traverse legislations and regulations to devise a CSR policy to promote responsible corporations. Such a political CSR discourse

235 Banerjee, Corporate Social Responsibility, 144-172.
236 ibid, 156-7.
238 Lozano et. al. Governments and Corporate,4.
8 ibid, 31.
must be, in turn, synchronized with political support for development of social capital and fundamental values in democratic societies.\textsuperscript{240}

Albeit institutionally fitting, the 2008 book acknowledges that this ambitious project of governments cultivating a CSR culture is less applicable to other countries such as the U.S. where free enterprise liberalism instead of social partnership as the dominant economic ideology is conducive for a business model for CSR where stakeholder relations are emphasized as the major CSR tenet as a non-core asset for firms. The plan is even less practical for developing countries where fragile democracies and weak institutions often shape the course of political and social life. However, along with the other works discussed in this sub-section, this work unmistakably pinpoints the importance of government regulations/institutions on two fronts: those that oversee corporate behavior and enforce accountability in case of non-compliance, on one hand, and those that supervise provision of public goods to and monitor dispute resolutions for communities where the very economic agents operate.

The emphasis on government regulations conforms to one ideal type of global governance from the rich private governance literature. Based on this ideal type of "governance by government through companies", private actors must "fulfill governmentally prescribed governance tasks".\textsuperscript{241} Under this scenario, private self-regulation, as exemplified by the business model of CSR, is a second-best solution to a host of social ills rooted in market externalities because of the inherent conflicting

\textsuperscript{240} ibid, 18-9.
interests and collective action problems. In the realm of improving labor standards in global supply chains, for example, "private voluntary regulation can best succeed when 'layered' on and interacting with public (state) regulation."242

The Holistic View in the Oil Industry

Role of Civil Society: Pertinent on theories of liberal governance, critical cooperation, and deliberative democracy, a number of intellectual works stress the important role of civil society oversight in enhancing oil companies' social commitments. Emergence of CSR in the 1980s was in part propelled by the movement from below where civil society actors including NGOs, trade unions, and social movements pressed concerns about a growing global business society and its impact on sustainable development, human rights, transparency issues etc.243 Frynas evidences that the oil and gas industry is "among the leading industries in championing CSR... partly due to the highly visible negative effects of day-to-day operations such as oil spills and the resulting protests by civil society groups and indigenous people."244 Furthermore, differentiating civil society organizations' strategies as confrontational or collaborative, Utting and Ives advocate for collaborations and complementarities between transnational activism and oil giants to advance institutional reform of the initiative.245 Tactics of civic-corporate engagement such as dialogue, service provision, field research, partnerships and

collective bargaining can bring pressure to oil companies on environmental and social issues and create constructive results beyond "greenwash" or reputation management.\textsuperscript{246}

A comparative case study of two publicly traded oil companies, \textit{ChevronTexaco} and \textit{Burlington Resources} in Ecuador theorizes a shareholder transnational advocacy network (STAN) in which "indigenous communities...align with domestic and international NGOs, who in turn provide connections to corporate shareholder groups, including socially responsible investing firms, religious investors and other institutional investors."\textsuperscript{247} By connecting with shareholders in corporate headquarters through this boomerang model, indigenous groups can strategically influence corporate agenda with their local claims for land ownership and sustainability. In comparing the success of indigenous groups in Southern Amazon to persuade Burlington Resources to refrain from drilling with the frustrations in the ChevronTexaco case where the company was unresponsive to shareholder activism, the project argues that preventative measures taken by cohesive indigenous networks can make oil companies more socially responsible and more receptive to local demands in environmentally and ethnically sensitive territories such as the Amazon.\textsuperscript{248} Similarly, the more recent work by Vasquez on oil-related conflicts in the Amazon regions of Ecuador, Peru, and Colombia demonstrates the importance of "a unified Indigenous voice" and their association with locally-minded,

\begin{footnotesize}
\textsuperscript{246} ibid, 13.
\textsuperscript{248} ibid, 195.
\end{footnotesize}
conciliatory NGOs in resolving indigenous grievances toward aggressive oil developments. 249

This argument for a cohesive civil society network is further validated by Urteaga-Crovetto's counter-factual analysis on the power relationship between the Peruvian state, oil companies, the Inter-American Development Bank and indigenous communities in the Camisea Natural Gas project in Peru. 250 Under a neoliberal context where the executive branch adopts a "revolving door" policy to enable hydrocarbon investments, divisions within the indigenous communities, different political stances between the grass roots organizations and national, international NGOs have resulted in fragile and fluid alliances between these civil society actors. Such complexity limits indigenous communities to an "inevitable" choice of material goods over traditional heritages and prevents them from reaping an equitable share of economic benefits from the gas project. 251

In resource-rich developing countries and remote areas inside these countries where the presence of the national government in providing public services and regulating multinational corporations is weak and ineffective, concerted civil society campaigns to socially check embedding oil companies are crucial. A rich body of relevant literature summarized here and above in the previous section generates one major hypothesis and two related sub-hypotheses:

249 Patricia I. Vasquez, Oil Sparks in the Amazon: Local Conflicts, Indigenous Populations, and Natural Resources (Athens: University of Georgia Press, 2014), 90-103.
251 ibid, 121-3.
**H2**: Oil companies display more socially responsible behavior when they operate in areas with a more proactive civil society presence.

**H2a**: Oil companies are more socially responsible when confronted with civil society groups unified by a collaborative strategy.

**H2b**: Oil companies are more socially responsible when interacting with a cohesive civil society-NGO network.

**Role of International Organizations**: In addition to the generic guidelines (ILO Tripartite Declaration, UN Global Compact, OECD Principles, etc.) that apply to all business settings, oil companies in particular are subject to, most indirectly, and sometimes directly, more narrowly defined international CSR regimes. For example, the Extractive Industry Transparency Initiative (EITI) imposes a global standard for accountable and open management of natural resources on implementing host countries (developing countries) who must show commitments to work with civil society and companies to disclose tax payments, license, contracts and production information regarding resource extraction. In the area of oil pollution, the 1969 Civil Liability Convention and the related 1971 Fund Convention by the International Maritime Organization (IMO) are binding international treaties that construct an internationally uniform compensation scheme in which oil importers (as cargo owners) must bear financial responsibility for oil spills occurred in foreign territories.

Congruent with the prior discussion on IGOs, generic international CSR norms provided mainly by the UN agencies are considered important in the hydrocarbons industry for they "provided a global legitimacy and beginnings of an international
These soft law instruments spell a list of direct and indirect responsibilities pertaining to oil companies, including avoidance of bribery, defense of human/indigenous rights and pressure over host governments on related human rights and revenue management issues. In favor of mandatory regulations modeled upon the UN Draft Norms and the IMF's oil diagnostic program in Angola, Watts also warns the dangers of "bluewashing" by oil companies attaching themselves to international voluntary codes in hope for improved business reputation.

However, with the exception of the Civil Liability Convention that is legally binding as an international treaty in the particular case of offshore oil transportation, most industry-specific guidelines and standards are "legally significant" normative frameworks for responsible hydrocarbons activities. The EITI is a prominent example. Pillared with a host country-sponsored financial reporting system and in-country multi-stakeholder collaboration, the UK-originated EITI is applauded by proponents as a valuable instrument that offers a cross-country blueprint for candidate governments to strengthen their reporting on extractive revenues and includes extractive industry actors and civil society groups in due process. In South America, only Peru has been pronounced as an EITI compliant since 2012 while Colombia recently becomes a candidate in 2014.

Others are doubtful about EITI's effectiveness. Jedrzej George Frynas, a leading scholar on CSR in the oil and gas sector, scrutinizes EITI's "revenue transparency" focus as internally flawed, since "there is no scientific basis for the assertion that revenue

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253 ibid, 397.
transparency leads to better social or economic outcomes.” Moreover, as an externally imposed approach, EITI (also other international guidance for CSR in hydrocarbons) is likely to suffer a lack of legitimacy on sovereign nations and encounter serious constraints in autocratic regimes that compromise political and civil freedom.

In line with the general theoretical framework on the role of IGOs in promoting CSR, works on international CSR regulations in the oil and gas sector help generate the following hypothesis with three observable expectations:

**H3:** Oil companies display more socially responsible behavior when they are somehow subject to an international regulatory framework.

**H3a:** Oil companies are more socially responsible in host countries that ratify a mandatory/legally binding international CSR regime.

**H3b:** Oil companies are more socially responsible in host countries that subscribe to voluntary international CSR regimes.

**H3c:** Oil companies are more socially responsible when directly participating in international CSR regimes.

**Role of Host Government:** Scholars in this camp are aligned with Vogel's vision of a double responsibility mechanism. The request for a political dimension for CSR is emphasized in the hydrocarbon sector where issues of environment, human rights, and governance accountability are particularly acute. Elaborating on the political economy of the “petro-states” characterized by a nationalized hydrocarbon sector and collusion...

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between state politics and oil interests, Watts illustrates the necessity of sound legal and statutory programs from governments to make CSR more effective in addressing various human rights issues.\textsuperscript{257}

Focusing on the impact of oil industry CSR on environmental sustainability\textsuperscript{258}, local development\textsuperscript{259}, and societal governance\textsuperscript{260}, Frynas pinpoints the crucial role of national and local governments in advancing CSR agendas. Advocating for hybrid forms of CSR that combine voluntary and mandatory elements, Frynas summarizes three ways in which a country's government can be instrumental. Government actions first define rights and responsibilities of companies. Second, "government pressure can help to reduce uncertainties about the future, improve the economic incentives for companies to act responsibly and ensure a level playing field for everyone."\textsuperscript{261} Last and most importantly, the government ought to build a formal legal framework for holding companies accountable for their actions.\textsuperscript{262}

More recent works have gone beyond a normative argument for government presence to a focus on specific political institutions that are conductive or inhibitive to good corporate practices. Institutional contexts and policy regimes of host countries shape social commitments of oil companies. Corporate malpractice is particularly rampant in "countries affected by or emerging from conflict" or "remote areas where

\textsuperscript{257} Michael J. Watt, “Righteous Oil? Human,” 393-397.
\textsuperscript{258} Jedrzej George Frynas, \textit{Beyond Corporate Social Responsibility: Oil Multinationals and Social Challenges} (Cambridge: Cambridge University Press, 2009), 5.
\textsuperscript{259} Jedrzej George Frynas,"The False Developmental Promise of Corporate Social Responsibility: Evidence from Multinational Oil Companies," \textit{International Affairs} 81 no. 3 (2005), 592.
\textsuperscript{260} Frynas, "Corporate Social Responsibility," 167.
\textsuperscript{261} Frynas, \textit{Beyond Corporate Social}, 169-171.
\textsuperscript{262} ibid.
regulatory institutions are few and far between. Miler and Guthrie demonstrate that corporations have been aggressive in adopting CSR when they are publicly traded, operate in areas with organized labor, or are located in federal appellate jurisdictions that aggressively protect workers’ rights. Furthermore, Hilson argues that weak legal enforcement and corruption in the host country partially account for undesirable CSR performances of Western oil companies. According to Frynas, there is great potential for CSR to achieve "win-win" outcomes in "societies where the government has been relatively successful in providing public goods", especially to the minority populations. In the Amazon, the "intersectionality" between oil concessions and indigenous territories renders a "domestic body of laws created to safeguard indigenous rights" necessary to the co-habitat of oil companies and local communities.

In connection with theories on the role of governments in general CSR, one last hypothesis with three expectations arises along this line of literature:

**H4:** Oil companies show a higher level of social commitments when investing in host societies where the government effectively regulates corporate and civic affairs.

**H4a:** Oil companies are more socially responsible where there is a stable and liberal regulatory framework toward the oil and gas sector.

**H4b:** Oil companies are more socially responsible where there is an accommodating legal/political system toward minority communities affected by oil developments.

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266 Frynas, *Beyond Corporate Social*, 169.
267 Vasquez, *Oil Sparks* in, 52.
3.4. Operationalization: Independent and Intervening Variables

Independent Variables: Sub-Variants and Inter-Connectedness

The introduction chapter outlines four independent variables: oil company’s economic profile (demonstrating the firm’s bottom-line considerations), host country's civil society capacity, host country’s participation in international CSR schemes, host government's regulatory frameworks. By reviewing both exogenous and endogenous theories pertaining to CSR, this chapter sufficiently establishes the thematic reasoning behind the choice of these variables. Moreover, the prevalence of host country’s regulatory frameworks and its civil society capacity in explaining CSR outcomes is highlighted vis-à-vis the other two variables that suffer from limitations and setbacks discussed in sections above.

Thus, regulatory framework and civil society capacity are identified as the project’s two major independent variables.

Each of the two major independent variables connotes two sub variants, informed by corresponding CSR literature. To explain a host country’s regulatory frameworks in relation to oil sector CSR, one must analyze both the part of government regulations for the extractive industries and those concerning civil society governance. Moreover, the first sub-variant, the extractive regime, is demonstrated internally by sector organization and externally by investment policies. Internally, a country’s oil and gas industry can be either centralized or decentralized. Externally, that country’s policies toward extractive projects are either competitive or restrictive. An extractive regime that is both decentralized and competitive is considered liberal. On the other hand, centralization and
restriction result in a progressive extractive regime that promotes special interests and biases.

The second sub-variant of government regulations defines characteristics of the host government’s policies toward civil society groups that are directly or indirectly affected by extractive development. A country’s civic regulations can be either inclusive or exclusive. Inclusive policies allow institutional and fair participation of civil society groups in extractive policy-making processes. Exclusive civic regulations, on the contrary, show favoritism toward conforming segments of civil society and at times even spell hostility toward antagonistic groups whose interests and claims are at odds with government priorities.

These two sub-variants are profoundly interconnected, reflecting official attitudes toward two broad stakeholder groups of extractive projects, oil companies and relevant civil society groups. A liberal extractive regime is conducive to a government’s open-mindedness toward civic actors. Internally, decentralization in the oil sector capacitates local officials who then incorporate interests of local communities in regulating oil companies. Externally, a competitive oil sector outlook encourages a variety of oil companies to compete for local oil resources and to devise better CSR initiatives as a measurement of competitiveness.

On the opposite side, a progressive extractive regime promotes special interests and biases. Internally, resource nationalism centralizes revenue and bureaucratic structures, moving decision-making and enforcement further away from local realities. Externally, a government endorsing a progressive oil regime gravitates toward national and foreign oil interests, often at the cost of embedded civil interests.
The nature of civil regulations also feeds back into the mechanisms of extractive governance frameworks. A government accommodating civil society actors must take into account of community demands for socioeconomic justice and environmental sustainability while balancing these wider claims with oil companies’ narrower financial interests. On the contrary, a government that radicalizes civil voices and erodes civic spaces in the name of national interests and economic development most likely favor a progressive extractive regime featuring centralization and politically biased investment policies.

The dynamics among different sub-variants of the first variable “host government regulatory framework” is demonstrated in Figure 1.1.

Figure 3.1. Components of the First Major Independent Variable

By the same token, the second major variable, a host country’s civil society capacity consists of two sub-variants. The first variant specifies the civil sector’s internal
strength, whether it operates on a unified front or it is currently fragmented. The second variant tackles the civil society’s outreach strategy, especially in regards to its government and corporate counterparts. Civil society groups can engage with the host government and oil corporations through a collaborative strategy of conversation and consultation. On the other hand, civic groups sometimes also utilize confrontational tactics, such as protests, organized strikes, naming and shaming, in order to deliver their messages to the private and public spheres. A well-capacitated civil society sector should feature internal unity (a shared identity for common causes) and an ability to negotiate with counterparts constructively. Figure 1.2 visualizes the second independent variable.

**Figure 3.2. Components of the Second Major Independent Variable**

A central task of this dissertation is to compare the importance of each of these two variables in explaining case outcomes. Which factor carries more weight in accounting for differences in CSR records under the individual case scenario? Do they each bear independent explanatory power or these two factors are somehow interrelated to each other?
Intervening Variables

In addition to examine the effects of the aforementioned independent variables on CSR results, this project also takes into account two intervening factors, the host country’s energy trade with China and the importance of the oil sector in the host economy. Selection of these two variables is informed by both practical judgment and empirical studies on Chinese enterprises’ overseas activities, which identify bilateral commercial ties and oil dependency as factors influencing Chinese corporate behavior. To measure the host country’s energy trade with China, this dissertation uses two indicators: the country’s oil and gas exports to China as a percentage of its total oil and gas exports and those as a percentage of the country’s total exports to China. Moreover, the importance of the hydrocarbons sector for the host country is measured by the indicator *Oil Rents*[^268], which calculates the percentage of a country’s crude oil production in its GDP. Figure 1.3 illustrates the key metrics of these two factors.

**Figure 3.3. Components of the Two Intervening Variables**

[^268]: “Oil rents” measures the value of a country’s crude oil production as a percentage of its total costs of productions, as captured by GDP. For a detailed explanation on “oil rents” and its most recent database, see [http://data.worldbank.org/indicator/NY.GDP.PETR.RT.ZS](http://data.worldbank.org/indicator/NY.GDP.PETR.RT.ZS).
Conclusion

CSR as an academic field of inquiry has undergone profound changes from a rudimentary subject of occasional intellectual interests to a frequently debated topic that intersects both business orthodox and social sciences. Emerging as early as the industrial revolution and gaining more intellectual curiosity in the 1950s and 1960s, CSR was at first mainly studied by economic historians who incited philosophical and sympathetic concerns for what is expected of a business beyond making money. Earlier CSR works had an overall focus on businessmen's philanthropy and paternalistic labor practices. Throughout time, CSR studies under the influence of a succession of historical events such as civil rights movement in the US, economic globalization and growing consumerism and environmentalism, have broadened to encompass diverse themes and better connected theories that are increasingly pursued outside the business school by political scientists, sociologists, and historians, among others. Originally a phenomenon of the developed world, CSR has ignited both academic and organizational interests in developing countries. Today, CSR is a complex and diverse arena of scholarship with an expansive geographic outlook.

Theoretical development is most extensive in CSR's predominant paradigm-- the Business Case. Its original argument builds upon Milton Friedman's Shareholder Value Theory that a monolithic relationship between a firm's social conscience and its financial bottom line. Although the new generation business-case theories (Porter's Competitive Advantage, Elkington's Triple "P" Bottom Line, Carroll's CSR Pyramid as most
celebrated examples) adopt more nuanced and broader understandings of CSR by incorporating situational contingencies and system complexities, market fundamentalism and a neoliberal stance still dominate all theories in this camp while corporate actors are given the central position in designing, implementing, coordinating and evaluating CSR policies. Under the tenet of the business case paradigm, empirical studies on the oil and gas sector identify the main motivations behind an oil company's pursuit of CSR as strategic considerations for risk reduction, image boosting, competitiveness enhancement, and legitimization (social license to operate). The oil company's self-concern for bottom-line benefits is the main independent variable in the business case to explain its social commitments.

Freeman's Stakeholder Theory marks a departure point inside a growing scholarly community from the orthodox teachings of the business school toward a holistic understanding of CSR grounded in an acknowledgement for the intricate interplay between business and society. This holistic framework champions middle-range theoretical construction in which importance of several key societal/political stakeholders identified in the stakeholder theory is causally linked with empirical studies. Specifically, host country's civil society groups, international organizations in charge of designing global CSR standards/guidelines, and the host government have capacity and will to influence oil companies' social programs through measures such as mandatory regulation, incentivization, critical cooperation, deliberation, and co-governance, as explained in detail in the literature. The underlying logic is that CSR as a voluntary private code will not sustain to provide substantial social benefits unless non-corporate actors are allowed participation. Hence, host country's civil society engagement in the oil sector, host
government's oil industry and CSR regulations, and host country's participation in relevant international framework are main independent variables in accounting for differences in CSR commitments.

The aim of this dissertation is to test relevance of these aforementioned factors and build a theoretically sound understanding of Chinese NOCs’ social behavior in Latin America. The following case studies will set out to (in)validate the four hypotheses by observing the implications of different hypothetical expectations through causal process-tracing.
Since early August 2015, violent anti-government protests led by indigenous groups have swept Ecuador and made international headlines. Rafael Correa's government reacts to popular demands of increasing public provisions for the country’s indigenous population and ending the "extractivist" economic model with crushing forces. Various counter-demonstration actions include ridiculing of minority claims, arrest of influential activists, and violent police activities on the street.\textsuperscript{269} Amidst this government-mass standoff, Chinese extractive projects in the oil-rich South American nation are increasingly scrutinized as Ecuador continues to receive multi-billion loans from Beijing and auctions off one third of its Amazon forest to Chinese oil companies, who are not deterred by the ongoing global oil price slump.

In Ecuador, China National Petroleum Corporation (CNPC), China Petroleum & Chemical Corporation (Sinopec), China National Offshore Oil Corporation (CNOOC), and Sinochem Corporation all have, since 2003, acquired hydrocarbon projects from western oil companies such as Encana and Conocophilips. The majority of Chinese oil activities in the country are located in the Amazon region that hosts some twenty-nine

indigenous nationalities and pueblos. In spite of grandiose claims to be socially conscious actors, Chinese firms have been heavily criticized by local population for imposing harsh working conditions, ransacking the environment, and worsening local governance problems. On the contrary, in Peru where China inaugurated its first overseas oil project in 1993, Chinese oil ambitions are much more limited to the northwestern Pacific coast. In fact, in 2006, SAPET, CNPC’s Peruvian subsidiary, agreed to divest from Block 113 in the department of Madre de Dios in southeastern Amazon, just less than a year after it was granted an exploratory concession in the area.

In both Ecuador and Peru, civil society actions to hydrocarbon projects in remote Amazon regions have evolved in parallel with oil developments since the 1980s, facilitated by national and international events. At the heart of civic movements in oil-rich Amazon lies a growing trend of indigenous activism, interacting with commercial interests in coordinating or opposite ways. More importantly, democratization processes in the two countries prompted institutional progress in advancing indigenous rights, while their governments' respective stances on resource-fueled development have led to different regulatory frameworks toward the oil sector. Albeit imperfect and inadequate, these political, legal structures are instrumental in mapping the terrains for how oil companies engage with their host societies. Externally, both the Peruvian and Ecuadorian governments participate in certain international CSR initiatives such as the Global Compact and Convention 169 of the International Labor Organization (ILO). These guidelines provide internationally recognized blueprints for host governments to demand and monitor socially acceptable behavior from the private sector.
So which factor(s) contribute to the different social commitments displayed by Chinese companies in the Ecuadorian and Peruvian examples above? This chapter strives to analyze the influence of civil society actors, host governments and international CSR guidelines in shaping social initiatives of Chinese national oil companies (NOCs) in Ecuador and Peru, with a geographical focus on these countries' Amazon regions. Delving into rich contextual materials on corporate social responsibility (CSR), Chinese oil investments, civil society developments in Ecuador and Peru, contentious oil politics, etc., this project utilizes content analysis of secondary sources including relevant intellectual debates, company reports on social responsibility, civil society evaluations, and government legislations.

Using causal process tracing to identify linkages among oil companies, civil society, international community and host government, this project argues: Chinese NOCs' CSR commitments in Peru's Amazon are directly linked to the region's indigenous activism, but more importantly, the positive impact of local civic engagement on CSR is contingent upon: 1. A liberal, competitive regulatory framework in the hydrocarbons sector; and 2. An accommodating political system toward the country's indigenous population. Analogous to these two interactive political factors are the host government's reliance on oil revenues and their economic ties with China. Arguably, due to heightened resource nationalism and dependence on Chinese loans, the Ecuadorian government loses important leverages in its negotiations vis-à-vis China and will be more tolerant toward irresponsible corporate behavior than its Peruvian counterpart, who in 2013 declared an
environmental state of emergency in its eastern Amazon jungle and ordered Pluspetrol to reduce oil contamination in the region\textsuperscript{270}.

The subsequent analysis will be divided into four sections. The first section discusses the characteristics of Chinese oil investments in Ecuador and Peru and analyzes social aspects of these hydrocarbon projects in a comparative manner. The second part traces the trajectory of indigenous movements in Peru with attention to their nature, scope, and strategies and Peru's national political contexts in which civil society actors (in this case indigenous groups) operate, with regard to oil sector regulatory frameworks and institutional developments promoting/inhibiting indigenous activism. The third part evaluates the host countries' civil society and political settings in Ecuador. The last section briefly examines the role of relevant international regulatory frameworks.

4.1. Chinese Oil Companies in Peru and Ecuador: A Social Dimension

Major Chinese Assets in the Two Countries

Peru: The largest Chinese NOC, CNPC, signed a service contract on Block 7 in Peru's Talara Oilfield on October 23, 1993, marking its beginning of international operations.\textsuperscript{271} To-date, the company's Peruvian subsidiary SAPET is still active in Block 6/7 of the Talara fields. In 2003, SAPET acquired 45\% of the stakes in Block 1-AB/8 of Talara through a cooperation agreement with Pluspetrol, a private Argentinian company with a long history in Peru. Located in the northern Amazon department of Loreto, Block 1-


AB/8 is situated in the country's number one oil-producing region and has witnessed many oil-related protests regarding uneven oil revenue distribution, land rights, and environmental issues. In 2005, CNPC, the parent company, signed risk exploration contracts with Perupetrol, Peru's main regulatory agency authorizing hydrocarbon contracts, to launch exploration for Block 111 and Block 113. At the heart of the Amazon in the Madres de Dios basin, both blocks overlap with indigenous territories, of which Block 113 is located in areas inhabited by indigenous communities living in voluntary isolation.

In 2013, PetroChina, a joint stock company with limited liabilities by CNPC, entered Peru through acquisition of Petrobras's Peruvian subsidiary, Petrobras Energia Peru SA, at $2.6 billion dollars. In Peru, Petrobras had occupied a second place after Pluspetrol in terms of "output, acreage, and reserve ratios". More importantly, Petrobras had purchased Block 58 located in the department of Cusco in Peru's largest and most controversial energy development, the Camisea Natural Gas project. The company was also granted a minor interest in the adjacent Block 57 located between the Junin, Ucayali, and Cusco departments. These areas overlay with the whole indigenous Machiguenga territory in the country's southeastern Amazon. PetroChina has inherited the opportunities and problems characteristic of these oil and gas fields.

**Ecuador:** Chinese NOCs have become significant participants in Ecuador's energy industry. In 2003, CNPC acquired PetroEcuador's Block 11 in the province of Sucumbios in northeastern Ecuador, which has ever since become China's new oil ally in

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272 Vasquez, "Oil Sparks in," 58-99.
273 ibid, 126.
Latin America. Earlier in 2002, indigenous communities in Sucumbios and Orellana engaged in violent protests against local corruption in the construction of the Amazonas Oil Terminal, the jumping-off point of Ecuador's major oil pipeline Oleoducto de Crudos Pesados (OCP). In 2003, Sinochem purchased 14% of stakes in Block 16 at 100 million dollars from ConocoPhillips, a western oil major under increasing opposition by the local indigenous communities. In 2012, at $13.7 million, Sinopec under the name of its subsidiary Tiptop Energy Ltd., purchased Repsol's Ecuadorian subsidiary, Amodaimi Oil Co. Amodaimi held 20% stakes in the country's Block 16 and Tivacuno service contracts. The Spanish oil giant, Repsol-YPF, has extensive oil contracts in the Amazon regions of Ecuador and Peru and has been protested for its operations in isolated indigenous territories.

The most ambitious Chinese project in Ecuador is the Andes Project, acquired collaboratively by CNPC (55% of the interests) and Sinopec (45%) in 2005 from Encana at $1.47 billion. The new Chinese company, Andespetro, now carries out work in the Tarapoa block in the province of Sucumbos and Blocks 14 and 17 in the provinces of Orellana and Pastaza. Located in the Ecuadorian Oriente Basin in the eastern Amazon, Blocks 14 and 17 are at the de facto epic center of oil-related local conflicts in Ecuador. Tensions in these two blocks between the indigenous demand to continue to live in

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276 Jiang and Chen, "Update on Overseas," 36.
278 Jiang and Chen, "Updates on Overseas."
isolation and oil companies' thirst to drill oil have resulted in two oil-related lawsuits at the Inter-American Commission on Human Rights (IACHR).\textsuperscript{280} In spite of the ongoing nation-wide protest and payment delays from Correa's government, Andespetro, now the largest foreign oil producer in Ecuador, was reported in April 2015 to be planning to drill exploratory wells.\textsuperscript{281}

Table 4.1 summarizes Chinese NOCs' Ecuadorian and Peruvian projects. Notably, Chinese hydrocarbon assets in Peru are relatively geographically diversified. SAPET (CNPC's Peruvian subsidiary) concentrates its major investment in the coastal Talara oil fields. Taking into account that it had withdrawn from Block 113 where there is a Territorial Reserve for People In Voluntary Isolation since 2002, the company's only association with the Amazon is through its 2003 cooperation with Pluspetrol that remains as the operator in Block 1-AB/8. A similar situation holds for PetroChina in Peru. Remarkably, none of China's acquisitive oil companies has announced interest to take part in the private consortium to explore the Camisea natural gas. In spite of its impressive achievement to turn Peru into South America's first natural gas exporter since 2010, the project has been denounced by local communities since the managing private consortium could not keep up expected social and environmental standards. The absence of energy-thirst Chinese investors in Camisea might be partially explained by a competitive outlook of Peru's hydrocarbons sector, which will be discussed in the fourth section. On the opposite side, all the Ecuadorian projects carried out by Chinese NOCs are located in Amazon regions, mainly in the Oriente Basin where the vast majority of the country's indigenous peoples reside. Alarmingly, AndesPetro's investments in Block 16

\textsuperscript{280} Vasquez, "Oil Sparks in," 74.
\textsuperscript{281} ibid.
and the adjacent Tivacuno field dwell in the Amazonian Yasuni National Park, home to some of the last indigenous peoples still living in isolation in the Amazon, the Tagaeri and Taromenane clans of the Waorani and one of the world's most biologically diverse forests.\textsuperscript{282}

Table 4.1. Chinese NOCs in Peru and Ecuador

<table>
<thead>
<tr>
<th>Country</th>
<th>Company</th>
<th>Project</th>
<th>Location</th>
<th>Starting Date</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peru</td>
<td>SAPET</td>
<td>Block 6/7</td>
<td>Talara, NW Peru</td>
<td>1993</td>
<td>Sole operator</td>
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<td></td>
<td>Block 1-AB/8</td>
<td>Loreto, N Amazon, N Peru</td>
<td>2003</td>
<td>45% stakes w. Pluspetro</td>
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<td></td>
<td>Block 111/113</td>
<td>Madre de Dios, E Amazon</td>
<td>2005</td>
<td>Divest from 113 in 2006</td>
<td></td>
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<td>PetroChina</td>
<td>Block 58</td>
<td>Cusco, SE Peru</td>
<td>2013</td>
<td>Sole operator</td>
<td></td>
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<tr>
<td></td>
<td>Block 57</td>
<td>SE Amazon</td>
<td>2013</td>
<td>46% w. Repsol</td>
<td></td>
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<td></td>
<td>Block X</td>
<td>Talara, NW Peru</td>
<td>2013</td>
<td>Sole operator</td>
<td></td>
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<td>Ecuador</td>
<td>CNPC</td>
<td>Block 11</td>
<td>Sucumbios, NE Amazon</td>
<td>2003</td>
<td>Sole operator</td>
</tr>
<tr>
<td>Sinochem</td>
<td>Block 16</td>
<td>Orellana, E Amazon</td>
<td>2003</td>
<td>14% stake w. Conocophilips; Yasuni National Park</td>
<td></td>
</tr>
<tr>
<td>Tiptop (Sinopec Subsidiary)</td>
<td>Block 16</td>
<td>Orellana, E Amazon</td>
<td>2013</td>
<td>20% from Amodaimi acquisition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tivacuno Field</td>
<td>Orellana, E Amazon</td>
<td>2013</td>
<td>20% from Amodaimi acquisition</td>
<td></td>
</tr>
<tr>
<td>AndesPetro</td>
<td>Block 14</td>
<td>Orellana, E Amazon</td>
<td>2005</td>
<td>Sole operator from Encana acquisition</td>
<td></td>
</tr>
<tr>
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<td>Block 17</td>
<td>Pastaza, E Amazon</td>
<td>2005</td>
<td>Sole operator from Encana acquisition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tarapoa Block</td>
<td>Sucumbios, NE Amazon</td>
<td>2005</td>
<td>Sole operator from Encana acquisition</td>
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</tr>
</tbody>
</table>

Source: Author compilation based on company websites, cross-checked with various news sources and Jiang and Chen (2014).

The Social Dimension

Although China's oil ambition in South America can be dated back to the early 1990s, it was not until the mid 2000s that Chinese NOCs started to deepen their engagement in the region, with multi-billion dollar acquisitions (i.e., CNOOC's Nexen deal in 2012 valued at $15.1 billion). With a greater presence in the oil fields comes an amplifying demand for their social commitments from the host societies. Chinese NOCs, just like the other outbound Chinese firms, are "still in an early stage of development, and compared to European and U.S. investors, the language barrier makes it even more difficult for Chinese investors to develop close relations with local communities". This nascent state of CSR development contradicts with NOCs' vision to become world-class multinational companies. Henceforth, a desire to increase global competitive advantage and pressure from their Western peers have prompted Chinese NOCs to adopt more cooperative CSR strategies in the past decade.

CNPC published its first rapport on social responsibility performance in Latin America, summarizing achievements from 1993 to 2012. The report focuses on the company's social footprint in three countries, Venezuela, Peru, and Ecuador. More than a dozen of community and environmental projects are cited. Table 4.2 provides an overview of self-reported CSR initiatives in Peru and Ecuador, based on the 2012 document and annual CSR reports published by different Chinese NOCs.

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285 "中国石油在拉美 (CNPC in Latin America)," *CNPC*, accessed September 15, 2014.
On the first look, it seems that all these companies are making a lot of noises in the CSR arena. Nurtured by CNPC and Sinopec, Andespetro stands out as the poster child of the pair’s effort to improve their social images overseas. In CNPC’s Latin American report, it is lauded as an all-around social player in the host country, winning a variety of international, national and local CSR awards.\textsuperscript{286} A new study by the Global Economic Governance Initiative (GEGI) from the Boston University uses Andespetro’s high ratio of workforce localization as evidence that Chinese companies can sometimes outperform their Western competitors in CSR.\textsuperscript{287}

However, a closer examination of all available self-reporting materials sets the bar higher based on the Peruvian evidence. To be clear, both SAPET and Andespetro report to have recruited local workers that makes up 90% of their employee bases. But in Peru, CNPC’s CSR reporting is meticulously labeled and categorized by SAPET’s individual blocks, whereas in Ecuador, the CSR language utilized by CNPC and Sinopec is relatively broad and vague, mostly addressing activities done in the whole country instead of particular oil fields. Moreover, more coverage is given to indigenous and Amazon preservation in the Peruvian case while donations and vocational training are highlighted in almost all NOCs’ CSR narratives in Ecuador.

Most importantly, in Peru, CNPC has extensive coverage on its CSR activities on Block 1-AB/8 where the company only holds 45% interest. There have been continuous local struggles regarding land rights, environmental damage, and oil revenue distribution regarding this block. By voicing its attention to ecological preservation and community

\textsuperscript{286}CNPC in Latin America.
building in this particular oil field (whether or not actual progress has been made), CNPC (SAPET as the local representative) demonstrates a high level of social commitment in this case. On the contrary, no Chinese NOC has recorded any CSR actions in their Ecuadorian assets with minority interests.

A further investigation on third-party evaluations on the social and environmental impacts of Chinese oil companies in Peru and Ecuador corroborates this variation in social commitments. Friends of the Earth, an internationally acclaimed NGO focused on environmental issues, publicized an assessment on CNPC's social performances overseas, in which the company's retreat from Block 113 is commended as one of the five best practices among all Chinese oil projects abroad.288

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Table 4.2. CSR of Chinese oil investments, *self-reporting*

<table>
<thead>
<tr>
<th>Host Country</th>
<th>Major Oil Investments</th>
<th>Company</th>
<th>CSR Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peru</td>
<td>General</td>
<td>SAPET (CNPC)</td>
<td>&quot;Green Development&quot; + &quot;Green Community&quot; initiatives; Disaster relief (07' earthquake); 90% local employees; indigenous poverty relief fund ($8 mi. in 10' &amp; 11').</td>
</tr>
<tr>
<td></td>
<td>Talara Block 6/7</td>
<td>SAPET (CNPC)</td>
<td>Educational donations; stringent measures to clean environment and prevent oil spills in Block 6 (located at Lobito Beach); employee volunteer in local government's environmental protection activity.</td>
</tr>
<tr>
<td></td>
<td>Block 1-AB/8</td>
<td>SAPET (CNPC)</td>
<td>Rainforest demonstration school in Loreto Province; local indigenous workforce training; 3-tier wastewater treatment system; rainforest restoration projects.</td>
</tr>
<tr>
<td></td>
<td>Blocks 57, 58 &amp; X</td>
<td>PetroChina</td>
<td>Local teaching training in Zone 6 and 7 projects.</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Andes project: Tarapoa; Blocks 14 &amp; 17</td>
<td>CNPC</td>
<td>Mission of building a &quot;harmonious oil zone&quot;; indigenous community assistance; 95% local workforce and continuous training; a systematic HSE management team and department; youth educational/medical assistance; a 3-joints mechanism to engage local gov, communities and employees; a permanent peace agreement in Tarapoa; 3-yr plan environmental plan in Tarapoa and Pacayacu.</td>
</tr>
<tr>
<td>Andes Project</td>
<td>Sinopec</td>
<td>Sinopec</td>
<td>82% local staff; Highest HSE standard; (13') one environment protection appeal setting historical low; participation in cultural integration program; outward bound training for employees.</td>
</tr>
<tr>
<td>Block 16</td>
<td>Sinochem</td>
<td>Sinochem</td>
<td>$0.3 mi. donation to local children &amp; 0.77 to disabled; micro-financing for local aboriginal women.</td>
</tr>
</tbody>
</table>

Source: author compilation of company CSR reports.
Located in Peru's Madres de Dios region, Block 113's territory that was drawn previously by Pluspetrol was claimed by local indigenous people to have been superimposed over the Territorial Reserve for People in Voluntary Isolation in Madre de Dios, established in 2002 to protect uncontacted indigenous peoples living there in voluntary isolation. In 2003, clashes between commercial interests and indigenous conservation led to four violent encounters, "with the resulting death of four loggers and an unknown number of indigenous natives living in isolation". Exposed to such knowledge after it had signed two exploratory agreements with Perupetro in December 2005, CNPC/SAPET decided to withdraw from Block 113 in June 2006. To-date, Block 113 has disappeared from Perupetro's official oil map, although CNPC still claims ownership on its website.

SAPET is saluted by Peruvian indigenous organizations to have gone beyond the country's legal requirement to help preserve local communities in the Madre de Dios region. In an official document published by FENAMAD, the leading indigenous rights organization to launch dialogue with SAPET, the Chinese oil company was given positive recognition in contrast with Repsol-YPF who was accused of trespassing territories of the local Pananujuri, Taromenane and Taushiro peoples.

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In Ecuador, the mere fact that Andespetro and Sinochem have major assets in the Amazon and are still considering expansion into more remote jungles is alarming in its own right. According to the GEGI report,

"Ecuador is the only South American country where major Chinese investments exist in an area with extremely high biodiversity in four different species groups (mammals, birds, amphibians, and plants) as well as traditional indigenous territory."\(^{292}\)

To make matters worse, community relationship between the oil companies and local populations is rocky at best. Along with western oil companies and Ecuador's national oil companies Petroecuador and Petroamazonas, Andespetro is a target of increasing antagonism by local communities in the country's Amazon territories. Frequent protests against environmental malpractice of those oil companies in the Amazon region who cooperate with each other through joint ventures, mergers, and service contracts were often met with repressive government actions. Weekly oil spills in Ecuador testifies lousy company standards unchecked by national and local regulations.

Chinese investments in the Andes project are also criticized to erode Ecuador's sovereignty due to intrusive and non-transparent loan terms. Despite the fact that Andespetro allegedly reports to have hired more than 95% of its workers locally, several sources cited conversations with villagers in remote areas who witnessed huge importation of Chinese labor. Near the Manta community, CNPC was said to be running

a Chinese management team and controlling a complete logistic line at the Pacific coastal port to ensure smooth delivery of Ecuadorian oil to China.\textsuperscript{293}

In early 2014, Andespetro announced its business expansion by obtaining two additional oil blocks and investing two billion dollars in Ecuador's new refinery.\textsuperscript{294} According to the GEGI study, the community consultation process has not been smooth when the neighboring Sapara and Kichwa nationalities report that the Ecuadorian Secretary of Hydrocarbons only sought approval from the Sapara president instead of the majority within the affected communities.\textsuperscript{295} Ever since then, indigenous people joined by NGOs have protested against the company. In last year's People's Climate March in New York, two indigenous leaders from the Kichwa and Sapara peoples represented their countrymen by showing signs, "ANDES PETROLEUM OUT of Sapara Territory!" "Keep the oil in the ground!"\textsuperscript{296} Amazon watch, a radical NGO advocating indigenous rights has launched a campaign against Andespetro on social media platforms and just tweeted "tell China: Don't Drill the Amazon."\textsuperscript{297}

What factors account for the stark contrast between Peru's experience with Chinese NOCs and the Ecuadorian case? More specifically, given that it is the same companies coming from the same home country, subject to the same home government

\begin{thebibliography}{99}
\bibitem{297} "Amazon Watch," Twitter, accessed September 29, 2015, https://twitter.com/AmazonWatch.
\end{thebibliography}
guidelines on sustainability, which sociopolitical factors in the host countries (in this project, Peru and Ecuador) are responsible for this divide?

4.2. Peru and NOCs: Vivid Civil Society and Enabling Political Contexts

Contemporary Indigenous Activism: Diverse Actors, Collaborative Strategies, and Network Cohesions

As most Latin American nations that experienced waves of electoral democratization in the 1980s, both Peru and Ecuador nowadays host dynamic and diverse civil society actors, in forms of NGOs and membership-based, often grass-root civic organizations. Peru boasts the largest indigenous population in South America with about 4.4 million people from sixty-nine ethnic groups organized by thirteen linguistic families. Of these 69 groups, 51 reside in the Amazon regions and about 15 communities live in voluntary isolation.\textsuperscript{298} Pluspetrol, Peru's biggest foreign oil investor, has many drilling wells in the Amazon, including Block 1-AB/8 which SAPET has a minor interest in.

Against the backdrop of increasing extractive activities in both countries' Amazon regions, indigenous communities have organized various civil society organizations to demand greater voice in governing indigenous rights and the environmental state of their natural habitats. In both Peru and Ecuador, public demonstrations erupt frequently at both national and local levels and sometimes protests result in violent clashes between activists and the governments. For example, in earlier 2015, hundreds of Kichwas revolted the Peruvian government in failing to address a social and environmental crisis

\textsuperscript{298} INDEPA 2010, quoted in Vasquez.
due to heavy exploration on Block 1-AB/8 by Pluspetrol. The demonstrations lasted for a month.

In the short run, indigenous movements in Peru have gained some momentum when Pluspetrol announced in mid February this year that it would remove all its equipment from its northern Amazon Block 108 near the municipality of Pichanaki in Junin province, due to pressure from an earlier protest. In the Madres de Dios region, the leading indigenous organization *Federacion Nativa del Rio Madre de Dios y Afluentes* (FENAMAD) has been working the national NGO *Asociación Interétnica de Desarrollo de la Selva Peruana* (AIDESEP) to defend collective rights of local indigenous communities and preserve the ecological system of the land for over three decades.

FENAMAD was the main civil society actor to engage with SAPET on Block 113. With a mission to channel demands of 32 local communities to the state and the mainstream society, FENAMAD led a consortium of lobbying efforts to engage SAPET when the latter first signed an agreement with the Peruvian government and Perupetro to acquire 3.7 million acres of oil territories in 2005. Instead of violent protest, it utilized a strategy of dialogue and participation. Upon contact by SAPET for proper prior consultation, FENAMAD responded to the invitation with lobbying efforts to persuade

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SAPET with research showing the negative health effects outsiders will cast on uncontacted indigenous tribes.\footnote{Matisoff, "The Crude Beginnings," 38-9.}

FENAMAD's main strategy was collaborative. Through critical research undertaken by area experts with locally grounded knowledge, the organization was able to demonstrate to SAPET the outweighing social and environmental cost of oil exploration over limited benefits. For SAPET whose prior activities in Peru were mainly concentrated on the northern coast, direct civil society engagement properly informed the company and pressured it to accept and respect the reality of isolated indigenous life that people of Madre de Dios wish to live. With over thirty years of experience, FENAMAD has also developed certain legal and technical capacities that enabled it to properly document and notarize SAPET's decision. For example, it frequently cited provision of ILO Convention 169, a legally binding instrument regarding indigenous and tribal rights to demand timely revision of the Supreme Decree NO. 056-2005-EM which had given SAPET the right to explore oil in Block 113.\footnote{SERVINDI, "Perú: FENAMAD saluda."} This interplay between FENAMAD and SAPET approves my first sub hypothesis that \textit{Oil companies are more socially responsible when confronted with indigenous groups unified by a collaborative strategy.}

The roles fulfilled by national and international NGOs also matter. In her study on CSR of Chinese firms operating overseas, Yang reasons that NGOs can improve CSR effectiveness by "increasing public awareness"\footnote{Yang, "Corporate Social Responsibility," 11.}, as an additional source of oversight\footnote{Matisoff, "The Crude Beginnings," 24.}.  

\begin{footnotesize}
\footnote{Matisoff, "The Crude Beginnings," 38-9.}
\footnote{SERVINDI, "Perú: FENAMAD saluda."}
\footnote{Yang, "Corporate Social Responsibility," 11.}
\footnote{Matisoff, "The Crude Beginnings," 24.}
\end{footnotesize}
According to Vasquez, oil-related indigenous movements in alliance with conciliatory NGOs tend to pursue a community-based agenda and gain success in negotiating with oil companies. In the Block 113 case, AIDESEP was the national NGO contact and joined FENAMAD's lobbying process with SAPET.

Vowing to voice for all indigenous people in Peru, AIDESEP launched a *National Program For Indigenous Peoples In Isolation And Initial Contact* (PIACI) in 2003 in which the organization is committed to channel local demands submitted by regional indigenous organizations to the Peruvian state. In addition to this program, AIDESEP positions its medium-term goal to promote a state policy regarding preservation of indigenous rights. To achieve this goal, AIDESEP associates with regional organizations such as FENAMAD to tackle issues under specific local contexts. The working relationship between AIDESEP and FENAMAD is continuous. In 2013, for instance, the two released video proof of uncontacted indigenous tribes in a community named "Mashco Piro" to lobby against logging and natural gas activities in the Camisea area.

Based on the evidence presented above, the actions and strategies of AIDESEP in accordance with FENAMAD in the case of Lot 113 as well as in general circumstances

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305 Vasquez, "Oil Sparks in," 103.
307 ibid.
speaks some truth to my second sub-hypothesis that *oil companies are more socially responsible when interacting with a cohesive indigenous-NGO network.*

Finally, internal coherence within the indigenous network is noteworthy, often promoting a unified voice in dealings with national political entities and giant companies and allowing "for a faster resolution of oil or gas conflicts". Theorization of this idea requires further research but some rudimentary evidence in Peru can be verified to support the argument. In Madre de Dios, the regional government established several consultation rounds with civil society stakeholders and local communities in 2009 to implement a land use plan for the region's natural resources. A civil society consortium was formed by national and regional stakeholders, such as Amazon National University of Madre de Dios (UNAMAD), local Chestnut pickers and traders, and FENAMAD. The consortium provided the regional government with official data on deforestation and helped estimate the deforestation, biomass and carbon baselines for future natural resource projects. On a related note, Vasquez's fieldwork indicates indigenous organizations on Block 1-AB/8 as a united front. The unified northern Achuar group in the area managed to have Pluspetrol to agree to treat contaminated water. This indigenous cohesiveness could partially explain CNPC's voluminous reporting of its CSR activities in 1-AB/8 in spite of not being the primary operator.

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309 Vasquez, "Oil Sparks in," 90.
311 Vasquez, "Oil Sparks in," 93.
Civil Society Beyond Strategies: A Historical Trend of Strengthening

Civil society is a fairly fluid space. To analyze indigenous activism in present terms and to single it out from past waves of strengthening or retrospection are dangerous in promoting out-of-perspective arbitrary arguments. Although discrimination against indigenous population regarding their land rights is still pervasive in the two countries, indigenous organizations have grown in their political and social influence since the late 1980s. A brief historical account on evolution of indigenous activism sheds light on the importance of macro-level contexts that underlie civic movements and leads naturally to identification of political factors in explaining CSR variation in the next part of the chapter.

Indian movements in Peru were originally weak and decentralized. An unstable political environment in the 1980s and early 1990s was responsible for this fragmentation in civil society movements. At that time, Peru was strangled in "a violent war against the Shining Path guerrilla movement ...(that) made it dangerous for Indigenous Peoples to protest or to gather in organized groups". It was not until the mid 2000s when indigenous groups started to unite nation-wide, as demonstrated by signing of the Dorissa Accords between the Achuar communities of Pucacuro and Pavayacu and Pluspetrol for the latter to clean up an oil-polluted lake in the Corrientes River area.

In spite of a delayed start, Peruvian indigenous activism has advanced rapidly. In 2011, Peru became the first Latin American nation to enact the Law of Prior Consultation.

312 Vasquez, "Oil Sparks in," 93.
in compliance with ILO Convention 169 that gives indigenous communities the right for free and informed prior consultation on any policy that directly affects them. This development was celebrated as a success of the country's indigenous activism. In the next sub-section, characteristics of Peru's political institutions in terms of indigenous-related policies and hydrocarbon policies will be discussed. These political mechanisms change the power dynamics of civil society actors vis-a-vis oil companies, shaping the direction of indigenous activism, and consequently affecting Chinese NOCs' CSR actions.

**Regulatory Framework 1: Accommodating Policies and Legislations Toward Minority Populations**

Suggested partially by similar underperforming scores of civil liberties by the Freedom House, civil society in both Peru and Ecuador are struggling to achieve greater role in their countries' governance process. What sets them apart is the fact that the former has seen improvements over the years while the latter suffers setbacks in terms of official public attitudes toward non-consenting civil actors. As aforementioned, different strategies of indigenous rights organizations condition the course of their engagement with Chinese oil companies and subsequently affect the outcomes of their campaigns. More importantly, the broader institutional context of the host countries exerts substantial external drivers or constraints on the indigenous civil sector.

In spite of the center-left position of its president Ollanta Humala, Peru's ongoing democratization process has been proved to be more coherent than that of Ecuador.

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Responding to criticisms of having inherited from his predecessor Alan Garcia the legacy of sharp ethnic conflict, Humala has devoted his political will to a "social inclusion" rhetoric that promises marginalized Peruvians a bigger voice and stake in the country's growing economy. In August 2011, the Peruvian Ministry of Development and Social Inclusion (MISTURA) was established to institutionalize the benefits of various social programs targeting the country's minority.316

MISTURA's creation was a succession to a series of key normative and programmatic decisions by the central government to improve welfare of marginalized populations, especially the indigenas. The Alejandro Toledo administration in the early 2000s stressed the language of social protection and human rights in its social policy provisions. In the process of governance decentralization, local governments have increased their capacity to provide access to local families in local decision-making. The succeeding Alan Garcia government drafted a national plan for human rights in 2006, after consultation with civil society representatives. Nationwide, there have been a consistent flow of bilingual education programs that aim at preserving indigenous culture within school curriculum and providing equal skill training to indigenous students.317

Besides changes in customary laws, institutional developments in legislations are also paving the way for political empowerment of indigenous communities. Historically, the 1979 Law of Communities granted land titles to indigenous families for the first

time. In 2006, the Peruvian government enacted the *Law for the Protection of Peoples in Voluntary Isolation* to establish transectoral regimes of protection for Amazon Indians and give indigenous communities the veto right to natural resource exploitation unless such activity is in the absolute national interest.

An important innovation in Peru's political system came with the establishment of the Ombudsman office, mandated by the *1995 Organic Law*, in accordance with Articles 161 and 162 of the *1993 Constitution*. The Office of the Peruvian Ombudsman is horizontally structured that citizens can present their claims for free, sometimes even without formal writing to the office's local offices and mobile units. Upon selection, the ombudsman can directly present cases to the Constitutional Court and the Inter-American Human Rights Tribunal, bypassing lengthy bureaucratic procedures.

The Ombudsman collects information of grievance from fieldtrips, reports social conflicts, and acts as a countervailing force to fight corruption. As a response to increasing indigenous conflicts as hydrocarbon activities in the Amazon intensifies, the Ombudsman often intervenes to bring Indian representatives, local and national governments and company shareholders to the negotiating table. For example, it has successfully prevented confrontation and promoted dialogue in 2009 between the Matses community and Petroperu, and again in 2010 between the Archua people and Talisman, a Canadian oil company with assets in the Achuar communities along the Pastaza and

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318 Vasquez, "Oil Sparks in," 40.
Morona river basins.\textsuperscript{321} Public approval for the Office of the Ombudsman has been stellar. A 2010 Transparency International opinion poll ranked the office highest amongst all Peruvian government institutions in terms of trustworthiness to fight corruption.

Another preeminent attainment in Peru's political system with regard to indigenous rights was the execution of the \textit{Law for Prior Consultation} in 2011. The law endows the indigenous people with the right to free, prior and informed consent to any projects affecting them and their lands, in a culturally appropriate manner. Passage of such a law was celebrated by indigenous communities as a historical success of their long-term struggle.\textsuperscript{322} In line with the \textit{ILO Convention 169} and the \textit{UN Declaration on the Rights of Indigenous Peoples}, this legislation was first of its kind in Americas.

\textbf{Regulatory Framework 2: Liberal Oil Sector Governance}

The Peruvian government continues through the path of privatization and liberalization in the oil sector, both as pillars of the Washington Consensus in the late 1980s and 1990s aimed to pull Latin American countries out of debt crises. To-date, the oil and gas industry in Peru is a vibrant engine of economic growth and embraces competition. The state oil company Petroperu was restructured in the 1990s so as to diminish overarching political control. According to a survey by the Fraser Institute, Peru ranked 106\textsuperscript{th} out 157 countries in terms of scope of investment barriers. In Latin America, Peru only lagged

\begin{flushleft}
\textsuperscript{321} Vasquez, "Oil Sparks in," 94.
\end{flushleft}
behind Colombia, Brazil, Chile and Uruguay while led significantly ahead of Ecuador (156th based on the same survey) in this aspect.\textsuperscript{323}

According to the \textit{Organic Law for Hydrocarbons}, oil and gas activities can be conducted under license or service contracts. There is a combination fiscal regime of corporate income tax, royalties and other levies to encourage foreign investment. Incentives include royalty as low as 5\% in the natural gas sector and an income tax stabilization program.\textsuperscript{324} In 2007, the government also introduced a new system of competitive bidding as a component of the industry restructuring.

Both domestic and international oil companies have obtained exploitation and exploration contracts to operate in the Talara, Sechura, Maranon, and Ucayali basins. In addition to SAPET, Repsol, Pluspetrol and Perenco are also significant players. A competitive investment environment enabled by a relatively liberal oil market might explain a proactive attitude SAPET adopted in advancing its CSR agenda. It is demonstrated by new studies on Chinese CSR summarized in the first section that peer pressures from Western oil companies is an important reason in the adoption of CSR strategies. In the Camisea project, original investor Shell has made a national example of stringent environmental compliance and community engagement for its successors to follow. As in the Block 113 case, SAPET was exposed to the knowledge of communities' negative experience with Pluspetrol before making the retreating decision.

Revenue decentralization is another theme of the hydrocarbons industry's landscaping in Peru. In 2002, the government enacted the \textit{Canon Law}, which determines

\textsuperscript{324} ibid.
the natural resources whose exploitation generate "canon" and regulates the distribution of canon in favor of the regional and local governments where these resources are found. This decentralizing mechanism is an instrumental step in ensuring that oil income gets redistributed to local families and/or spent on localized social programs.

4.3. Ecuador and NOCs: Waning Civil Society and Disabling Political Contexts

Contemporary Indigenous Activism: Marginalized Actors, Combative Strategies, and Fragmented Networks

The majority of the country's 1.02 million indigenas, organized by 29 nationalities and pueblos live in the Amazon rainforest. Among them, the Tagaeri and Taromenane peoples have chosen a life of voluntary isolation within the boundaries of the Yasuní National Park in eastern Ecuador. Block 16, co-explored by Sinochem, Sinopec and ConocoPhilips is lies within the 612,560 hectare Huaorani Ethnic Reserve, with the remainder falling within Yasuní. Since the late 1980s, oil operations in that area have interfered with life of some 1200 indigenous people who live by the downstream of Rio Napo, in towns like Pompeya.

These indigenous communities have clashed with government-sponsored extractive investments in their territories. Differently, a bigger deadlock is emerging nation-wide in Ecuador when ongoing protests against the government's oil-centered

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development strategy sweep both the nation's capital and countryside, as evidenced in the beginning of the chapter.

As in Peru, a parallel line of civil society organizations is also operating diligently to politically empower local indigenous people and bring their claims to the country's center stage. Representatives of the indigenous nationalities, notably the Confederation of Indigenous Nationalities of Ecuador (CONAIE) and the Confederation of Indigenous Nationalities of the Ecuadorian Amazon (CONFENAIE) work side by side with environmental groups such as Accion Ecologica to consolidate indigenous people in the country.

But at present, indigenous activism faces tremendous roadblocks, mainly from Correa's government (discussed in the next section) and also from within. Civil society organizations are becoming increasingly militant against the government. With violent brawls rises a prevailing anti-oil, anti-corporate rhetoric among the indigenas.

The official language these organizations employ regarding oil investments is rather negative and confrontational. CONAIE, for instance, carries on its political project that "runs directly counter to the interests of the oligarchical, commercial and financial bourgeoisie". Accion Ecologica launched a long-term campaign named the Amazon Campaign for Life to expose environmental problems of oil exploitation and related political back dealing such as corruption and the Ecuadorian government's preferential treatment of transnational oil corporations over the native populations. In their pursuit

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for indigenous justice, both CONAIE and Accion Ecologica have endorsed a strategy of directly confronting the Ecuadorian government rather than oil companies.

Beyond the combative approach to oil developments, the indigenous cause that was previously untied and successful in the 1990s has gradually broken down and radicalized from the beginning of the 21st century "partially due to disagreements between local and umbrella organizations". The era of organized negotiations led by national Indigenous associations had given way to less organized, isolated, and violent actions sponsored by community organizations at the grassroot level.

In November 2013 following the Ecuadorian government's 11th round oil auction, indigenous leaders mobilized in Quito and the regional capital of Puyo to protest against the government's plan to sell off eight million acres of its pristine southeastern Amazon. Correa's government crashed the protests upon receiving three bids from Andespetro and Repsol. Interestingly, Repsol's Ecuadorian subsidiary was acquired by another Chinese oil company CNOOC in 2012. Even though some other oil giants got cold feet amid indigenous opposition, Chinese companies seemed to have not backed down from their bet on controversial blocks.

A dearth of collaboration and cohesion leaves considerable leverage in the hands of oil companies and the government. "To divide and conquer" becomes a common counter-strategy. On Block 64, for instance, the Canadian operator Talisman chose the method of talking to local families one by one, often accompanied by material donations.

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330 Vasquez, "Oil Sparks in," 96.
331 Ibid.
It reports to have spent 3.7 million dollars building medical clinics and installing satellite phones in 66 neighboring communities in a "good neighbor" agreement. At the end, Talisman successfully got consent from a small number of Achuar families to oil exploration, further dividing the communities.333

More concrete evidence needs to be collected on the nature of engagement between Chinese NOCs and indigenous communities in Ecuador. For now, relatively poor records of Chinese CSR are indicative of ineffective civic engagement.

Civil Society Beyond Strategies: A Historical Trend of Weakening

Ironically, twenty some years ago, the indigenous movement in Ecuador was as strong and unified, if not more than, as the Madre de Dios case in Peru. Created in 1986, CONAIE was the largest indigenous umbrella organization in the country and a leading national force counter to neoliberal economic policies in the 1990s.334 Its power reached a climax in the early 2000s by contributing to a coup against former president Jimil Mahuad in 2000335 and the later election of Lucio Gutierrez in 2002336. In broader terms, the indigenous front in Ecuador in the 1990s was exemplary for the rest of the region:

"It was around that time, in March 1990, that the largest Indigenous mobilization so far took place in Ecuador, with repercussions throughout the continent...Indigenous leaders for the first time acquired national political status and accomplished their goal of turning the country into a multicultural state, an attribute that was enshrined in the 1998 constitution."  

The honeymoon between CONAIE and the Gutierrez administration was short-lived. Disagreements over treatment of traditional parties led to quick discharge of indigenous cabinet members and subsequent crushing of indigenous forces. Meanwhile, internal strife among indigenous organizations accelerated the dissolution of a unified front. CONAIE's authority came under serious challenges from two other national NGOs, the Ecuadorian Federation of Evangelical Churches (FEINE) and the National Federation of Peasant, Indigenous, and Black Organizations (FENOCIN). From that point on, a coordinated national arena for indigenous politics subsided, became marginalized, and radicalized. Hence, the beginning of the reversal of civil society's capacity exercise.

In general, a number of studies find that, although civil society in Ecuador is diverse and active today, the level of civic engagement and citizen participation is lower than other Latin American countries. As exemplified in indigenous movements, most civil society organizations now operate at community level through informal meetings,

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337 Vasquez, "Oil Sparks in," 92.
338 Enviado, "La Conaie, gran."
often with a small budget. In a matter of two decades, indigenous movements in Ecuador and Peru have experienced sea changes of reversal versus progress.

**Regulatory Framework 1: Hostile Attitudes Toward the Indigenous**

Underlying the wax and wane of indigenous activism in Ecuador are changing tides of government legislations and official attitudes from pro- to anti- Indigenous, accruing to this summer's national deadlock described at the beginning of the chapter. As in Peru, an accommodating policy environment in Ecuador toward civil society started to take shape in the late 1970s, evidenced in the 1979 Constitution in which basic liberties were granted to historically marginalized groups.\(^{341}\) Victories in the 1990s include Ecuador's ratification of the ILO Convention 169 and CONAIE's participation in drafting the 1998 Constitution in which the concept of multiculturalism was introduced.\(^ {342}\)

Earlier efforts have been gradually eroded since the end of the 20th century. In 1999, the Ecuadorian government passed a new *Environmental Law*, of which the article 6 states that exceptional hydrocarbons development can be carried out in "fragile ecosystems or protected areas in response to a 'national interest'".\(^ {343}\) Since the Correa administration relies heavily on oil revenues to fund its cash-transfer programs as a crucial part of his populist agenda, uninterrupted oil activities are perceived to be a vital national interest.

More recently, the 2013 *Organic Law on Communications* places wide restrictions on freedom of expression and created regulatory bodies with little

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\(^{342}\) ibid, 24.

\(^{343}\) Vasquez, "Oil Sparks in," 68-9.
independence from the executive branch. The government's hostile attitude toward civil society can be further illustrated by a series of policies to illegitimize NGO and indigenous activism. A 2011 presidential decree limited activities of foreign-sponsored NGOs. In December 2013, the National Assembly issued a new criminal code that strengthened provisions of “sabotage and terrorism” in cases of civic protests. Meanwhile, a new criminal code was publicized as a measure to impede unionization and categorize NGOs as terrorists.

Prior consultation is also a contentious issue in Ecuadorian politics. Although the 2008 Constitution did include an article on indigenous rights to free, prior and informed consultation, the subsequent Law of Citizen Participation in 2010 failed to make the consultation process legally binding, in contrast to the Peruvian example.

With the official attitude toward indigenous communities being increasingly belligerent, the level of civil society engagement in the country is rather low in spite of high levels of membership. For as long as the indigenous groups have attempted to protest encroaching Chinese oil investments before, during, and after Ecuador’s recent oil auction rounds, the Ecuadorian government has mobilized security forces to crash these protests. A succession of indigenous leaders like Antonio Vargas, president of CONAIE have been arrested and prosecuted for public obstruction and terrorist activities. In December 2013, a presidential decree led to the shutdown of the Pachamama Foundation, a NGO advocating human rights and environmental protection for over 16 years.

344 Freedom House, "Ecuador, Freedom in."
345 Ibid.
346 Diario Hoy 2010.
Obstacles for indigenous peoples to engage in Ecuador's political decision-making are multiplying under the current context of sluggish global oil prices and Petroecuador's financial inefficiencies. Revenue shrinkage prompts the resource-dependent government to upgrade resource nationalism, tighten centralized control of oil-rich regions (Amazon in this case), and en route, neutralize all civil efforts that stand in between.

**Regulatory Framework 2: Resource Nationalism and Favoritism toward NOCs**

One of the least politically stable South American countries for most of its history, Ecuador has a vulnerable democratic system. Self-identified as a leftist, its current president Rafael Correa practices personalist political agenda, economic populism, conservative social policies and quasi authoritarianism. In the international arena, Correa is a controversial public figure who constantly bashes neoliberalism and the Washington Consensus. In the oil industry, continuous waves of resource nationalism have cast doubt on prospects of foreign investment. Ecuador’s 2006 expropriation of Occidental Petroleum assets speak to international oil companies’ worries.

Based on the new Organic Law on Hydrocarbons, all oil and gas activities must be directly carried out by the state through state-owned enterprises and privilege in foreign investment is given to NOCs from other countries. The 2010 reform to the hydrocarbons industry established a service contract model in which all existing contracts before 2010 must be renegotiated so that the state pays the company a fee per barrel for oil produced by that company and 100% of oil production is government owned. Under
this new framework, selected foreign participants might sign an "investment contract" with the state to secure ten years of tax stability.347

The hydrocarbons sectorial makeup is rather rigid, with only a handful of foreign companies, notably Andespetro and Repsol. Ecuador is expected to intensify cooperation with national oil companies from other countries. Chinese oil companies are becoming the dominant international investors in Ecuador’s oil sector, an eminent reality during the global price downturn. The Chinese government supports these outward investments by giving out generous loans to Correa's government. The inter-governmental, political nature of Chinese oil investments as well as their sheer volume (approximately $9 billion by January 2015) dictates that the Correa government will protect its oil claims in favor of Chinese oil companies, even at a cost of “suffocating” indigenous demands.

Correa dismisses the allegation by funding the country’s first Comunidad de Milenio (Millenium Community) project in the Amazon basin to provide local tribes with modern infrastructure. However, his efforts of “sustainable extractivism” are widely criticized to be mismanaged and exaggerated for the purpose of pacifying the local population affected by oil production.

These two features of the oil sector, namely lack of competitiveness and centralization, even impede some of the government's benign policies to hold companies more accountable. For example, the domestic participation rule in Ecuador's Hydrocarbons Law clearly states that, in exploration and exploitation of hydrocarbons, within six months of operations, starting a minimum of 95 per cent of staff workers, 90

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per cent of clerical staff and 75 per cent of technical staff, unless there are no national technicians available, must be Ecuadorean nationals. Within two years, 95 per cent of administrative personnel must be Ecuadorean. Oil companies will have to hire national goods and services even if they cost 15 per cent more than foreign providers, if they are of the same quality. As shown in the second section, Andespetrol reports having over 90% of non-Chinese employees but several sources disapprove this claim. What is at work is a near monopolistic firm acting carelessly because a weakened civil society is too busy confronting the national government and the oil-dependent government is often reluctant to penalize non-compliance.

In Ecuador, a hostile policy environment toward the civil society is reinforced by a centralized control on the hydrocarbons industry, further limiting public dissidence and encouraging reckless behavior among the corporate actors. Nationalization and lack of competition prompts the few remaining oil companies to forego good corporate social practices regardless of the government's environmental and social guidelines. That is an important factor explaining why Andespetrol and Repsol continue their oil drilling work in spite of popular protest. An opposite line of reasoning operates in Peru where a comparatively rigorous civil society frequently engages in dialogue and a liberal oil sector encourages competition and rewards good social behavior, validating the hypothesis that *Oil companies show a higher level of social commitments when investing in host societies where the government constructs a liberal framework to regulate the oil sector and accommodates its minority population in its political/legal system.*

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348 ibid.
4.4. International CSR Initiatives: A Preliminary Analysis

Both countries pronounce support for general global sustainability guidelines such as the UN Global Compact, the UN Agenda 21, and the Rio Declaration on Environment and Development, along with some 175 other states. These guidelines share a non-binding, non-prescriptive nature and aim to provide general frameworks for states and businesses. Taking into account of a lack of monitoring mechanisms in UN agencies, no causal connection could be established between adoption of these UN principles and good corporate citizenship. In terms of the cases under investigation here, a unified adherence by Peru and Ecuador to these widely accepted principles does not predict stark differences in Chinese oil companies' social footprints, counterfactually invalidating the observation that *Oil companies are more socially responsible in host countries that subscribe to voluntary CSR regimes.*

Given the chapter's focus on oil activities in indigenous lands, two important theme-specific international CSR programs are relevant.

First, the *ILO Convention No. 169* is a legally binding international instrument designed specifically to grant rights to indigenous and tribal people in countries that ratified the convention.\(^{349}\) The cornerstone of this convention is requirements that indigenous and tribal people should be able to engage in free, prior, and informed consultation and participation on issues that affect them and that these people have the right to decide their own priorities for development.\(^{350}\) Both Ecuador and Peru ratified


\(^{350}\) ibid.
the convention in the 1990s, although degrees of implementation vary. It is important to examine Convention 169 as huge areas of oil developments in the two countries lie in or near indigenous territories.

Convention 169 gives ratifying countries one year to "align legislation, policies and programmes...before it becomes legally binding". So far, Peru is the only South American country to enact legislation (the 2011 Law of Prior Consultation) specifically tailored toward accommodating core requirements of Convention 169, even though implementation of the law has been controversial (see previous analysis). The ILO recognizes the difficulty of implementing the convention in spite of its legally binding status, and seeks to improve its effectiveness via encouragement for good-faith action and publication of best practice examples. In the organization's only official guide to Convention 169, Peru is praised for its continuous efforts to improve multicultural education in the Amazon Region with the Program for Training of Bilingual Teachers in the Peruvian Amazon, a joint force project managed by AIDESEP and the Ministry of Education. In addition, the document also highlights as another best practice example a transnational alliance forged in Peru between a Dutch trade union and an Amazon-based indigenous organization to combat the issue of forced labor in the country's Ucayali Region.

On the other hand, Ecuador's endorsement of Convention 169 is mainly reflected in its constitutional provisions. The 1998 Constitution introduces the concept of

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351 ibid.
353 ibid, 163-4.
multiculturalism while the 2008 Constitutional Reform acknowledges the indigenous right to prior, direct consultation. Without any other legal instrument to bind such a right, constitutional declaration on the issue "did not signal a real effect on policy" but instead became "a source of conflicts within the Constituent Assembly". Worse, the ILO official guide features a section on a 1998 resource extraction conflict in Ecuador in which the Ecuadorian government was found by a ILO special committee to violate the convention by approving an oil project on an indigenous land without establishing appropriate dialogue with representatives of the local Shuar people.

Peru's relatively stellar performance in upholding Convention 169 through legal and programmatic remedies in connection with SAPET's community engagement in the Block 113 case proves one point: international instruments are effective in creating enforceable expectations for socially sound government and business conduct, only if carried out by "responsible national entities". In Peru, accommodations of the convention are constructed in parallel to other legal and normative improvements in indigenous conditions by a state that is not as dependent on oil revenues as that in Ecuador (analyzed in Part 3). On the contrast, Ecuador's commitments to Convention 169 have been continuously compromised by contradictory legal changes that take away certain indigenous rights. For example, Decree 1040 in 2008 practically destroys achievements in recognition of consultation rights for indigenous populations by dictating that community input should be considered only if it is "technically and economically

355 Ibid.
viable". These political contradictions are in line with a hostile national environment against ethnic minorities in favor of oil companies (detailed in Part 3). Therefore, *host government regulation as an independent variable commands overwhelming power in casually intervening effectiveness of civic engagement from below and international initiatives from above.*

Another industry-specific international standard of relevance is the *Extractive Industry Transparency Initiative* (EITI). As discussed in the Chapter 2, the EITI establishes an international standard to promote transparent management of the member country's natural resources. Peru is the only Latin American country acknowledged by EITI as compliant. According to third-party evaluations, CNPC has participated in the Peru's most recent (2004-7) EITI reconciliation by disclosing its payments of oil resources. New evidence suggests that the company has renewed its participation in the process starting in 2014. However, EITI is hardly an example of international mechanism working to directly hold oil companies more responsible. CNPC's resolve to disclose financial information in Peru is indeed extraordinary, considering the company's financial secrecy inside China.

However, with the exceptions of EITI and the Global Compact, CNPC generally has not paid much attention to other international CSR standards. Officially, it is not a participant of EITI and "its adherence to EITI requirements was more a function of complying with host country commitments to the Initiative." In terms of the Global

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357 Saavedra, "Consultation or Prior," 7.  
Compact, more than 200 Chinese companies have become signatories, including CNPC and Sinopec. In most cases, companies join the Global Compact at the corporate level, making comparisons of social performance by subsidiaries in different host countries along this line impossible. Thus, it is difficult to empirically test the observation whether companies act more responsibly when directly participating in international CSR regimes.

**Conclusion**

As Chinese national oil companies advance into the rich oil lands of Peru and Ecuador, they diverge on their social responsibility performance. A dynamic indigenous movement in Peru’s southeastern Amazon region enabled by supportive state policies and institutions toward civic participation engaged with China’s SAPET in positive dialogue which resulted in the company’s decision to divest from certain territories of uncontacted tribes in the Madre de Dios region, in spite of support from the Peruvian government to carry on. This speaks to the heart of CSR, that a company voluntarily undertakes socially sound action beyond legal minimum. Incorporating a liberal, competitive oil sector layout, the accommodating political structure in Peru also prompts Chinese companies to undertake credible CSR to increase legitimacy and improve their competitive edge among many other oil companies operating in Peru. In addition to SAPET's outstanding performance in the case of Block 113, Chinese NOCs in Peru have demonstrated relatively higher levels of care through localized social programs and reasonable caution in the Amazon than their subsidiaries in Ecuador.

In Ecuador’s northeastern Amazon rainforest, partnerships between local indigenous organizations and Chinese oil investors have not been forged. Instead, a left-
leaning, populist Ecuadorian government continues to ridicule and criminalize indigenous movements, acting as an institutional obstacle for a stakeholder approach to CSR evident in the Peruvian case. Andespetrol, the major Chinese NOCs in the country, has deepened its investment into the heartland of the Amazon, regardless of raging public discontent. A hostile political environment toward civil society and minority population has conditioned the fragmentation of a unified front for indigenous activism, which was further weakened by the country's biased oil regulations favoring Chinese NOCs over other foreign investors and "anti-oil" groups. Such a deadlock is exacerbated by the current global oil market where sluggish prices push leverages into the hands of the buyers, in this case, Chinese NOCs. The triangular relationship among host country's regulatory frameworks, civil society and Chinese NOCs' social commitments can be illustrated by table 4.3.

<table>
<thead>
<tr>
<th>Host Governments</th>
<th>Civil Society (Indigenous Organizations)</th>
<th>Chinese NOCs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ecuador</strong></td>
<td>Increasing marginalization, erosion of civil liberties, criminalization</td>
<td>Resource nationalism: centralization, bias twd. NOCs.</td>
</tr>
</tbody>
</table>

Source: Chapter case study findings.

Investigation on the role of international CSR regimes is inconclusive for practical and methodological reasons. In practice, Chinese NOCs are not avid participants
in international CSR standards. Also, when they subscribe to certain international schemes, NOCs do so at a group level, often resulting in incomplete cross-country information regarding their subsidiaries. What is certain from the preliminary analysis in Part 4 (the example of Convention 169) is that the importance of international instruments in motivating CSR depends largely upon host governments' regulations. Only when supported by coherent national legislations and programs can these instruments take real effect.

Three additional remarks. First, albeit imperative, host governments' political institutions discussed in this section promote CSR mainly through indirect channels, by creating a constructive political climate for civil society actors to seek positive engagement with oil corporations. The Peruvian Office of Ombudsman is a positive example.

Second, resource dependency is an interactive variable in the Ecuadorian case. With oil exports accounting for one third of its tax revenues and oil rents as much as 19.1%, Ecuador fits the classic definition of a "petro-state". In the famous "Paradox of Plenty" argument, resource-rich countries with reliance on oil exports and oil revenues overtime breed fragile governmental and civic institutions that reward rent-seeking activities and primarization of the national economy. The behavioral pattern of petro-states also converges to symptoms of populism from which the state buys off political support from politically convenient constituents through flamboyant social spending and
subjugation of marginalized groups.\(^{361}\) However, the negative effect of resource dependency has yet to be tested on different case scenarios in future research.

Third, although the political framework in Peru is relatively conductive to empower civil society and hold oil companies accountable, it is far from perfection. Implementation of the prior consultation law has been controversial and the canon law is frequently attributed to uneven revenue distribution among oil-producing regions. More importantly, Peru is not immune from the various structural weaknesses that continue to afflict Latin American countries, including: poor quality of democracy, corruption and clientelism, entrenched welfare state, and economic cycles vulnerable to international demand. These structural problems create drawbacks in the government's ability to check foreign corporations. Nevertheless, this project submits that the differences between Peru and Ecuador in terms of the two frameworks discussed above are qualitatively big enough to account for variance in my dependent variable. So for now, the Peruvian experience, especially in the case of Block 113, serves as a realistic case of best practice.

Two interconnected policy recommendations follow. The first one aims at civil society in the host countries and the other one addresses long-term political reforms. In the first place, tangible results on improving CSR in the oil industry will benefit from competency training of relevant civil society actors. As an important stakeholder group, civil society in oil-rich territories must strengthen their technical and legal capacity in order to develop stronger national and transnational networks. On the other hand, to better inform and mobilize their local constituents, civil society organizations should develop specialized "on the ground" knowledge and engage in political awareness

building. This is a good first step to hold oil corporations accountable in host society settings. Through capacity building, civil society actors can shape policy changes in favor of their claims and influence political debates. They must do so in a constructive manner.

Nonetheless, as shown by the experience of CONAIE in Ecuador, the fate of civil society activism is closely linked with national political contexts. Without supportive state institutions, their efforts could be thawed by oppositional political forces in the long run. This vulnerability leads to my second policy recommendation that a strong and equitable governance system to offer peaceful channels for people's grievances. In the long run, this means a better democracy, which entails in the Latin American context, curtailing clientelism and improving transparency.

Such an ambitious goal will take tremendous political compromises and social construction for the years to come. Before this ultimatum, before meaningful private-public partnerships can be institutionalized, what is required is "an effective arm's-length and accountable relationship between governments and MNCs to deal with corruption, environmental degradation, and violence". Without this kind of constructive dynamism, enforcement of sustainable policy initiatives will be weak, as in the case of the Yasuni National Park where oil drilling will proceed despite the government's earlier attempt to get fund to keep the oil in the ground. Worse off, weak government oversight leads to opportunist corporate behavior when oil companies implement CSR only as an ad-hoc reaction to policy changes.

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Chapter 5
New Investments in Argentina and Colombia: CSR, Regulatory Regime Centrality and Openness

On December 10, 2015, former Mayor of Buenos Aires, Mr. Mauricio Macri was sworn in as Argentina's first center-right president in over twelve years. It is hoped that the new president and his cabinet mainly comprised of right-oriented technocrats would bring changes to the country's stagnant economic situation and reinstate confidence among foreign investors. However, prospects for a complete reorientation of Argentina's political economy from Kirchnerism are not as bright as suggested by a somewhat symbolic switch in government head, when one takes into account of the country's entrenched political polarization, lasting legacies of Peronism or state involvement in the economy, a deepening economic structure of dependence, and painful memories of the Tango crisis often associated with neoliberalism. Evolution in the Argentine regimes of the hydrocarbons sector has been emblematic of the paradoxical mix of neoliberal and anti-neoliberal economic policies, populist and conservative social policies, and subsequently the dialectical relationship between the Argentina state and its civil society. In other words, the aforementioned contradictions are crystalized in the country's energy investment framework that has been endowed with fusions of petroleum nationalism, subnational decentralization and partial liberalization. The regulatory framework ever-evolving with the country's political regime and changing global economic conditions has profound implications for social development and modes of civil society engagement in the oil-producing regions, as well as oil companies' social imprints.
To the north in Colombia, more fundamental transformations are taking place as the country's third peace process has been making positive strides with the Santos government and various rebel groups reaching agreements regarding reintegration, and reparation. Both the international community and domestic groups have high hopes for the process to end the longest hemispheric conflict in history (over fifty years) and kick-start much-needed socioeconomic reconstruction, though success depends on multiple factors such as effectiveness of the transitional justice system, actual delivery of international finances, and consistent political will from both sides. What this open process means for oil companies in Colombia is enhanced security, hence more certainty for hydrocarbon investments, a similar effect intended by the Argentine energy reform in 2014. Moreover, from peace, civil society capacity can be expected to grow to place necessary restraints and checks and balances on the energy development trajectory and traditionally dominant actors, the state and oil companies. Nonetheless, the nascent and uneven nature of the peace process implies that prior-peace factors including oil companies' complicit role in oil-related violence, the Colombian government's favoritism toward hydrocarbons projects vis-a-vis alternative visions of development in a liberal yet bureaucratically centralized regulatory regime, and the relative weakness of local civic engagement will persist.

Chinese NOCs began to invest in both Argentina and Colombia in 2009, making the two newest Latin destinations of Chinese oil investments. Although the short time span means it is theoretically futile to generate any conclusive articulations about these companies' social performance in these two countries respectively, it is a profitable enterprise to assess their CSR commitments through critically exploring a myriad of
relevant company reports, media exposés, and scholarly contributions. Empirical
evidence shows that Chinese NOCs act more responsibly in Argentina than in Colombia
on commitments to environmental protection and labor rights, although serious
reservations must be taken in terms of actual performance. Unlike the Peruvian case in
which indigenous civil society actors empowered by relatively supportive state
institutions directly engage with SAPET, differences between the Argentine and the
Colombian experiences can be first traced to their variegated hydrocarbons governance
structures that are deeply rooted in their different political systems (government
orientations, political culture, regime stability, etc.), while civic engagement takes a back
seat explaining mainly differences in CSR implementation.

The following chapter will be organized as such: the first section discusses
Chinese oil investments in the two countries with a focus on CSR activities and third-
party evaluations; differences on environmental and labor issues will be connected, in the
second section, to the oil regulatory regimes and their roots in the broader political arenas
in Argentina and Colombia, respectively. The third part of the analysis considers relevant
civic actors and unearths the very different reasons why the civil society fails to engage
with oil companies in meaningful ways in the two countries, correspondingly. The final
section deepens last chapter's discussion on the effect of resource dependency and "China
dependency" in influencing government stances toward hydrocarbon development and
consequently Chinese NOCs' social commitments. The conclusion summarizes
conjunctive arguments on the complex routes to CSR based on the cases of Argentina vs.
Colombia and offers policy insights as for why CSR in the oil industry should be studied
with attention to national, local circumstances and limits.
5.1. Chinese Oil Investments in Argentina and Colombia

Newest Destinations: Company and Geographic Demographics

Interestingly, Chinese hydrocarbons investments in Argentina and Colombia are dominated by smaller NOCs, as opposed to an earlier scenario in which the largest NOCs, CNPC, leads the way in older destinations such as Peru, Venezuela, and Ecuador. In August 2009, the smallest and most diversified Chinese NOC, Sinochem entered Colombia with its $878 million acquisition of London-listed Emerald and subsequent inheritance of Emerald's Colombian subsidiary. Sinochem was followed by Sinopec and CNOOC. In 2010, Sinopec took over the US-based oil company Hupecol's Colombian assets located in the Llanos Oriental basin and created a company under the name of New Granada Energy Colombia (NGEC thereafter). In China's largest NOC takeover of an oil and gas company in 2012, CNOOC became the newest oil investor in Colombia with the company's $15.1 billion acquisition of Canadian company Nexen who has held significant assets in Colombia since 1995. In the same year, Sinochem

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364 Sinopec purchased 25% of an oil sand project by Ominex de Colombia for $400 million in 2006. Due to the small size of share, this deal is not considered by the thesis as a starting point for Chinese NOCs presence in Colombia.
purchased Tempa BV, the Colombian subsidiary of the French company, Total SA at $1 billion.  

Within a similar timeframe, Chinese NOCs started to tap into Argentina's 2.4 million barrels of proven oil reserves. In 2009, *CNOOC* acquired 50% shares from a private Argentine oil firm Bridas at a massive investment of $3.1 billion. In less than one year, *Sinopec* took over Occidental Petroleum's Argentine unit with $2.45 billion and established *Sinopec Argentina Exploration Inc*. In January 2015, Sinopec signed a Memorandum of Understanding with Argentina's NOC Yacimientos Petrolíferos Fiscales (YPF) to form a future joint venture in order to explore the country's potential shale reserves in its Vaca Muerta formation.

In Colombia, Sinopec and Sinochem are the leading Chinese investors, with operating interests in multiple oil blocks across the country. Through the Hupecol acquisition, Sinopec's NGEC obtained production rights in four fields in the eastern plains of the Llamos Oriental Basin. Precisely, these four blocks, Dorotea, Cabiona, Leona and Las Garzas are located in close proximity to the municipality of Paz de Ariporo in the country's northeastern department of Casanare. Also, Sinopec’s joint venture with the Indian NOC ONGC Videsh results in a new company called Mansarovar.

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who owns five working camps and one pipeline in central department of Magdalena as well as the Llanos Block 69 in the central provinces of Meta and Medina in the department of Cundinamarca. Sinochem, on the other hand has more geographically dispersed interests. Its 2009 Emerald deal positioned the company in South Colombia with two oil fields. The Gigante block is located in the southwestern department of Huila while the Capella field is in the Department of Caqueta in the South Amazona region. Since 2012, Sinochem's Tempa project launched the company's operations toward a giant field named Cusiana in the northeastern Department of Casanare, in the town of Tauramena. At the same time, Sinochem also participates in the OAM and ODC pipelines through its Tempa project. At last, CNOOC’s presence in the country via the Nexen deal is more limited to the Guando oilfield, in the Upper Magdalena Valley at the central-west Andean Department of Tolima. Petrobras is the operator of that field while Nexen holds 10% of working interests.

In Argentina, major Chinese oil investors are Sinopec and CNOOC, both of whom operate in the country's northern Patagonia region, a traditional area for oil and gas production. The former through its 2010 acquisition of Occidental is in charge of twenty-three units in the provinces of Santa Cruz, Chubut and Mendoza. While Santa Cruz and Chubut are in Patagonia, Sinopec’s operations in Mendoza are located in the country’s more economically diversified central-western Cuyo region. CNOOC’s 2009 acquisition of Bridas for 50% of its shares gives the Chinese company an interest in Argentina’s second largest oil producer, Pan American Energy (PAE) who operates mainly in the Cerro Dragón oilfield in Golfo San Jorge in southern Patagonia bordering Chubut and

Santa Cruz. Table 5.1 gives a visual illustration of Chinese oil and gas assets in Colombia and Argentina with a focus on their starting timeframe, company specifics, and geographic locations.

Table 5.1. Chinese NOCs in Colombia and Argentina

<table>
<thead>
<tr>
<th>Country</th>
<th>Company</th>
<th>Project</th>
<th>Location</th>
<th>Starting Date</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Colombia</strong></td>
<td>Mansarovar/Sinopec</td>
<td>Moriche</td>
<td>Magdalena, North-Central Colombia</td>
<td>2006</td>
<td>25% w. ONGC Videsh</td>
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<td></td>
<td></td>
<td>Jazmin</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td>Nare Sur</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Chicala</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Velasquez</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>NGEC/Sinopec</td>
<td>Dorotea</td>
<td>Paz de Ariporo, Casanare, NE Colombia</td>
<td>2010</td>
<td>Sole operator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cabiona</td>
<td></td>
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<td></td>
<td></td>
<td>Leona</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Las Garzas</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Emerald/Sinochem</td>
<td>Gigante</td>
<td>Huila, South Colombia</td>
<td>2009</td>
<td>Sole Operator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Capella</td>
<td>Caqueta, South Amazon Colombia</td>
<td>2009</td>
<td>Sole Operator</td>
</tr>
<tr>
<td></td>
<td>Tempo/Sinochem</td>
<td>Cusiana</td>
<td>Tauramena, Casanare, NE Colombia</td>
<td>2012</td>
<td>Sole Operator</td>
</tr>
<tr>
<td></td>
<td>Nexen/CNOOC</td>
<td>Guando</td>
<td>Upper Magdalena Valley, Tolima, CW Colombia</td>
<td>2012</td>
<td>10% w. Petrobras</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Barbosa, Chiquinquira,</td>
<td>Near Bogota</td>
<td>2012</td>
<td>Sole Operator, Exploration stage, Shale gas wells</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sueba, Garagoa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Argentina</strong></td>
<td>Sinopec Argentina</td>
<td>23 Units</td>
<td>Santa Cruz + Chubut, Patagonia, N Argentina; Mendoza, Cuyo, CW Argentina</td>
<td>2010</td>
<td>Sole operator</td>
</tr>
<tr>
<td>Exploration</td>
<td></td>
<td>Cerro Dragón</td>
<td>Golfo San Jorge, Patagonia, N Argentina</td>
<td>2009</td>
<td>20% through PAE</td>
</tr>
</tbody>
</table>

Source: Author compilation based on company websites, cross-checked with various news sources and Jiang and Chen (2014).
Although Chinese NOCs' adventure into Colombia and Argentina is a very recent phenomenon, both countries occupy strategic positions in the Chinese energy matrix overseas. For example, Sinochem's Emerald project in Colombia is the company's largest overseas upstream/onshore operator project.\(^{372}\) Moreover, both destinations represent China's ambitions to develop unconventional energy resources, as indicated by CNOOC/Nexen's shale gas exploration near Bogota and Sinopec's agreement with YPF to jointly prospect Argentina's shale gas field Vaca Muerta.

Chinese NOCs are also rapidly emerging as major players in the two host countries' hydrocarbons sectors. In 2013, Sinopec's NGEC operations near Paz de Ariporo were reported by Colombia's national hydrocarbons regulatory body, Agencia Nacional de Hidrocarburos (ANH thereafter) to contribute to 58% of total oil extracted in the area.\(^{373}\) In Argentina, latest official data shows that Sinopec Argentina Exploration Inc. has risen to the country's fourth largest oil and gas producer in 2013 and holds the third largest reserve in 2012.\(^{374}\) At the same time, CNOOC became involved with the second largest producer PAE\(^{375}\) through controlling 50% of shares of Bridas who holds 40% of interests in PAE.

Beyond common trends, two important differences can be observed between Chinese NOCs' investment profile in Colombia and that in Argentina. First, both Sinopec and CNOOC devote more financial resources to their Argentine projects than their Colombian operations. For instance, Sinopec's Oxy deal at $2.45 billion and CNOOC's

\(^{373}\) Lleras and Leal, "Colombia and China," 27.
\(^{375}\) ibid, 22.
Bridas purchase at $3.1 billion in Argentina overshadow the Ominex ($400 million) and Hupecol ($281 million) acquisitions in Colombia. Although CNOOC's Nexen deal reached a record high of $15.1 billion, 90% of Nexen's assets are in Canada, the Gulf of Mexico, and North Sea.\footnote{Jiang and Chen, "Update on Overseas," 17.}

Second, Chinese NOCs' Argentine operations are more geographically concentrated than their Colombian assets. Both Sinopec Argentina and PAE operate mainly in Patagonia, a region open to oil production since the 1907 Comodoro discovery (with the exception of Sinopec's activities in Mendoza province). On the other hand, Chinese NOCs' fields in Colombia are stretched from the northern tip of Magdalena (Nexen and Mansarova) to the southern Amazonas (Emerald). Sinopec's NGEC project near Paz de Ariporo is situated in a region (Casanare) that has only been recently exposed to hydrocarbons development since the late 1990s. In general, in a country where most oil production occurs in the Andes foothills, eastern Amazonian jungles, and the Meta department\footnote{"Colombia," \textit{US Energy Information Administration}, May 27, 2015, accessed February 12, 2016, https://www.eia.gov/beta/international/analysis.cfm?iso=COL.}, Chinese NOCs' activities in Colombia are mainly established in marginal fields, with a few exceptions.

Therefore, Chinese NOCs' assets in Argentina are grander in money values and more geographically concentrated in traditional oil regions than those in Colombia. These differences in connection with more fundamental political and social factors explain the varying degrees of social commitments showcased by the same companies in the two different host settings, which will be espoused in detail in the following sections.
The Social Dimension

Self-Reported Evidence

In spite of being new investors, all Chinese NOCs operating in the two countries proactively showcase their local CSR activities through company reports. Sinopec reports its social footprints in both nations, while CNOOC and Sinochem only cover their CSR programs in Colombia since the former only has a minor interest in Argentina's Cerro Dragon field and the latter does not have assets in Argentina. Table 5.2 summarizes these companies' self-reported CSR data in Colombia and table 5.3 lists information regarding Sinopec's reporting on both countries.

Within Colombia, self-reporting evidence from table 5.2 demonstrates that Sinopec and Sinochem exhibit more serious CSR commitments than CNOOC, with extensive coverage on a wide array of social issues including workforce localization, environmental protection, community welfare, local economic linkages and philanthropic work. On the other hand, CNOOC's CSR narrative is minimalist with a vague statement that it is going to retain and build upon Nexen's social responsibility initiatives abroad in the 2013 company report. These inter-company divergences can be correlated to first, Sinopec's bigger financial resources and second, the fact that Colombia hosts Sinochem's most ambitious overseas ventures.

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### Table 5.2. CSR of Chinese oil investments in Colombia, self-reporting, 2011–4

<table>
<thead>
<tr>
<th>Year</th>
<th>Sinopec</th>
<th>CNOOC/ Nexen before 2013</th>
<th>Sinochem</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Educational initiative <em>Pentacidad</em> to rural schools around Mansarovar field.</td>
<td>1st management audit; compliance management stressing transparency and integrity training.</td>
<td>• Environmental protection in Gigante and Garzon. • Emerald project invested $2.75 mi. in community engagement.</td>
</tr>
<tr>
<td>2013</td>
<td>• <strong>HSE training of 1,000 local employees.</strong> • Education and publicity campaign of sustainable development for local children. • Donation &amp; scholarships to local students. • <strong>Entrepreneurship contest.</strong> • <strong>Workshops for single mothers.</strong> • <strong>Cooperation w. agriculture experts. (SIPC Sacred Lake Company).</strong></td>
<td>Nexen acquisition: retain &amp; build upon all SR initiatives.</td>
<td>• Medical services around Gigante oilfield. • Infrastructure contribution: schools, hospitals. • Education facilities in Gigante, Casanare, and Ombu regions.</td>
</tr>
<tr>
<td>2012</td>
<td>• <strong>Drilling service contracts with 97% local employees.</strong> • Build local media care centers. • Equip hinterland communities w. mobile medical facilities.</td>
<td>• Renovations in a dairy cooperative near Sueva. • <strong>315 jobs surrounding Sueva and Chiquiquira Blocks.</strong> • 0 oil spill. • <strong>Community engagement with rural Sueva, Junin, Guasca.</strong> • 268 stakeholder meetings at regional governmental entities (prior info. 3,517 attendance). • Charitable donations.</td>
<td>• <strong>Recruit locally</strong> policy: 100% of non-technical workers. • Contract w. Healing the Children.</td>
</tr>
<tr>
<td>2011</td>
<td>Donate stationary to local schools.</td>
<td>• Targeted social investment by consulting community leaders, contractors and security providers. • Community projects to advance health care, child welfare, and environmental protection.</td>
<td></td>
</tr>
</tbody>
</table>

*Source: author compilation of Sinopec, Nexen, and Sinochem CSR reports.*

The differences between CSR self-reporting in Argentina and in Colombia are not as pronounced as the gaps between the Peruvian and Ecuadorian cases. An uncritical glimpse of corporate digest places these Chinese NOCs into the rank of "CSR champions" as Sinopec and Sinochem declare a near 100% rate of workforce localization,
which is beyond both countries' legal requirements for foreign oil companies. However, a cross-examination of the self-reported evidence reveals that Chinese oil investors in Argentina are more concerned with local recruitment than other CSR issues. For instance, in 2013, proclaiming to have a general employee base consisted of 99% of local personnel, Sinopec Argentina reported to have directly hired 530 local employees and indirectly employed about 5,100 local people through oilfield contractors.\textsuperscript{379} Although the method to calculate indirect employment is not specified in the report, the effort to prioritize employment as a prevalent CSR issue is evident. On the contrary, the records of Sinopec (97% local employees in drilling subcontracting) and Sinochem (100% of non-technical workers) in Colombia are not as comprehensive and impressive.

<table>
<thead>
<tr>
<th>Year</th>
<th>Colombia</th>
<th>Argentina</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Educational initiative <em>Pentacidad</em> to rural schools around Mansarovar Energy field.</td>
<td></td>
</tr>
</tbody>
</table>
| 2013 | • *Tech. development.*  
• *HSE training of 1,000 local employees.*  
• Education and publicity campaign of sustainable development for local children.  
• Donation & scholarships to local students.  
• *Entrepreneurship contest.*  
• *Workshops for single mothers.*  
• *Cooperation w. agriculture experts. (SIPC Sacred Lake Company).* | • *Tech. development.*  
• 530 local employees in head office and 3 provincial areas.  
• Indirect employment of 5,100 local people through oilfield contractors. >> 99% local employee base. |
| 2012 | • *Drilling service contracts with 97% local employees.*  
• Build local media care centers.  
• Equip hinterland communities w. mobile medical facilities. | • *Local staff training of rig operation for ZJ50D.*  
• 2009-12, Proprietary CSR initiative "*Nuestro Lugar*" to provide social activities to local youth. |
| 2011 | Donate stationary to local schools. |  |

Source: author compilation of Sinopec (group and ltd) CSR reports.

Third-party Assessments

More asymmetries between Chinese NOCs' social commitments in the two countries are unearthed when a pool of media sources and NGO evaluations are considered. In

\textsuperscript{379} "2013 Corporate Social Responsibility Report," Sinopec, Beijing, 2014, 44.
Colombia, media opinions toward Sinochem and Sinopec are mostly negative with heavy coverage on oil spills, community resistance, past environmental dues, and labor protest. On the contrary, Sinopec and CNOOC received mixed reviews in Argentina. Tables 5.4 and 5.5 list major media coverage on Chinese NOCs’ social activities in Argentina and Colombia, respectively. (Entries in red represent positive opinions).

Table 5.4. Independent Sources on CSR- Argentina

<table>
<thead>
<tr>
<th>Year / Company</th>
<th>Claim</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr 14'/ CNOOC</td>
<td>Considering selling off Bridas stakes to &quot;free up money&quot; and bypass criticisms surrounding PAE's Cerro Dragon field (bribery charges, labor/social movements).</td>
</tr>
<tr>
<td>14'/Sinopec</td>
<td>Labor disputes with Sinopec's subcontractors, Mencap, Huinoil, and Brest at the Huemul reservoir in Patagonia.</td>
</tr>
<tr>
<td>14'/ CNOOC</td>
<td>CSR programs to preserve endangered bird species, prevent drug addictions, enhance digital access and public leisure in Patagonian and Cuyo cities praised by local media.</td>
</tr>
<tr>
<td>Dec. 13'/Sinopec</td>
<td>Company's continuation on Oxy's environmental program &quot;Reserva Natural Loayza y Duraznillo&quot; recognized as the best environmental conservation program by the Ecumenical Forum.</td>
</tr>
<tr>
<td>Dec. 12'/ Sinopec</td>
<td>Agreement w. Governor of Santa Cruz to build water wells and new pipes in Caleta Olivia and Pico Truncado and offer employee training.</td>
</tr>
<tr>
<td>10'-11'/Sinopec</td>
<td>Establishment of a 5-year remediation plan for historical environmental liabilities in response to Law 3122 in Santa Cruz.</td>
</tr>
<tr>
<td>10'—11'/ Sinopec</td>
<td>Agreements w. the Santa Cruz gov. requiring direct and indirect employees have at two years of Santa Cruz residence.</td>
</tr>
<tr>
<td>08’— /Sinopec</td>
<td>Alliance w. provincial gov. and NGOs to create an environmentally protected area in Monte Loayza and Canadon de Duraznillo, Santa Cruz.</td>
</tr>
<tr>
<td>CNOOC</td>
<td>Retaining PAE's CSR programs, SMEs of Golfo San Jorge quite successful.</td>
</tr>
</tbody>
</table>

Source: News media outlets including Bloomberg, El Ciudadano de Las Heras, La Opinion, Tiempo Sur, Periodico Las Heras, La Vanguardia del Sur, Empresas News, Canal Cinco; NGO website such as Voces y Puntes, and Reserva Natural; Donaubauer, Lopez, and Ramos, "FDI and Trade."
Table 5.5. Independent Sources on CSR - Colombia

<table>
<thead>
<tr>
<th>Year / Company</th>
<th>Claim</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Feb 13' / Sinochem</strong></td>
<td>Gigante and Garzon Community resistance to Emerald's environmental license to drill in Paramo of Mirafloro ecosystem.</td>
</tr>
<tr>
<td><strong>Apr 12' - Jul 14' / Sinopec</strong></td>
<td>Labor protest against NGEC for bringing in outside workers and subcontracting issues --&gt; Meeting btw. Sinopec and Casanare department labor leaders over wages and working conditions at Doroteaoil well near Paz de Arriporo town.</td>
</tr>
<tr>
<td><strong>Aug 12' / Sinochem</strong></td>
<td>Oil spills btw. Mar. and May at its Gigante field due to failure to maintain equipment --&gt; operations suspended by the environmental authority in the state of Huila.</td>
</tr>
<tr>
<td><strong>12' / Sinochem</strong></td>
<td>Operations halted at least twice citing unsafe working conditions due to rebel activities.</td>
</tr>
<tr>
<td><strong>Aug 11' / Sinopec</strong></td>
<td>NGEC irregularities found by ANLA in wastewater treatment --&gt; an investigative process.</td>
</tr>
<tr>
<td><strong>Jun 11' / Sinochem</strong></td>
<td>Kidnapping of 4 Chinese workers by guerrillas --&gt; return 1+ year later.</td>
</tr>
<tr>
<td><strong>11' / Sinochem</strong></td>
<td>Emerald operations halt for 3+ weeks due to environmental issues.</td>
</tr>
<tr>
<td><strong>Nov 10' / Sinopec</strong></td>
<td>Long environmental investment overdue to the regional environmental authority of Corporinoquia --&gt; unfulfilled to-date despite sanctions by Corporinoquia.</td>
</tr>
</tbody>
</table>

Source: News media outlets including BNamericas, Market Watch; UpsideDownWorld.org; Lleras and Leal, "Colombia and China."

**Argentina:** CSR activities of Sinopec Argentina and CNOOC in Argentina have received mixed reviews. In general, local media and international researchers are approval of their commitments to local development, community welfare and environmental care. Notable examples include Sinopec's environmental initiatives, local employee training and CNOOC's continuation of PAE's CSR programs. In particular, PAE's support to develop local entrepreneur capacity through a sequential SME (small and median enterprises) program in the Golfo San Jorge basin is frequently cited as a positive example of CSR done in connection with local universities, local business
communities and provincial development agencies. Currently in its eleventh year, the SME program offers a variety of business training courses to local residents and encourage university-level competition in science and technology. In 2015, PAE expanded the program to include more than ninety-five courses with a plan to reach over 2,600 people in Chubut. The program has been managed in partnership with both public and private sector participants, including government agencies in the municipalities of Comodoro Rivadavia, Caleta Olivia, Sarmiento, Pico Truncado, Neuquen and Tartagal, universities in the Patagonia region, and local business consultants.

Fourth largest petroleum producer, Sinopec Argentina Exploration Inc. embarks on an ambitious CSR program in all its producing regions. The program is positively rated by a number of local papers. In Las Heras, Mendoza, the company built a public park on an area of one thousand square meters offering leisure and entertainment facilities to the cities' youth. In Pico Truncado, Santa Cruz, Sinopec teams up with local sports and religious organizations as well as municipal officials to create a free addiction prevention course to the local community. Sinopec also signed an agreement

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with the Santa Cruz government "ensuring that all workers will have had residency in the Santa Cruz province for at least two years prior to their hiring."³⁸⁴

In the area of environmental protection, Sinopec Argentina is active in the Santa Cruz province. To respond to the provincial government's legal requirement, Sinopec took actions to estimate environmental liability left by previous operator Occidental and draft a five-year remedy plan.³⁸⁵ In late 2012, the company also signed an agreement with the governor of Santa Cruz to boost water availability in Caleta Olivia and Pico Truncado through building new wells and pipes.³⁸⁶ Since 2008, Sinopec has been in a strategic alliance with the Agricultural Council of Santa Cruz, an environmental NGO Fundacion Habitat & Desarrollo, and a construction company Golfo San Jorge SA in efforts to preserve the Monte Loayza and Duraznillo Canadon Natural reserve in the Matthias River area.³⁸⁷ As a result, the reserve welcomed its first wave of tourists in 2014.³⁸⁸ In 2015, positive changes have been reported in terms of significant bird and plant species growth in the reserve.³⁸⁹

Although not a dominant feature of independent assessments on Chinese companies in Argentina, negative voices are not silenced. As the country's second biggest oil producer, PAE has recently been put under increasing scrutiny regarding a series of

³⁸⁵ Donaubauer, Lopez, and Ramos, "FDI and Trade," 35.
³⁸⁶ ibid.
labor disputes around the Cerro Dragon field, social conflict with local communities in the embedding Golfo San Jorge area, and bribery charges brought by the US Securities and Exchange Commission.\footnote{Donaubauer, Lopez, and Ramos, "FDI and Trade," 26-8.} CNOOC as a joint holder of PAE cannot be excused even though PAE is managed directly by Bridas' founder, the Bulgheroni family. Criticisms regarding PAE's social undertakings started before CNOOC's investment but persisted after the Chinese investor partook in the joint venture.

In 2014, CNOOC was reported to be considering spinning off its Argentine assets under internal pressure to reduce operating cost.\footnote{Eric Ng, "Gain from Bridas Exit Proves Tough Task for CNOOC," \textit{South China Morning Post}, April 8, 2014, accessed December 24, 2015, \url{http://www.scmp.com/business/commodities/article/1467967/gain-bridas-exit-proves-tough-task-cnooc}.} More complex than the financial motive of freeing up much-needed cash for other projects is the domestic and international litigation case leveled against PAE's possible wrongdoing in unlawfully obtaining extension of the Cerro Dragon concession in 2007. If Chubut's provincial prosecutor or the U.S. Securities and Exchange Commission rules that bribes were paid, PAE's extension could be void and the Cerro Dragon Concession will expire in 2017.\footnote{Aibing Guo and Zijing Wu, "CNOOC Said to Consider Sale of $3.1 Billion Stake in Bridas," \textit{Bloomberg Business}, April 6, 2014, accessed December 25, 2015, \url{http://www.bloomberg.com/news/articles/2014-04-07/cnooc-said-to-weigh-sale-of-bridas-stake-bought-for-3-1-billion}.} Legal action and earlier expiration pose serious threats to CNOOC's profitability calculations. In terms of CSR commitments, CNOOC's consideration for an exit demonstrates its unwillingness to be associated with irresponsible partners and hence some level of social concern, albeit in a reactive rather than proactive manner. Unlike SAPET's divestment decision from Block 113 in Peru, CNOOC's judgment is more of an internal corporate strategy rather than a result of coordination with civil society actors.
Labor discontent is the most contentious issue faced by Chinese oil companies in Argentina. As early as 2011, Sinopec Argentina suffered a collateral damage of halted production due to teachers' strikes in the city of Canadon Seco, in northern Santa Cruz. In 2012, PAE's Cerro Dragon production in Chubut was disrupted by a group called "Los Dragones" who demanded wage increases and reinstatement of forty previously-fired workers. In 2014, Sinopec was again involved in labor disputes regarding its subcontractors, Mencap, Brest, and Huinoil in the Huemul Reservoir in Pico Truncated, Santa Cruz.

Starting in early 2015, situation only deteriorated with the global oil industry crisis. A Chubut-based union of oil workers confirmed that Sinopec has gone against its collective labor agreements and laid off at least sixty workers in Comodoro Rivadavia, Chubut in early 2015. The same scenario happened a month later in Nequen where Sinopec had a contract with YPF, only at a bigger scale with Sinopec planning to lay off 120 workers. The pattern was again repeated in Santa Cruz in spite of Sinopec's flat denial. In the Patagonia region where a career in the oil sector was financially rewarding and secured in the past, Sinopec's determination to downsize its workforce has spurred local resentment. Parido Obrero, a left-wing socialist worker's party in Argentina,

castigated Sinopec as an "anti-national criminal" through publicizing a list of the company's past fissures with Argentine workers throughout the country.\(^{398}\) Government authorities reacted to these layoff waves and their gloomy social consequences by seeking out cooperation from the corporations. In January 2016, the Governor of Chubut, for example, called forth a group of oil companies, trade unions and workers' unions to discuss resolutions to stop the unemployment wave.\(^{399}\)

An equally serious problem lies in the enforcement of CSR promises. In Santa Cruz, Sinopec's 2012 agreement with the governor to build water wells and new pipes in Caleta Olivia and Pico Truncado incited local disappointment when the company's 2013 and 2014 work schedules were reportedly unmet.\(^{400}\) In a similar fashion, Sinopec has been reluctant to fulfill its previously promised environmental remedy and local employment in Santa Cruz as the company complained to a local radio station that environmental liability hurts operational stability and local residency requirement empowers labor unions to protest and obstruct normal production.\(^{401}\)

**Colombia:** Public opinions in Colombia regarding Chinese NOCs' social and environmental impact are unidirectionally antagonistic. Not only that labor protests have plagued some Chinese operations in the country from the onset, but their environmental credentials are also frequently questioned, resulting in a number of clashes with local

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governments, communities, and workers. Examination of independent sources indicates that none of the three companies is immune from allegations of negative environmental and social impacts.

The GEGI country study on Sinopec NGEC's activities in Paz de Ariporo conducted a fieldwork and reported recurring patterns of the Chinese company bringing outside hires. Between April 2012 and July 2014, complaints from the Association of Technician and Professionals of Paz de Ariporo, the Association of local owners of dump trucks, and communities in Cano Chiquito, Centro Gaitan and Normadia have repeatedly protested, through strikes, blockades and demonstrations, NGEC's lack of commitment to boosting local employment. Although in March 2014, Sinopec was reported to be in negotiation with Casanare labor leaders at the Dorotea well, no formal agreement was reached or publicized while labor protests continued into the summer of that year. Unlawful hiring procedure based upon personal favor is another acute labor-related issue in rural Colombia where foreign companies often rely on local community action boards and especially the influence of board presidents to assign employment quotas.

Environmental records of Sinopec and Sinochem are equally shadowy. Sinopec's NGEC is criticized to take no serious consideration of the ecological vulnerability of its operational sites near a wetland system in the La Hermosa Basin. Its voidance of necessary precaution in both the company's environmental impact studies and access road construction created flooding damages to local savannas and further threat to the region's

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402 Lleras and Leal, "Colombia and China," 33.
404 Lleras and Leal, "Colombia and China," 34.
traditional farming and fishing industries. Furthermore, national and regional regulatory bodies also found the company's irregularities in wastewater treatment (excess amount of chlorides) and consistent failures to deliver promised environmental protection fund. In the case of Sinochem, its Emerald operations in south Colombia was suspended multiple times between 2011 and 2013 due to environmental issues. In 2011, environmental damages done by Sinochem's Matambo block to the Andes ecosystems were found by CAM, the environmental authority in Huila who suspended the company's operations in Gigante, Huila for over three weeks. In August 2012, production at Sinochem's Gigante field was ordered to a halt by CAM again due to three oil spills between March and May that year. CAM argues that these spills could have been prevented if the company had kept equipment in good condition.

For years even before Sinochem entered the picture, communities in Gigante and Garzon in Huila have been resisting the Emerald project based on evidence of existing damages from extractive activities to health conditions of local campesinos and the Paramo of Miraflores ecosystem. The region's coffee growers and fishermen joined the protests in earlier 2013 to pressure the ANLA to suspend Emerald's environmental license to expand oil drilling in the Paramo de Miraflores areas. These local communities,

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405 ibid, 28-30.
406 NGEC promised to the regional environmental authority (Corporinoquia) an investment of $500,000 to preserve the mountains of Zamaricote, northwest of Paz de Ariporo in 2008 but has delayed delivery of the fund ever since.
407 ibid, 31-2.
409 ibid.
mobilized by CAM, CORPOAMAZONIA from Caqueta and the Inter-sectoral Association Garzón & Gigante (ASIEG) submitted claims against oil interests in the region, government deregulation in favor of foreign corporations and rampant corruption at regional and national levels and engaged in long-term struggles with government authorities that escalated sometimes into violence clashes between the farmers and riot police forces.\textsuperscript{411} Adding to the local population's grievance is a lack of transparency in disseminating corporate information after Sinochem took over Emerald in 2009, evidenced by Sinochem's purge to dramatically reduce the company's website contents in early 2010.\textsuperscript{412} Against this backdrop of prolonged local resistance, Sinochem, with the assistance of ANLA's fast-track approval, expanded its Colombian operations in May 2013 when Emerald entered into a joint venture with Ecopetrol for 50% of stakes in exploring three new blocks, Nogal, Cardon and Manzano in the Caguan basin in Caqueta neighboring Huila.\textsuperscript{413}

A unique stress factor in the Colombian case is its decades-long armed conflict that interrupted the nation's productive economic activities. Foreign oil companies play multiple roles in the long-standing internal conflict and Chinese NOCs make no exceptions. Often times, since bulk of resource extraction activities happen in remote areas overlapping with conflict zones, frequent violence among the leftist guerrilla armies (represented by the Revolutionary Armed Forces of Colombia or FARC and the National Liberation Army or ELN), right-wing paramilitaries and government forces subjugates

\begin{itemize}
\item \textsuperscript{411} ibid.
\end{itemize}
oil companies under conditions of extreme uncertainty and security concerns. In June 2011, four Chinese Sinochem workers were kidnapped by leftist guerrillas and remained in rebel hands for over one year.\textsuperscript{414} The company's operations were halted at least twice in 2012 because of unsafe working conditions after "rebels allegedly burned oil-tanker trucks being driven by (Sinochem) contractors".\textsuperscript{415} In this sense, oil companies fell victim to internal warfare. However, with the notable exception of Nexen (before CNOOC takeover) setting up a security department to guard security of its employees and contractors in 2009, none of the Chinese NOCs has attempted to tackle the human security situation in their CSR undertakings.

On the other hand, foreign oil companies are often accused to have been complicit in Colombia's armed conflict "by enriching the guerrillas and by contributing to a repressive state security apparatus".\textsuperscript{416} Often forced to pay "war taxes" to the guerrillas and paramilitaries, oil companies directly profited the country's violent sectors. For example, the U.S.-owned Occidental was reported by the U.S. Congress to have, along with its local contractors, continuously made extortion payments throughout the 1980s to early 2000s to both FARC and ELN, contributing to the latter's strong recovery in the late 1980s.\textsuperscript{417} Although there has been no hard evidence linking any Chinese NOCs to funding the conflict, the general perception of corporate complicity could be applied to the Chinese context where all three Chinese oil firms acquired fields from western companies. Worse still, on-the-ground comments on foreign oil corporations by local

\textsuperscript{414} Market Watch, "Spills Halt Work."
\textsuperscript{415} ibid.
\textsuperscript{416} Scott Pearce, "Tackling Corporate Complicity: Canadian Oil Investment in Colombia," in Community Rights and Corporate Responsibility: Canadian Mining and Oil Companies in Latin America edited by Liisa North, Timothy David Clark, and Viviana Patroni (Toronto: Between the Lines, 2006), 163.
\textsuperscript{417} ibid, 164.
communities pinpoint an even bigger conspiracy theory against the whole private industry.

"Community leaders...often argued that the government was waging war against the local population to clear the way for economic development. Foreign investors...were providing the incentive, if not the means, to displace communities in order to gain access to their land and natural resources."418

In summary, with some setbacks in labor disputes and possibly environmental enforcement, Chinese oil companies are more socially committed in Argentina than in Colombia, indicated by the former's emphasis on workforce localization in company CSR reports and the public's affirmative attitudes in Chinese companies' social and environmental projects throughout Argentina's Patagonia and Cuyo regions. Two agency-related processes characterize Chinese NOCs' disparate receptions in Argentina. On one hand, Chinese companies follow and accommodate regulatory frameworks of provincial governments whose main purpose is to balance the region's economic growth need and social demands for employment and sustainability. On the other hand, the local civil society is divided. Many community and environmental organizations (especially those allied with Chinese NOCs in their social initiatives) are supportive of their CSR programs while communities of oil workers represented by their unions chastise these firms' employment practices. On the opposite side, the same companies are received far less favorably in Colombia where Chinese oil investments have been plagued with labor strikes, environmental irregularities and community resistance since the beginning. Chinese NOCs' situation is further complicated by the country's long-standing armed

418 ibid, 160.
conflict during which foreign companies fall victims to insecurity while simultaneously play a complicit part by enriching various fighting segments. While Chinese NOCs expand their oil concessions aggressively with the support of Colombian regulatory agencies, subnational government agencies are often weak in enforcing social contracts with the companies. This inconsistency in government attitudes and enforcement, along with the country's unique situation of internal violence, results in widespread resentment toward Chinese oil investments in the local communities. The next section analyzes the particular features in terms of energy governance and broader political institutions that condition the different experience of Chinese NOCs in Colombia and Argentina.

5.2. Energy Governance Frameworks in Colombia and Argentina

In Chapter 3, a hypothesis (H4a) is established linking high levels of CSR to a stable and liberal regulatory framework toward the oil and gas industry in the host country, based upon a strand of exogenous CSR theories that emphasize a political economy approach of studying public spheres or policies overseeing corporate behavior. The hypothesis is empirically tested and validated by case findings in chapter 4 whereby a liberal, competitive regulatory regime in Peru encourages more socially responsible behavior than Ecuador's nationalized hydrocarbons regime in favor of Chinese NOCs vis-a-vis indigenous communities. Even though the contrast between the Argentina and Colombian cases is not as evident as between Chinese NOCs' social images in indigenous territories of Peru vs. Ecuador, important differences in these two countries' energy governance networks inform differences in CSR commitments analyzed in the previous section.
Regulatory Centrality and Local Capacity

**Colombia:** Almost all sources of criticisms regarding Chinese NOCs' impact on local environment and societies point to a dual role of aggressive corporations and their enabling national agencies that are often incompetent and corrupt. For example, the GEGI case study on NGEC in Paz de Ariporo attributes the company's less desirable CSR records to a loose and biased regulatory framework by the National Environmental Licensing Authority (ANLA).\(^{419}\) In the Huila struggle with Emerald's environmental problems, ANLA's incoherence in handing out environmental licenses based on favoritism is reasoned as a main factor in the ecological crisis in the Paramo of Miraflores.\(^ {420}\)

Colombia was one of the first countries to declare state ownership of the subsoil since its 1886 Constitution.\(^ {421}\) The current hydrocarbons regulatory framework is legally embedded under the country's Petroleum Code established by Decree 1056 of 1953 and Decree 1760 of 2003. The former decree establishes a sliding scale of royalty calculation and designates commodification of Colombia's petroleum resources.\(^ {422}\) Furthermore, later legislations and the 2003 reform helped carve out a bureaucratically extensive and centralized regulatory regime, a most important feature of Colombian energy governance.

This feature of administrative centralization can be reflected by a succession of legislative efforts to build national bureaus to oversee technical and environmental aspects of hydrocarbons exploration and production (E&P). For instance, Decree 1760 of

\(^{419}\) Lleras and Leal, "Colombia and China," 26-33.
\(^{420}\) Polinizaciones, "Huila Community of Colombia."
\(^{422}\) According to the code, oil and gas output is freely exportable while the National Agency of Hydrocarbons must be compensated on a fee-based scheme adjustable to the international market.
2003 establishes the National Agency of Hydrocarbons (ANH) as the sole government agency granting E&P rights and managing the country's energy resources. The Ministry of Mines and Energy (MME) was later founded through Resolution 181495 of 2009 for the function of overall regulations of the energy sector through policy endorsement, technical oversight and royalty payment inspection. In 2011, Decree 3573 created the ANLA as the national agency for granting a universal environmental license to development projects. Most recently, Decree 2041 of 2014 set up the Ministry of Environment and Sustainable Development as the main national body in charge of formulating, implementing and orienting environmental policy.423

In terms of resource revenue allocation, Colombia has also in general failed to achieve a healthy level of decentralization necessary to spur local development. The government's 1986 reform of revenue decentralization was insufficiently implemented due to weak local capacity at the receiving end and ingrained corruption. More importantly, "fiscal decentralization clashed with efforts by the central government to increase its presence in the provinces to improve its control over the illegal armed groups."424 Continuous underperformance in major economic indicators in the country's major oil regions (Casanare, Arauca, and Meta departments) compared with national average attests to the failure.

While centralization standardizes and streamlines regulations toward an end of procedural efficiency, mounting empirical evidence suggests that its costs clearly

424 Patricia I. Vasquez, Oil Sparks in the Amazon: Local Conflicts, Indigenous Populations, and Natural Resources (Athens: University of Georgia Press, 2014), 63.
outweigh the benefits. First, national agencies are, for practical reasons, out of touch with remote oil regions but conveniently accessible by foreign corporations. This contrast leads to a mismatch between timeframes to approve hydrocarbons project applications and those to investigate possible violations and enforce penalty. For example, it only took Emerald a couple of months to secure an environmental license to explore the Gigante field, but four years passed (2007 to 2011) before the ANLA concluded an investigative process finding irregularities in NGEC’s wastewater treatment. Second, bureaucratic centralization creates difficulties in follow-up with corporate promises. In the case of NGEC in Paz de Ariporo, the company's original commitment of $500,000 to preserve the mountains of Zamaricote in 2008 never materialized while in 2014, Colombia's Comptroller General concluded that it is ANLA's lack of monitoring that led to corporate recklessness. Lastly, centralized government entities continue to lack on legitimacy and credibility in tackling local issues generated by extractive development. For example, complaints of oil companies relying on the community action boards to hire workers inspired the Colombian government to devise a national strategy to regulate labor intermediation through the National Learning Service (SENA) that enables job applicants to upload resumes electronically. However, the new mechanism is poorly received in Casanare with local residents fearing outside competition.

The flipside of bureaucratic centrality in Colombia's hydrocarbons regulations is curtailed regional capacity for oil-rich regions needed to administer resource funds and monitor corporate behavior. There is first and foremost corruption of local politicians and

425 Cabrera, "Emerald Energy Exploits."
426 Lleras and Leal, "Colombia and China," 30-1.
427 ibid, 32.
428 ibid, 34-5.
low-ranking judicial officers that serves as a blockade rather than conduit between oil firms and local communities. For example, former governor of Huila, Cielo Gonzalez was removed from her position in 2013 due to corruption charges related to the Quimbo Hydroelectric Project.\textsuperscript{429} Additionally, local governance is also compromised by violence. Since oil-producing areas overlap with conflict zones, challenges to law enforcement and local capacity building abound.

**Argentina:** Provincial autonomy in negotiating with oil firms is a prevalent feature in CSR assessments of Chinese NOCs in Argentina, as evidenced by Sinopec's various agreements in local employment, environmental remedy and ecological preservation with the Santa Cruz government. The GEGI country study on Argentina attributes provincial governments' environmental and social policies to instances of better CSR among Chinese NOCs.\textsuperscript{430} This causal mechanism must be understood in terms of Argentina's hydrocarbons regulatory framework.

There has been an extensive history of petroleum nationalism in Argentina from the early 20th century when the state managed YPF into one of the first vertically integrated NOC in the world to the company's "re-nationalization" in 2012 under the administration of Christina Fernandez de Kirchner. This trend of state control was only briefly interrupted by Menem's neoliberal project in the 1990s. Notably, Argentine petroleum nationalism does not exclude features of decentralization in the country's energy governance framework, under which provincial governments (also as representatives of the state) promulgate their own petroleum codes in line with broad

\textsuperscript{429} Polinizaciones, "Huila Community of Colombia."
\textsuperscript{430} Donaubauer, Lopez and Ramos, "FDI and Trade," 1-3.
national objectives. In recent times, bureaucratic decentralization is reflected in the country's Law No. 26,179 of 2007 (known as the Short Law). The Short Law transfers authority of granting and controlling hydrocarbons licenses to the provinces and gives the provinces the right to reserve areas in favor of their province-owned enterprises.

As a result of decentralization, major oil-producing regions have constructed distinctive regulators to govern hydrocarbons investments. For example, oil and gas regulation in the Province of Mendoza falls under the Provincial Secretariat of Energy and Hydrocarbons while the Province of Chubut has a regional Ministry of Hydrocarbons. Provinces also have erected special laws provisioning oil and gas activities. In 2012, the Province of Chubut where PAE (CNOOC's joint venture with Bridas) mainly operates passed a law to create a provincial Parliament Commission to "monitor investments, environmental liabilities and other aspects of the oil provincial activity." Against the backdrop of a series of labor strikes and other charges against PAE in the Cerro Dragon field, Chubut also enacted a new Hydrocarbons law in 2012. The new law requires oil companies to seek environmental authorization from the designated provincial body throughout all stages of their projects and to recover or recycle at least 25% of the total water used in the production stage. In addition, the law also has well-spelled CSR provisions to regulate the relationship between oil firms and their workers as well as contractors with the aim of boosting oil industry's linkages to the

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433 Donaubauer, Lopez and Ramos, "FDI and Trade," 34.
434 Ley XVII No.102, *La Legislatura de la Provincia del Chubut*. 
local economy. In 2010, Santa Cruz became the first and only province to pass legislation requiring oil firms to estimate past environmental liabilities and submit remedy plans.  

While decentralization can sometimes fragmentize energy regulations by creating conflicted interests between the central government and provinces and between different provinces competing for investments and compensation, Argentina undertook an energy law reform in late 2014 to centralize certain fiscal aspects of oil regulations. The resulting Law 27,007 (Hydrocarbons Reform Law) establishes national caps for royalty payments and unifies establishment of surface fees, royalties and other procedures across provinces. On the other hand, a decentralized approach in environmental and social provisions is better poised to hold oil companies committed to the eminent local reality rather than answerable only to general national guidelines. Empirical evidence speaking for the benefits of regulatory decentralization includes Sinopec's 2012 agreement with governor of Santa Cruz to increase water availability, the agreement requesting local residency at Santa Cruz as well as the company's 5-year remedy plan for past environmental liability, as discussed in the last section. Although the actual social performance depends further on the authorities' enforcement capacity, provincial regulations are at least effective in generating more commitments from Chinese NOCs, indicated by a growth of the aforementioned social contracts between firms and regional governments.

435 Ley No. 3122, La Legislatura de la Provincia del Santa Cruz.  
Attitudes Toward Foreign Investors and CSR Legislations in Hydrocarbons

**Colombia:** The Colombian government has consistently, since the 1980s, endorsed a neoliberal agenda for hydrocarbons development. As oil output declined in the early 2000s due to natural deterioration and armed attacks, the Uribe administration (2002-2010) established a more investor-friendly framework to attract new investors to non-traditional oil concessions in the country's southwest Putumayo department and northern Caribbean coast.\(^{437}\) The framework has been retained after the Uribe administration. In 2011, the Santos government enacted Decree 562 to further encourage foreign investment with a customs duty exception of 50% of the current applicable tariff.\(^ {438}\) Also, under the current regulatory framework, only a universal license by the ANH is necessary to exploit oil resources in Colombia and the operating and environmental licenses are transferable just as concession rights. These features of de-regulation in favor of foreign oil companies are crystalized in the Santos' "Mining-Energy Locomotives" as a national development plan to reap the maximum benefits of natural resources.

In the CSR dimension, the national regulator ANH is mandated to study environmental and CSR capacity of the bidder before granting concession rights and to follow an international transparency protocol, namely the United Nations and Inter-American Conventions against Corruption. The Petroleum Code also includes certain local content requirements that oil firms shall favor local or national suppliers in equally competitive terms and that they must provide such logistic information on a bi-annual

\(^{437}\) Vasquez, "Oil Sparks in," 25.  
\(^{438}\) Rodriguez, Cabal and Ruiz, "Oil & Gas 2015."
Nevertheless, these local content requirements do not establish a minimum domestic participation rule or any other quantifiable measures. Instead, ambiguous CSR regulations create administrative loopholes and reduce the cost of non-compliance and social irresponsibility, since there is simply no yardstick to follow.

The Peruvian case showcases how a liberal oil sector outlook can improve Chinese companies' CSR commitments by inducing healthy competition among a variety of companies to the domestic oil industry. However, this kind of virtuous link is compromised in Colombia due to its heavier reliance on oil revenues and energy trade with China (compared with Peru). In 2013, oil rents (crude oil production value as a percentage of GDP) were 7.7% in Colombia (1.5% in Peru) and 77.7% of its exports to China consisted of crude petroleum and natural gas (1.19% in Peru). Higher oil rents and a major composition of energy products in its trade with China imply a similar trend in Colombia as in Ecuador where Chinese NOCs are the favored foreign investors whose social trespassing can be tolerated for the "public good" of extractive development. These adverse currents coalesced in July 2015 when local resistance to Sinochem's Amazon operations in El Nogal, a village in Valparaiso, Chaqueta was met by violent repression from the special police forces. Moreover, the unique security situation in Colombia further slashed the government's ability to check foreign oil corporations as oil disputes

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440 Oil rents data from the World Bank.
441 Bilateral trade data by industry and end-use from the OECD STAN databank.
not only involves local communities protesting firms but also armed groups taking illegal actions against communities and sometimes oil companies.\textsuperscript{443}

**Argentina:** The relationship between the Argentine state and foreign oil companies has been more complicated. Internal contradictions frequently characterize the government's treatment of foreign capital, shaped by critical events such as the 1980s debt crisis, the tango crisis of 2000-1, and the corresponding leadership shifts. On one hand, most center-left governments in Latin America have since the early 2000s attempted to set up progressive regimes to increase government income from extractive investment and to re-regulate transnational oil companies. In Argentina, the need for the state to recapture "lost grounds" from the previous neoliberal reforms was more eminent in face of the 2001 crisis and the resulting public discontent with "neoliberalismo". This progressive trend is reflected in both the executive and judicial branches of the state. In 2005, then President Nestor Kirchner led (or even orchestrated) a nation-wide boycott of Shell and Exxon, uniting the middle-class consumer and poorer piqueteros segments in the social movements.\textsuperscript{444} In 2012, Christina Kirchner renationalized Argentina's NOC YPF. The legal framework took a similar position when the amended 2007 hydrocarbons law (Law 17,319) gives the federal and provincial governments the right to reserve resource areas in favor of state-owned or province-owned enterprises.\textsuperscript{445}

On the other hand, crucial neoliberal elements in energy governance have survived waves of re-regulations and re-taxation under Kirchnerism. Fundamentally, both

\textsuperscript{443} Vasquez, "Oil Sparks in,"18.
\textsuperscript{444} Elena Shever, *Resources for Reform: Oil and Neoliberalism in Argentina* (Stanford University Press, 2012), 10-1.
\textsuperscript{445} Practical Law, "Oil and Gas Regulation."
the progressive and neoliberal regulatory regimes don't challenge the basic notion of extractive development, that the ability of either public or private actors to boost development hinges on the success of energy projects. In Argentina, even at the height of anti-neoliberal national sentiment, the Kirchner government did not "lower the price ceiling" or otherwise change the law regulating the oil market. Instead, the 2005 president-led boycott can be interpreted as "profoundly neoliberal, despite its anti-neoliberal frame." By urging Argentines to choose one brand of gasoline over another, the government paradoxically promoted consumerism and strengthened transnational oil corporations' ability to export, thus extending neoliberalismo. More recently, as the international conditions (commodity boom and China's rise) favorable to progressive hydrocarbons regimes dissipated, Argentina, like other resource-rich Latin American countries has started to re-introduce more investor-friendly measures. The 2014 Hydrocarbons Reform Law promulgates such measures as reduction in government takes, generous extensions in contract time limits and exemption of minimum investment for import controls.

These paradoxical undercurrents in Argentina's oil and gas regulatory framework have far-reaching implications for Chinese NOCs' social endeavors. First, the progressive face of the framework means more government oversight on oil firms' actions. For example, the Hydrocarbons Law requests companies to submit an environmental impact

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446 Price ceilings made it more profitable for oil firms to export petroleum products overseas.
447 Shever, Resources for Reform, 12.
448 ibid, 13.
study for each stage of investment and to hire at least 75% of local personnel. These regulatory measures are further strengthened by provincial legislations such as Santa Cruz's environmental liability law and Chubut's contractor linkage rules. Second, gradually loosening regulations in the face of the current global oil industry crisis imply that the government's balance can be tilted toward foreign oil firms as they desperately seek external fund to keep up their social spending. But unlike a biased favoritism toward Chinese firms as in Ecuador or Colombia, Argentina can better resist this second trend of regression because the country is less dependent on oil revenues and Chinese energy demand. In other words, environmental and labor regulations impose necessary constraints on Chinese NOCs in their oil pursuit in Argentina while an inherent liberalization agenda in the energy sector may have the opposite effect of inducing reckless corporate behavior. Together, mixed reviews on Chinese NOCs' CSR commitments are hitherto explained.

5.3. The Missing Link: Civil Society

In neither country have any civil society groups successfully engaged with Chinese NOCs' CSR programs. Their roles are either reduced to local administrators of corporate fund (PAE's SME program and Sinopec's Golfo San Jorge preservation in Argentina) or radicalized as antagonists of the business agenda (labor disputes in Argentina, various cases of community strife in Colombia). In either way, civil society actors have failed to

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451 2.4% in oil rent as compared to 19.1% in Ecuador and 7.7% in Colombia, per World Bank's 2013 oil rents data.
452 Bilateral trade data by industry and end-use from the OECD STAN databank shows that only 10.2% of Argentine exports to China in 2013 went to the petroleum sector while the rate is 77.7% in Colombia and 63.2% in Ecuador.
create meaningful dialogues with their corporate counterparts and to shape their CSR actions such as the case of Madre de Dios' indigenous organizations with SAPET in Peru. However, different reasons lie behind this seemingly unified voidance in Argentina and Colombia.

The Colombian constitution (1991) is exemplary in a sense that it created a pioneering legal system to address inequality and minority discrimination incorporating elements of both customary laws and civil rights programs.\textsuperscript{453} A system named \textit{tutela} was also introduced to allow individuals to conveniently access the legal system and seek protection of their constitutional rights through the constitutional court.\textsuperscript{454}

Nonetheless, the contingency of internal violence and instability overwhelms an abundance of laws and policies to enhance civil liberties. Armed conflict threatened dire consequences for civilian security, shrank political space for legitimate dissent and undermined defense of basic human rights.\textsuperscript{455} The war contingency resulted in Colombia's underperforming scores in civil liberties (as compared with Argentina, Peru, and the regional average) according to international standards.\textsuperscript{456} Constraints on civil society are especially pronounced in resource-rich zones (often overlapping with drug-trafficking corridors) where security has been lacking and traditionally marginalized populations have been vulnerable to violent attacks. Although the ongoing peace process has been achieving many historical momentums toward ending the conflict, the process

\begin{footnotesize}
\begin{itemize}
\item\footnote{453} Vasquez, "Oil Sparks in," 85.
\item\footnote{454} ibid.
\item\footnote{455} United States Institute of Peace, \textit{Civil Society Under Siege in Colombia}, Special Report 114, February 2004, 1.
\end{itemize}
\end{footnotesize}
for local civil society organizations to grow capacity and trust in normal political processes has a much longer time horizon.

Argentina performs relatively better than the other countries under this study in terms of civil liberties, evidenced by existence of robust civic organizations across the country.\textsuperscript{457} However, since the Peron era, the Argentine civic space has been politicized and deinstitutionalized through a direct and vertical link between the president and the electorate. The Peronist notion of citizenship was a class-based and gendered political game in which the state assumed responsibility to set fair wages and prices while the citizens owed allegiance to the state through defending their families' purchasing power.\textsuperscript{458}

This notion was echoed in Nestor Kirchner's term when the 2005 boycott imposed a top-down mobilization of certain segments of civil society toward gasoline brand-choosing. In broad terms, the state-civil society relationship under Kirchnerism assumed characteristics of both Peronist populism and neoliberalism under which different segments of the society (unionized labor, lower middle classes and urban poor) were organized by a new social contract while radical elements of the civil society (piqueteros and the fabricas recuperados) were absorbed into normal political processes.\textsuperscript{459} Given a growing desperation to seek resource revenues, both the progressive and liberal aspects of the energy regulatory regime "do not react favorably to civil society organizations that


\textsuperscript{458} Shever, \textit{Resources for Reform}, 125-6.

criticize or resist their mineral policies or specific extractive projects. Such a politicized and biased attitude toward civil society is better illustrated by the recent clashes between Chaqueta villagers on one hand and Sinochem and state police on the other in last summer, as documented in the previous section.

A dearth of civil society capacity to participate in oil-related public debates compromises CSR performance of Chinese NOCs. As state agencies can engage oil firms through legislations and political pressure and hold them committed to local societies via official agreements, local civic oversight is necessary for fair implementation of corporate promises. This gap between CSR commitments and performance, between energy governance legislation and enforcement is best demonstrated by the case of Sinopec in Santa Cruz, Argentina where the Chinese company repeatedly delayed its work schedule to build water wells for local communities in Caleta Olivia and Pico Truncado and complained about having to pay for past environmental dues.

**Conclusion**

Sinopec, Sinochem and CNOOC are the main Chinese investors in the oil fields of Argentina and Colombia. These companies entered the two destinations in the late 2000s through acquisition of western oil companies and the Chinese presence on the ground is best known through the subsidiary names, such as Sinochem's Emerald project in Colombia. In Argentina, Chinese NOCs struck multi-billion dollar deals mainly in the Patagonian provinces of Santa Cruz and Chubut while Chinese oil assets in Colombia

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(smaller in monetary values) are more geographically diversified. Although the engagement is still new, both countries are positioned strategically in China's energy quest and Chinese NOCs are rapidly becoming important players in these two countries' oil and gas industries.

In the social dimension, all Chinese NOCs report their CSR activities in the two countries and all posit themselves as socially conscious partners for the local communities. CSR reporting of Chinese NOCs in Argentina is more geared toward labor force localization while their reporting in Colombia is more comprehensive and thus ambiguous. Independent sources indicate that Chinese NOCs are more committed to CSR in Argentina than in Colombia in areas of development, community welfare and environmental care, although necessary caution should be taken as labor issues are acute between Chinese companies and Argentine workforces and actual performance of these companies is affected by weak enforcement. In Colombia, the social image of Chinese NOCs is more negative as local dissidents criticize the companies' environmental records and hiring practices. These criticisms are often associated with public discontent for government agencies dealing with hydrocarbons activities. Moreover, the country's long-standing armed conflict further complicates social evaluation of oil companies who are often accused of complicity in violence.

These differences in CSR commitments must be understood in the context of the two countries' regulatory frameworks toward the hydrocarbons sector. In reductive terms, the decentralized energy regime in Argentina empowers oil-producing regions to directly regulate Chinese firms with distinctive laws and codes formulated according to regional idiosyncrasy, thereby closely holding these companies responsible to their social and
environmental footprints. Comparatively, a bureaucratically centralized yet de-facto deregulated energy framework in Colombia strips local capacity of regional authorities, creating serious bottlenecks for the country's political agencies to engage with Chinese NOCs in timely and meaningful manners and thus increasing discontent on the ground. Colombia's armed conflict has infused the energy governance framework with instability and a greater need for the central government to gain control over oil resources. Additionally, the Argentine state's love-and-hate relationship with foreign oil companies under the interrelated banners of peronist petroleum nationalism and neoliberalism does not necessarily gravitate toward watered-down oversight of Chinese NOCs as indicated by Colombia's liberal regulatory regime that is also more reliant on Chinese capital and oil revenues. Therefore, the benefits of a liberal and competitive energy governance framework are contingent on other situational factors such as dependency on oil income and economic ties with China.

The civil society sectors in both countries have failed to shape Chinese NOCs' CSR discourse and actions. In Argentina, internal contradictions within Kirchner's progressive extractive regimes and somehow neoliberal practices to foster development under globalization have altered state-civil society relationship to the extent that the latter now engages with oil corporations in a more fragmented and politicized manner. In Colombia, the unique contingency of prolonged internal conflicts has disrupted civil society development and hindered civil liberty. Such a voidance of civic engagement explains a large part of disappointments on Chinese NOCs' CSR actions in the implementation stage.
In summary, a decentralized oil governance framework with certain progressive elements in government regulations is conductive to higher CSR commitments. Bureaucratic decentralization enhances local governments' capacity to monitor corporate behavior via specific provincial laws while some level of host government regulations on environmental and social aspects of oil operations are necessary to hold oil firms accountable. This mechanism is further intersected by the host county's reliance on oil revenues and Chinese investment. The more dependent the country is on these two intervening factors, the more likely its government will act favorably to Chinese NOCs, often to the detriment of local communities who hold opposite views on hydrocarbons development.
Chapter 6
Chinese Oil Investments in Venezuela: Could the Business Case Work in the Absence of Exogenous Motivators?

During the most recent bust in the global oil market that started in 2014, Venezuela has not lived up to optimists' expectations of weathering the oil crisis. A full-blown, post-boom economic recession and the insuring anti-government protests against rampant crime, economic shortages, corruption, and the government's authoritarian tendencies seem to have reinvigorated Terry Lynn Karl's "petro-state" thesis that a country's structural dependence on oil resources leads invariably to "disappointing macroeconomic and political outcomes". The Maduro government's violent crashes on protestors, along with its constant bashing of opposition forces and the newly elected opposition-controlled National Congress, further exemplified Karl's argument for petro-state's institutional rigidity "characterized by high barriers to change and are led by organizations and interests with a powerful stake in the existing constraints".

461 For example, intellectual optimism about Venezuela's ability to clip its vulnerability to global oil price fluctuations can be seen in John L. Hammond, "The Resource Curse and Oil Revenues in Angola and Venezuela," Journal of Science & Society 75, no. 3 (July 2011), 348-378. Hammond predicts that the country would protect itself against oil price drops due to "conservative budgeting and promoting output controls in OPEC" (370).
465 Karl, The Paradox of, 12.
For most periods of its modern history, oil has been at the center of Venezuela's politics and society. Since the 1970s, oil has essentially underpinned the country's political directions, from Carlos Andres Perez's social democratic project, through Rafael Caldera's neoliberal project, to Hugo Chavez's mission of "21st Century Socialism". Oil revenues have been the single, largest resource for government-funded social welfare projects on poverty reduction and education aimed at generating "a strong basis in social movements ...and popular support to win elections". More recently, the Chavismo government architected a centralized regulatory framework to ensure government take of oil rents to fund its development model and democratization through political participation. Furthermore, coined as "petropopulism", these policies were externally sustained by foreign investments in the hydrocarbons sector, especially those from China. As Venezuela's biggest unilateral financier, China has, since 2009, reportedly loaned over fifty billion dollars in order to increase Chinese share of Venezuela oil. Most Chinese NOCs have held large-scale production assets in Venezuela since 1993. Against market and political uncertainties, China loaned another five billion dollars to the Maduro government in September 2015 to support Chinese NOCs' venture in Venezuela. The intricacy between Venezuela's oil sector and Chinese investments has implications for Chinese NOCs' social footprint in the host country and warrants a detailed case study.

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467 Hogenboom, "The Return of," 120.
468 ibid.
469 See Table 5 in Chapter 2.
This chapter first gives a close examination of Chinese oil investments in Venezuela and Chinese NOCs' CSR commitments in the 21st century. The second part focuses on certain features of Venezuela's business environment as an explanation to the empirical finding of Chinese NOCs' low commitments. The third section analyzes how defining characteristics of Venezuela's hydrocarbons regulatory regime, namely nationalization and centralization, in combination with the country's increasing reliance on Chinese finance, discourage CSR, particularly among Chinese companies. The fourth section traces a lack of CSR commitments to the absence of a strong and coherent civil society in Venezuela. In conclusion, both Venezuela's policy environment toward hydrocarbons and civil society contexts are united systematically to explain why a pure business case is insufficient to drive CSR.

6.1. Chinese NOCs in Venezuela

Major Chinese Assets

Venezuela is the crown jewel in China's quest for energy resources in Latin America. The country has not only hosted oil and gas investments from all major Chinese NOCs for about two decades, but also received the biggest portion of Chinese oil-linked loans.\footnote{The extent of Chinese oil interests in Venezuela in terms of corporate investments and government loans is quantified below.} Similar to Peru, Venezuela was also one of the first countries Chinese NOCs launched their ventures. In June 1997, CNPC acquired two marginal oilfields in Venezuela, namely the Intercampo and Caracoles fields.\footnote{“CNPC in Venezuela,” CNPC, accessed March 14, 2016, http://www.cnpc.com.cn/en/Venezuela/country_index.shtml.} Subsequently, these once obsolete oilfields were rejuvenated by CNPC. For example, in the Caracoles field, at the point of Chinese takeover, production had been declining to only 221 tons of output per day, due to
geological faults and over-exploitation.⁴⁷³ CNPC claimed to have restored Caracoles' output to its historic peak at about 3.5 million barrels annually, or 5,500 tons per day in 2001, a twenty-three times increase through modern seismic technology and gas lift optimization.⁴⁷⁴ Similar success occurred in the Intercampo field where the company utilized advanced technologies in geo-steering and directional drilling to bring up output to over 700 tons a day.⁴⁷⁵

CNPC's next move in Venezuela was its 2001 joint venture with PDVSA, the MPE3 project in the Orinoco Oil Belt (the OOB hereafter), the world's "largest heavy oil enriched area".⁴⁷⁶ Formerly known as the Orimulsion project, the MPE3 venture (or Sinovesa by the name of the joint venture) enabled CNPC to capitalize on Chinese NOCs' expertise in exploring and producing heavy and sweet oil.⁴⁷⁷ This project represented a major leap of Chinese NOCs from marginal acquisitions to stakes in unconventional global energy assets (ultra heavy oil in this case). Starting with MPE3, Chinese NOCs deepened their investments in the OOB region. In 2006, CNPC entered another joint venture with PDVSA in OOB's strategic Junin blocks.⁴⁷⁸ The resulting Junin-4 oilfield, in which the Chinese company has a 70% stake, enjoyed a high yearly output of 20 million tons in 2008.⁴⁷⁹ Since 2008, Sinopec entered the OOB zone with its partnerships with PDVSA on Junin-1 and Junin-8 blocks.⁴⁸⁰ Estimated at $40 billion in total money

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⁴⁷³ *CNPC in Latin America*, 26.
⁴⁷⁴ ibid., 27.
⁴⁷⁵ "CNPC in Venezuela".
⁴⁷⁶ *CNPC in Latin*, 28.
⁴⁷⁷ See Chapter 2.
⁴⁷⁸ "CNPC in Venezuela".
⁴⁷⁹ ibid.

Other Chinese upstream assets in Venezuela include CNPC's Zumano project. Originated in 2004, the Zumano project was another joint venture reached between CNPC and PDVSA. In this case, the resulting Petrozumano venture (CNPC holding 40% of stakes) was promoted by a 2007 presidential order by the late former president Hugo Chavez.\footnote{"CNPC in Venezuela".\footnote{ibid.\footnote{"Venezuela: CNPC to Buy Zumano Stake with Vouchers," Energy-Pedia News, March 27, 2007, accessed March 14, 2016, http://www.energy-pedia.com/news/venezuela/cnpc-to-buy-zumano-stake-with-vouchers."}}}} Output in the Zumano field was reported to have increased by 1,500 barrels per day in 2009.\footnote{ibid.\footnote{"Venezuela: CNPC to Buy Zumano Stake with Vouchers," Energy-Pedia News, March 27, 2007, accessed March 14, 2016, http://www.energy-pedia.com/news/venezuela/cnpc-to-buy-zumano-stake-with-vouchers."}} Interestingly, Petrozumano was purchased with $160 million worth of vouchers that were used to compensate the conversion of operating contracts in 2006.\footnote{ibid.\footnote{"Venezuela: CNPC to Buy Zumano Stake with Vouchers," Energy-Pedia News, March 27, 2007, accessed March 14, 2016, http://www.energy-pedia.com/news/venezuela/cnpc-to-buy-zumano-stake-with-vouchers."}} Although other comparative data is lacking to put the existing numbers into perspective, the Zumano project signified a top-down push by the Venezuelan government to invite foreign, state-owned oil companies to restart inactive, old oil wells in a national climate
of waning output and grave investor confidence.\textsuperscript{487} Table 6.1 summarizes major Chinese upstream assets in Venezuela since 1997.

<table>
<thead>
<tr>
<th>Company</th>
<th>Project</th>
<th>Location</th>
<th>Starting Date</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNPC</td>
<td>Intercampo</td>
<td>Lake Maracaibo, NW corner of Venezuela</td>
<td>1997</td>
<td>Sole operator</td>
</tr>
<tr>
<td></td>
<td>Caracoles</td>
<td>East Venezuela Basin</td>
<td>1997</td>
<td>Sole operator</td>
</tr>
<tr>
<td></td>
<td>MPE3(Sinovesa)</td>
<td>East end of OOB, East Venezuela Basin</td>
<td>2001</td>
<td>70% stake w. PDVSA</td>
</tr>
<tr>
<td></td>
<td>Zumano (Petrozumano)</td>
<td>East Venezuela Basin</td>
<td>2006</td>
<td>40% stake w. PDVSA</td>
</tr>
<tr>
<td></td>
<td>Junin 4 Block</td>
<td>OOB, East Venezuela Basin</td>
<td>2006</td>
<td>60% stake w. PDVSA</td>
</tr>
<tr>
<td>Sinopec</td>
<td>Junin 1 &amp; 8 Blocks</td>
<td>OOB, East Venezuela Basin</td>
<td>2010</td>
<td>JV w. PDVSA (unknown %)</td>
</tr>
<tr>
<td>CNOOC</td>
<td>Boyaca 3 Block</td>
<td>OOB, East Venezuela Basin</td>
<td>2009</td>
<td>JV w. PDVSA (unknown %)</td>
</tr>
</tbody>
</table>

Source: Author compilation based on company websites, cross-checked with various news sources.

Three distinctive patterns characterize Chinese NOCs' investments in Venezuela. First, oil deals were often struck with high-profile government assistance from both sides (China's oil-for-loan deals and Venezuela's presidential order). Second, upstream investments were also accompanied by downstream activities such as refinery construction and oilfield service engineering. Third, transparency is generally lacking in deal size reporting from both the Venezuelan government and Chinese NOCs. Instead, third-party news sources often reported the monetary values of Chinese investments based on informal interviews.\textsuperscript{488} These features are analyzed empirically in the following.

\textsuperscript{487} ibid.

\textsuperscript{488} See for example, "Sinopec and PDVSA," in which El Universal News reported the deal size of $14 billion in Junin 1 based upon an interview with Rafael Ramirez, Minister of Petroleum and Mining who informed about the project during his trip to China.
First, Venezuela is the quintessential model of Chinese oil-based loans. Chapter 2 defines the nature and the scope of these loans. In Venezuela, since 2009 Chinese loans worth of $50 billion were all channeled through the Chinese policy bank, China Development Bank to PDVSA with the purpose of aiding Chinese NOCs to develop the OOB and supporting infrastructure.\textsuperscript{489} To put the magnitude of Chinese financial assistance to Venezuela in perspective, the total amount of $50 billion of loans nearly doubles the "$29 billion the U.S. spent rebuilding Iraq between 2003 and 2006\textsuperscript{490}. These loans must be repaid with Venezuelan oil exports of given amounts at market prices. As of 2012, Venezuela exported to China about 640,000 barrels of crude oil a day or 25\% of its production, of which 200,000 barrels were used to service the loans.\textsuperscript{491} Under the current conditions of the global oil market, Venezuela must export more oil to China to offset price drops, a reality counteracting the host's underperforming oil sector and straining its economic viability. Ecuador is the only other country among the cases examined in the thesis to have received Chinese oil-based loans. But at the amount of $1 billion, Ecuador falls greatly behind Venezuela. On the receiving side, Chinese NOCs are often assisted by the Venezuelan government in their ventures, indicated for instance by Chavez's 2007 presidential order that directly created Petrozumano.

Moreover, Chinese presence in Venezuela has been more comprehensive than in other Latin American destinations. While the monetary values of Chinese NOCs' acquisitions were not disclosed, the widely reported Chinese loans of $50 billion surpass

\textsuperscript{489} See Table 2.5 in Chapter 2.
\textsuperscript{491} ibid.
investments in other Latin American countries. Also, Chinese NOCs' cooperation with PDVSA, often in the form of joint ventures, entails not only upstream exploration and production, but also downstream activities. For example, CNPC's Junin-4 joint venture was intended as an integrated upstream and downstream project in which the Chinese company owns 40% of production stakes in the OOB and 60% shares in a refinery to process the Orinoco heavy oil in China's Guangdong province. In 2013, PetroChina, CNPC's Shanghai- and Hong Kong-listed subsidiary was reported to have been in negotiation with PDVSA to reach out to their NOC counterpart in Panama to acquire a pipeline across the Isthmus of Panama to boost crude oil trade capacity from Venezuela to China.

Last but not least, Chinese involvement in Venezuela's hydrocarbons market has been criticized for not being transparent. In spite of their extensive roots, Chinese NOCs' upstream deals in Venezuela were rarely publicized with regard to their deal sizes. A more telling indication of the secrecy surrounding Chinese oil interests in Venezuela is the nature of the oil-based loans in terms of the very methods of payment. In contrast to western loans that must be repaid with cash from government earnings, Chinese financing is paid back in oil, which means that servicing the loans "does not need to be

492 In Ecuador, for example, total Chinese upstream acquisitions were valued at a total of less than $2 billion, which, if added by the $1 billion loan, lags behind Venezuela. (Chapter 4). In Argentina, the Bridas and Occidental deals were estimated to have a value of $5.55 billion. (Chapter 5).
493 "CNPC in Venezuela".
495 See Jiang and Chen, "Updates on Overseas," 35-9: Venezuela is the only Latin American country not covered by the IEA report on Chinese NOCs' upstream assets overseas.
ratified by the Venezuelan parliament (as it will not officially count as debt).\textsuperscript{496} It can be further deduced that lack of transparency exacerbates certain political symptoms of the petro-state phenomena, namely the host government's irresponsible rent-seeking behavior, corruption and unaccountability to its citizens.\textsuperscript{497}

**The Social Dimension**

In theory, the Venezuelan oil sector offers incentives for Chinese NOCs to engage in CSR based on the business case. As Chapter 3 espouses in detailed accounts, the business case for CSR argues that social activities are internally driven by oil companies to strategically smooth oil operations and transactions with an ultimate goal of improving financial sustainability. Inherent in the business case is a centrality of corporate agents to carry out social initiatives. In Venezuela, two specific reasons make CSR more appealing in a business sense to foreign companies.

At the foremost, a business case is justified when it helps foreign oil companies raise revenues in a hostile business environment. Under the Chavez regime, Venezuela's oil policy has been radicalized and nationalized. Foreign enterprises wishing to explore the country's rich hydrocarbons resources now must only do so through joint ventures (or empresa mixta) in which the Venezuelan state holds at least 50\% of capital stocks, according to the 2001 Organic Law of Hydrocarbons.\textsuperscript{498} This change in investment structure, combined with new taxation rules to make evasion harder\textsuperscript{499} and the


\textsuperscript{497} Adverse political consequences of oil dependence are well theorized by Karl, *The Paradox of Plenty*, 15-7.


\textsuperscript{499} Hammond, "The Resource Curse," 366.
hydrocarbons sector's dwindling productivity and profitability, increases foreign companies' desire for financial viability, thus rendering CSR a sound business decision. In general, in a country where economic crisis strikes often and over 70% of population classified as poor, corporations that link to the domestic economy "are forced to consider new strategies to stay in business"\textsuperscript{500}.

Furthermore, the central position of corporations in instituting CSR (a fundamental characteristic of the business case) can be an indirect result of weaknesses of other non-government actors such as civil society organizations and international organizations. Chapter 3 demonstrates through various theoretical models how coherent networks of civil society and existence of some international CSR regimes foster CSR. In Venezuela, absence of both elements\textsuperscript{501} pushes corporate actors to the center stage of CSR and necessitates a business case. Nonetheless, there is no empirical evidence supporting expectations of Chinese NOCs conducting CSR based on a business case in Venezuela. In fact, examination of both company reports and media exposures reveals Chinese companies in Venezuela in the worst-case scenario in terms of CSR commitments. While corporate CSR coverage on Venezuela is vague and overly emphasizes philanthropy, independent reports on Chinese NOCs in the country are limited in quantity and mostly negative.


\textsuperscript{501} The third section in this chapter establishes in detail the weakness of the civil society segment in Venezuelan society. On the other hand, Venezuela is the only country among the five countries examined in the thesis that does not subscribe to the Global Compact, an internationally recognized CSR initiative of a voluntary nature.
On one hand, compared with the other four countries, Venezuela was inadequately covered in Chinese NOCs' CSR reports, in spite of its strategic importance as China's most important oil investment destination in Latin America. Although all major NOCs have assets in Venezuela, only CNPC has reported its social footprints in the country. Table 6.2 summarizes CNPC's social activities from 2007 to 2014 as covered in its annual CSR reports.

### Table 6.2. CNPC's CSR Reporting on Venezuela, 2007-14

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Local Development</th>
<th>Workforce Development</th>
<th>Environmental Protection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• $300,000 donation to flood relief.</td>
<td>• A senior steering committee w. PDVSA.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• RMB 39 mi. infrastructure donations.</td>
<td>• Mental health counseling.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• $662,000 donation to Petrosiven to modernize farming.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• $114,700 educational donation to 6 schools.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MPE3</strong></td>
<td>• Housing for local villages.</td>
<td></td>
<td>• 20 mi. man-hours no safety/environmental accident.</td>
</tr>
<tr>
<td><strong>Junin-4</strong></td>
<td>• Employee stationary donation to impoverished students.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Zumano</strong></td>
<td>• Local school donations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intercampo &amp; Caracoles</strong></td>
<td>• 100 dwellings built for 10,000 people (&amp;Zumano).</td>
<td>• Environmentally sensitive procedures.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• $240,000 investment in cassava plant.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• CSR awards to Chinese drilling contractors.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: author compilation of CNPC’s CSR reports.

Almost all CNPC's coverage regarding its social behavior in Venezuela was dedicated to community assistance in the form of cash donations. Only three of the total twenty-three CSR entries CNPC documented on Venezuela mentioned environmental and employee care in very ambiguous terms (in contrast to detailed recordings of
donation amounts in the first category of local development). Such a bias toward corporate contributions represents an outdated vision of CSR. Chapter 3 surveys CSR's historical evolution and characterizes corporate/businessman donations as an early feature in the pre-1960s era. CNPC's "donation-centered" CSR approach in Venezuela constitutes a worst-case scenario, as compared with the other four countries where Chinese NOCs focus on a number of social and environmental issues in CSR reporting.

On the other hand, independent observations of Chinese NOCs in Venezuela are strikingly lacking, compared with the other four host countries where a fair amount of local media articles and/or NGO blogs on Chinese NOCs can be discovered via the Internet. The few independent sources available portrait two misdeeds by Chinese oil investments in Venezuela. First, Chinese companies are often accused to engage in unsustainable labor practices. Second, the presence of Chinese NOCs, as embodiments of China's oil interests overseas, reinforces Venezuela's "petro-state" tendencies toward corruption and authoritarianism.

In August 2011, Bloomberg interviewed several construction sites operated by Chinese firms throughout Venezuela where workers complained about working long hours with no safety guard. Bloomberg also reported that Chinese companies frequently bring in Chinese workers, threatening job opportunities available to Venezuelans. Although these workers' allegations only targeted certain non-oil infrastructure projects, Chinese NOCs can also be implicated as they benefit directly

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502 For example, a Google search of keywords such as "CNPC" and "Venezuela" only produces entries about the company's joint venture deals in Venezuela.
503 Deverux, "China Bankrolling Chavez's."
504 ibid.
from China's oil-based loans with terms related to supporting infrastructure development.\(^{505}\)

The second allegation needs more explanation. It pinpoints that Chinese NOCs, along with other Chinese presence in the country, only make it easier for the Chavista government to carry on its "petro-state" practices. In theory, distinctive institutional features of petro-states, namely dependence on oil export earnings and state as the primary market actor encourage irresponsible government behavior such as rent-seeking and corruption while induce economic vulnerabilities conforming to international boom and bust cycles of primary commodities.\(^{506}\) Chinese oil interests manifested in generous loans with low interest rate\(^{507}\) and few conditions attached increase the Venezuela government's reliance on oil-related income to fund social programs in order to sustain its populist "21st century socialism"\(^{508}\).

Cheap Chinese credit fosters Venezuelan government's recklessness because "the Chinese have not required that Venezuela do anything to increase the likelihood that it regains creditworthiness"\(^{509}\). As China continues to provide financing to Venezuela at a time of global downturn in oil prices, the Venezuelan government is able to "eschew the massive resources and wisdom that the international community can offer at a time of

\(^{505}\) For example, China Development Bank made a $10 billion loan commitment to the Venezuelan government in 2012, pledging to upgrade the Chinese-Venezuelan Fund. The $10 billion credit was intended to develop the Orinoco fields and provide agricultural, housing and industry projects. \(^{506}\) Karl, *The Paradox of*, 17-9. \(^{507}\) Venezuela's deteriorating creditworthiness (measured by Moody's, Fitch, etc.) makes it difficult for the country to borrow internationally. On the contrary, it pays no more than 6 percent interest on its loans from China compared with 12 percent it pays for bonds issued in capital markets. \(^{508}\) Per Hammond, "The Resource Curse," 21st century socialism is a political project that proposes development "under the aegis of an interventionist state, economic redistribution and political incorporation for the poor masses of the population, and Third World solidarity in defiance of the United States" (363). \(^{509}\) Katia Porzecanski, "Harvard's Hausmann Calls Chinese Loans to Venezuela a 'Disgrace'," *Bloomberg*, September 28, 2015, accessed March 29, 2016, http://www.bloomberg.com/news/articles/2015-09-28/harvard-s-hausmann-calls-chinese-loans-to-venezuela-a-disgrace--if47489t.
economic crisis to lessen the pain and hasten recovery."510 Furthermore, Chinese oil interests are criticized to be in collusion with the host's corrupt oil industry and government. Since the loans did not need to be ratified by the Venezuelan parliament, suspicions are they can be used for corrupt purposes undisclosed to the general public.511 At best, Chinese financing encourages unsustainable government practices as most of the money was reported to provide "short-term cash to pay for salaries, social security, and imports rather than long-run investments in upgraded oil rigs."512

Chinese NOCs share a large part of the blame because a significant condition of Chinese loans implies awarding contracts to Chinese state-run companies.513 Section 1.1 indicates that all Chinese NOCs have all acquired significant assets in the country. As a result, these companies become part of the vested interests, along with the Chavista government and PDVSA, that benefit from oil rents and reinforce petrolization. Altogether, foreign and domestic interests in the country's oil wealth form rigidity in institutions that resist necessary changes to existing fiscal policies and the political regime.514

However, Chinese NOCs’ gloom CSR records in Venezuela cannot simply be attributed to these companies' moral incapacity as the same companies operating there are observed to have displayed benign social behavior in other countries such as Peru and Argentina. In sections 2, 3 and 4, the economic and sociopolitical contexts in Venezuela are problematized to explain why Chinese NOCs in Venezuela failed to commit to CSR.

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510 ibid.
511 "Why China is."
512 ibid.
513 Deverux, "China Bankrolling Chavez's."
6.2. A CSR-Unconducive Business Environment

The overall business environment in Venezuela is detrimental to development of CSR initiatives beyond its early form of philanthropy. Featured by paternalism and state intervention, the Venezuelan economic atmosphere has not escaped a top-down, corporatist fashion since the ISI (Import Substitution Industrialization) stage. This hierarchical, CSR-unfriendly characteristic permeates deeply in the oil sector where government control and mega corporation projects are the industry norms.

In Latin America, Venezuela has been a slow mover in terms of CSR with the state continuing to play a major role in instituting community welfare and other CSR-related issues. While most Latin American countries constructed corporatist welfare regimes in which the state took the lead in provisions of social insurance and social services in the pre-Washington Consensus era, many later abandoned corporatist practices and have given the market a bigger role in both economic transactions and social responsibility undertakings since the 1980s. In other words, more state-of-the-art exercises of CSR were introduced in Latin American countries like Argentina, Brazil, Mexico and Chile due to "an empowered business sector (and) a leaner state". Venezuela experienced neoliberal reforms under the governments of Andres Perez (1989-

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93) and Rafael Caldera (1993-98) during which various corporate foundations emerged to embrace CSR through a rich pool of corporate giving programs. Nonetheless, Venezuela’s lead in CSR philanthropy was lost subsequently when the Chavez government moved the country back toward a more state-centered economy.

In regression, the general CSR terrain in Venezuela still reflects the region’s “strong history of government paternalism and interventionist policies towards the private sector... (which) resulted in a mostly top-down philosophy in corporate giving programs.” A culture of state dependency was born out of the Chavista government’s economic centralization policies and attempts to obscure political support with social programs generated by large via oil rents. Such a tendency of state patronage is even more pronounced in the country’s dominant industry, the oil sector. PDVSA is the most important channel through which the Venezuelan government uses oil wealth to provide social services. The company explicitly pledges its allegiance to the president to advance a “revolutionary, corporate responsibility program”:

“Social development in PDVSA is a process of formulating and executing projects in alignment with the Community Development plans of the state... Backing the social missions promoted by the National Executive is one of the ways in which PDVSA gets directly involved in the lives of ordinary Venezuelans.”

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519 Jones, “A School-Based,” 217.
520 Ibid, 217.
522 Ibid.
Another suitable example of Venezuela’s paternalistic CSR environment can be revealed through CNPC’s experience. While the company was applauded for its high social commitments in Peru’s Amazon jungle by withdrawing from a sensitive area or was reported to have outrivaled western counterparts in its fair employment practices in Ecuador, it resorted to a crude model of CSR in Venezuela by engaging disproportionately in donations and other charitable causes, as documented in section 1.2.

While it is convenient to conclude hitherto that Chinese NOCs are not socially committed in Venezuela due to the host’s CSR-unfavorable business environment, a call for rigor in scientific inquiry demands further probing into more fundamental constraints placed on the business environment. As Karl precisely recognizes in her “petro-state” thesis, the political economies of oil-exporting countries must be understood dialectically through the mutually constitutive relationship between these countries’ economics and their sociopolitical institutions. While the range of institutional factors are fairly broad, the literature review and previous case studies have established in both theoretical and empirical lights the importance of a liberal regulatory framework for CSR commitments and that of active civil society engagement for CSR enforcement. Sections 3 and 4 focus on how Venezuela’s hydrocarbons governance and civil society yield the opposite values that systematically divert Chinese NOCs away from CSR.

6.3. A Centralized and Politicized Energy Governance Framework

The preceding case analyses substantiated the fourth hypothesis about the importance of effective host government regulations in motivating CSR, as formulated in Chapter 2.

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Additionally, two precise values regarding the nature of host government's regulatory framework were identified. First, a liberal and stable sector outlook (Peru) encourages Chinese NOCs to undertake CSR to increase their operational legitimacy and competitive edge. Second, a structurally decentralized energy regime (Argentina) gives needed autonomy to oil-producing regions to directly regulate oil firms with distinctive laws and codes formulated according to regional idiosyncrasy. More importantly, these two regulatory sub-dimensions behind CSR are intersected by an empirically significant factor, the host country's dependence on oil revenues and Chinese investment. When the said country relies heavily on its oil sector and China (Colombia and Ecuador), the power of regulatory frameworks is overwhelmed by the host government's bias toward Chinese NOCs, which tolerates recklessness at the expense of local communities and environment.

Since the beginning of the Bolivarian republic, Venezuela's oil sector has been overshadowed by state control, politicization and consequent dysfunctions. Immediately after Chavez seized presidential power in 1999, he conjured a referendum on the new constitution to consolidate state ownership of PDVSA.524 Throughout the first decade of the century, to thaw oppositional assaults, Chavez had radicalized his socialist revolution. In the hydrocarbons sector, radicalization as a reaction to PDVSA's earlier attempts to internationalize and marketize was reflected by tighter government control, by firing 18,000 employees (half of PDVSA's workforce) who had struck and by imposing joint ventures on foreign investors.525

525 ibid, 365-6.
Compared with Ecuador's energy nationalization (set in motion by a combination of legislative reforms and more importantly presidential decrees), anti-neoliberal restructuring of the oil sector in Venezuela was more systematic and profound.\textsuperscript{526} Started in 2001, the restructuring predated similar reforms in the rest of Latin America.\textsuperscript{527} The 2001 Organic Law of Hydrocarbons is the major tenet of Venezuela's oil industry restructuring, based on a notion that upstream (exploration and production) and downstream (commercialization) oil and gas activities are reserved to the State and can only be performed by wholly-owned state entities or mixed companies (\textit{empresa mixta} hereafter).\textsuperscript{528} Article 44 of the Organic Law specifies a tiered scale of royalty calculation which has been substantially raised from previous instances with the purpose of "retaxing" foreign companies\textsuperscript{530}.

Under the current framework, centralization is guaranteed as hydrocarbons regulation is strictly reserved to the federal government.\textsuperscript{531} In other words, "neither state nor municipal (local) governments have the power to regulate or tax oil or gas activities".\textsuperscript{532} Moreover, the 2006 Official Gazette No. 38,492 regulates that private participation in any hydrocarbons activities must be approved by the National Assembly under the condition that the State holds more than 50\% in the capital stocks of the proposed empresa mixta and keeps control of operational/corporate decisions.\textsuperscript{533}

\begin{footnotesize}
\begin{enumerate}
\item\textsuperscript{526} Hogenboom, "The Return of," 118.
\item\textsuperscript{527} ibid, 118.
\item\textsuperscript{528} \textit{Latin America Oil & Gas Handbook-2012}, Baker & McKenzie (September 2012), 106-7.
\item\textsuperscript{529} ibid, 110.
\item\textsuperscript{530} Hogenboom, "The Return of," 118.
\item\textsuperscript{532} ibid.
\item\textsuperscript{533} Baker and Mckenzie, \textit{Latin America Oil}, 107.
\end{enumerate}
\end{footnotesize}
In both theory and reality, the framework is extremely politicized and carries a personalistic feature. The national oil and gas regulator, the Ministry of Petroleum and Mining is mandated to act in accordance with the President and PDVSA, and under the control of the National Congress. In choosing foreign partners for empresa mixta, political friendliness is the only criteria. This means that granting rights to foreign oil companies becomes a political tool made by the president through direct adjudication.

Such a feature of politicization benefits Chinese NOCs since they are state-owned from a politically friendly and investing country. The late Hugo Chavez once pledged, in a 2009 meeting with Chinese businessmen led by now Chinese President, then Vice President Xi Jingping, "Venezuela's oil is at the service of China."

This "China favoritism" is deeply rooted in the nature and multitude of Venezuela's economic ties with China. In spite of its limited size of economy, Venezuela has been among China's top trading partners in Latin America. In 2014, for example, China exported goods and services worth of $5.68 billion to while importing those of $11.32 billion from Venezuela, placing the latter as China's third largest trade partner in the region, after Brazil and Mexico. In addition, Venezuela is also one of the most important destinations for Chinese foreign investment, judging by the increasing value of

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534 ibid, 108.
535 ibid, 108.
536 ibid, 109.
537 Devereux, "China Bankrolling Chavez's."
Chinese loans.\textsuperscript{539} China's significance for the Venezuelan economy is even greater. In 2013, China was Venezuela's second largest trading partner in terms of both imports and exports.\textsuperscript{540} More importantly, China is Venezuela's biggest unilateral lender. China's heavy weight is most felt in the oil sector that accounted for about 77% of the bilateral trade volumes in 2014.

Regarding CSR legislations, Venezuela lags behind even underperforming Ecuador that has stringent domestic participation rules for local employment.\textsuperscript{541} The 2001 Organic Law does not have any quantifiable index for local content while domestic participation rules are not specific to the oil industry.\textsuperscript{542} There is no minimal requirement for local content and every company should be evaluated on a case-by-case basis. When a highly specialized service is involved, local content will not be a requirement.\textsuperscript{543} Although Venezuela has a Criminal Environmental Law that is considered as more stringent than other Latin American countries\textsuperscript{544}, no empirical evidence has been found to test Chinese NOCs' environmental records to the law.

All in all, Venezuela's regulatory framework for hydrocarbons is both centralized and politicized. Accentuated by exhaustive control from the federal government and PDVSA, the centralized structure presents practical challenges to oil-producing regions

\begin{footnotes}
\textsuperscript{539} Official data of foreign investment from China Statistical Yearbook 2015 showed Venezuela only received about $450,000 Chinese investment in 2014. CDB's loans are not counted.
\textsuperscript{542} Omana, "Oil & Gas."
\textsuperscript{543} Baker and Mckenzie, \textit{Latin America Oil}, 112.
\textsuperscript{544} Omana, "Oil & Gas."
\end{footnotes}
in the East Venezuelan basin to regulate foreign oil investors toward socially acceptable behavior, precipitating a mismatch between nationalized legal codes and localized/regionalized investments. By the same token, when oil projects are rewarded to politically cuddly NOCs, an imperative portion of competitiveness and peer pressure is lost. Chinese NOCs are especially favored by the Venezuelan government as Chinese loans and investments are paramount to finance the government's socialist, populist agenda. These restrictive features of the host's energy governance framework fundamentally underlie a CSR-unfriendly business environment that draws Chinese NOCs away from CSR.

6.4. A Shattered Civil Society Sector

Chinese NOCs’ experience in Peru where indigenous organizations collaborated with SAPET (CNPC’s Peruvian subsidiary) to induce socially conscious commitment of the latter demonstrates the importance of a unified and strategic civil society in holding oil corporations accountable in its constituent localities, validating Hypothesis 2 that Oil companies display more socially responsible behavior when they operate in areas with a more proactive civil society presence. Furthermore, Chinese NOCs’ mixed CSR records in Argentina evidences how a deinstitutionalized civic space jeopardizes actual CSR performance as the capacity of local civil society necessary for monitoring corporate behavior is compromised. Case analyses on Ecuador and Colombia uncover that civil society is constrained by politicization (Ecuador) and internal violence (Colombia) while host governments gravitating toward foreign energy investments favor Chinese NOCs over their local constituents with opposite demand for development. Under the Bolivarian Republic, Venezuela’s civil society is encapsulated by polarization and fragmentation.
In Venezuela, the civil society is class-based, divided by political conflicts between the hegemonic pro-Chavez forces and oppositional minorities whose power has been systematically eroded since the early 2000s. The waning of Venezuela’s civil society sector is more dramatic than that in Ecuador where segments of indigenous and peasants minorities, in spite of colossal political obstacles, have recently organized campaigns against Correa’s extractivist political regime.545 In spite of the Venezuelan government’s background as a bottom-up regime having won elections “owing to a strong basis in social movements”546, the country’s subsequent political system of participatory democracy has created “patterns of social differentiation and stratification emphasizing existing class cleavages”547. The political struggle between different factions of civil society has been caricatured as an existential struggle that culminates in a zero-sum game.548

Autonomous social organizations in Venezuela rose up throughout the 1970s to integrate into the political mainstream purported to deepen the country’s democratization process and such democratizing social movements achieved momentum in the late 1980s as a unified voice against backlashes of sweeping neoliberalism.549 However, the previously-strengthening civil society took a retrogressive turn in the Bolivarian era when the Chavez government radicalized its socialist revolution and government control of the society through a 1999 referendum on the new constitution as a reaction to oppositional

545 See Chapter 4 for a detailed account of civil society-state conflict in Ecuador.
546 Hogenboom, “The Return of,”120.
549 Ibid, 11-2.
protests and the 2002 coup.\textsuperscript{550} The revamped constitution defines civil society in exclusive terms that a substantial segment, especially those receiving foreign finance, is denied participation in political processes.\textsuperscript{551} The redefined civil society privileges “el pueblo” or the country’s poor population and pits the poor against the middle and upper classes. Their differences and conflicts are carved along the line of pro-Chavez vs. anti-reconcilable differences.

In a democratic system, high levels of citizen participation via civil society are constitutionally guaranteed and \textit{de facto} practiced. Such civil society is characterized by shared identities, diversity, healthy disputes and unified by a notion that “common collective identity prevail over the differences that divided communities within society”\textsuperscript{552}. In other words, functional civil society should be rational, strategic and autonomous. Said virtuous civil society is severely marred in Venezuela to the extent that opposing social movements can no longer reconcile Chavez factions toward existential struggles in which universal values are set aside and political interests are disproportionately seized by winners or the pro-Chavez forces. A 2009 rapport by the Inter-American Commission on Human Rights (IACHR) compiles information on the political environment and human rights situation in Venezuela and concludes:

\begin{quote}
“\textit{Obstacles are thrown in the path of those identifying with the opposition not only in the context of political contests, but also that citizens and organizations that make their disagreement with governmental policies public}
\end{quote}

\textsuperscript{551} Garcia-Guadilla, Mallen, and Gillen, “The Multiple Faces,” 12.
often become victims of retaliation, intimidation, disqualification, exclusion, discrimination in the workplace, and in some instances are even subject to legal attack and deprived of their liberty.”

The autonomy of civil society, both the hegemonic and oppositional forces is eroded by Venezuela’s restrictive legal environment and populist political practices. For instance, the 2010 Law for the Defense of Political Sovereignty and National Self-Determination prohibits any Venezuelan NGOs with political aims to receive any form of foreign assistance with the threat of hefty fines for non-compliance. Moreover, barriers to operational activities and free speech are also consolidated by government acts in forms of political retaliation and presidential decrees.

The polarization and politicization of Venezuela’s civil society must be comprehended in relation to the Chavista regime’s socioeconomic foundations. Dubbed as the quintessential progressive, extractivist regime, the Venezuelan system of governance is highly consequential by putting oil politics at the core of policy-making. In the political realm, as the previous section demonstrates, the supremacy of the state over the market, politics over the economy pivots the government in favor of Chinese NOCs,

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555 Ibid.
556 The promulgation of the Organic Law of Land and Agrarian Development is a prominent example. The new law was heavily proposed by oppositional middle and upper classes for its attack on private property rights and was ultimately drafted through a Presidential Decree. The decree escalated the existential struggles within the civil society by aligning lower-class interests with the State by bypassing civic actors’ participation in law design mechanisms. See Garcia-Guadilla, Mallen, and Gillen, “The Multiple Faces,” 15-6.
aggressively against “local struggles for the protection of land, water and protected ecologies”\textsuperscript{558}.

In the social dimension, economic gains from oil developments are justified toward the collective goods of poverty alleviation, as a cornerstone of the socialist revolution. Hence, a hierarchy formed between social and economic policies in which the latter serves the former for the purpose of political gains. Altogether, the socioeconomic and political aspects of the Chavista regime are interconnected as practices of “petro-populism” in which any antagonistic voices should be mocked, punished, silenced, and dismissed as illegal, anti-republic acts. The government’s attack on the minority opposition is exacerbated by its authoritarian tendencies interlaced with chronic corruption.

In a brief account, the state-civil society relationship in Venezuela is coordinated by “a paternalistic and authoritarian structure of political power”\textsuperscript{559}. The civil society becomes “synonymous with ‘political society’”\textsuperscript{560}. In process, a capable civil society needed to impose checks and balances on the oil-based government and oil interests is compromised. This explains to a great extent the rarity of independent coverage on Chinese NOCs in spite of their aggressive takeovers of major oil fields in the country.

\textsuperscript{558} Ibid, 121.
\textsuperscript{560} Ibid.


**Conclusion**

Most Chinese NOCs have pledged extensive investments in Venezuela since the 1990s. Their operations are often located in the East Venezuelan Basin, the country’s biggest oil region. These companies’ presence is further boosted by a consistent inflow of Chinese loans, offered from Chinese policy banks to the Venezuelan government with low interest rates and conditions beneficial to Chinese corporations. Favored by both governments, Chinese NOCs are one of the most important foreign players in Venezuela’s hydrocarbons sector. Nevertheless, contrary to expectations of social care from a business case and based on Chinese NOCs’ high profile, these companies failed to demonstrate CSR. Featured by little self-reporting coverage, an overt emphasis on donation, and limited but negative media, Chinese NOCs in Venezuela showcase the worst record of social commitment, as compared with other host countries examined in the thesis.

In addition to allegedly unsustainable labor practices, Chinese NOCs were criticized to be in collusion with the Chavista regime in rent-seeking and corruption scandals, which ultimately exacerbated the country’s social and political problems pertaining to the petro-state thesis. Such disheartening recklessness can be causally attributed to Venezuela’s CSR-unfriendly business environment in which a paternalistic, top-down, and state-controlled philosophy permeates its corporate culture. In other words, government intervention and state provision of social services act as a disincentive for corporations to undertake voluntary social initiatives.

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561 With the exception of CNPC’s Intercampo project which is situated in northwest Venezuela.
Most importantly, the nature of Venezuela’s business environment must be understood in relation to the country’s sociopolitical environment. On one hand, the Chavista government’s oil sector governance structure is characterized by centralization and politicization. The former feature creates bureaucratic hurdles for CSR to take localized meaning while the latter tilts the balance toward Chinese NOCs as they come from a politically friendly home state. Both characteristics fall short of imposing sufficient government regulations of the oil sector. On the other hand, under Venezuela’s socialist, populist regime, its civil society has suffered serious setbacks from polarization and political co-option. Room for healthy debates disappeared as the oppositional faction of the civil society now interacts with the mainstream poor/ “el pueblo” faction in an existential struggle. As a result, an eroded civic space fails to provide necessary checks and balances on Chinese NOCs.

As China becomes an ever more important partner to Venezuela’s oil-centered economy, the host government is more biased toward Chinese NOCs while ignoring or even criminalizing anti-oil demands from its civil society. This trend, underlay by lax oil sector regulations and waning civil liberty, intersected by the regime’s dependency on oil revenues, represents a systematic constraint on CSR.
Chapter 7  
Conclusions: Summary of Findings and the Way Forward

Since the first decade of the twenty-first century, Chinese National Oil Companies (NOCs) have been expanding their business ventures into Latin America. These state-owned firms are strategically positioned at an intersection between the Chinese government’s unsuppressed quest for global energy and their own commercial interests. Offering rich oil reserves and relatively safe investment environments, oil-producing countries in Latin America are increasingly favored by Chinese NOCs. Notably, the importance of Chinese oil investments for these host countries must be understood not in terms of their sheer size but their hastening speed.

This dissertation project explores the topic of corporate social responsibility (CSR) among Chinese NOCs operating in Peru, Ecuador, Argentina, Colombia, and Venezuela. By means of qualitative methods, including: comparative case study, causal process tracing, discourse analysis and secondary data analysis, this thesis finds that Chinese NOCs are most inclined to commit to and practice CSR in countries where the hydrocarbons sector’s regulatory framework is competitive and decentralized. Moreover, the level of local civic engagement in oil concession regions is a secondary, significant factor in holding Chinese NOCs socially accountable, under the condition that the host government does not constrain its civil society. Last but not least, an interesting finding
needing further testing shows that these companies demonstrated higher CSR in countries that are less dependent on oil revenues and Chinese extractive involvement.

The conclusion chapter first summarizes each chapter and then analyzes case findings by espousing the interactions among all variables. The last part concludes the project with policy recommendations for the business world interested in CSR and scholars on China-Latin American relations.

7.1. Chapter Summary
Chapter 1 sets the tone for the project by introducing the main theme, posing research questions, and specifying the research design. Chapter 2 offers a panoramic overview of the Chinese oil industry considering first Chinese NOCs in relationship with the Chinese government and second Chinese oil interests in Latin America. Chinese NOCs are defined as complex political, economic agents that carry dualistic features of furthering political mandates and increasingly showing autonomy from the government to gravitate toward corporate objectives. Although negative voices regarding their social footprints in Latin America abound, a systematic analysis of evidence discovers several instances of positive social impact in host societies. Indeed, these companies must be evaluated on a case-by-case basis with attention to the particular sociopolitical environment they face in each investment setting. This chapter establishes the empirical context of Chinese oil investments in Latin America with regard to main actors, behavioral patterns and social impacts. In doing so, the research questions are sufficiently developed.

Chapter 3 reviews the evolution of CSR studies in various academic fields and discusses various strands of CSR theories with an emphasis on theoretical findings of
CSR’s motivational factors. CSR as an academic field of inquiry has undergone profound changes from a rudimentary subject of occasional intellectual interests to a frequently debated topic that intersects both business orthodox and social sciences. There are mainly two camps of scholarly debates on CSR. On one hand, the predominant paradigm, the Business Case of CSR, identifies strategic considerations for risk reduction, image boosting, competitiveness enhancement, and legitimization (social license to operate) as main factors behind CSR. On the other hand, the holistic camp which encompasses several theories focusing on exogenous factors establishes that host country's civil society engagement, host government's relevant regulations, and host country's participation in relevant international framework account for differences in CSR commitments. The scholarly works introduce thematically significant independent variables to guide the thesis project. Along with a systematic review of empirical studies on CSR in the oil sector, the research design with regard to independent and intervening factors influencing CSR is specified. Moreover, the chapter formulates four main hypotheses and ten testable observations:
H1: Oil companies pursue CSR voluntarily because it creates bottom-line benefits.

- H1a: Oil companies engage in CSR to defend its organizational legitimacy in socially and environmentally controversial areas.
- H1b: Oil companies engage in CSR to boost their public image in response to public disapproval and media criticisms.
- H1c: Oil Companies engage in CSR to strategically improve its competitive advantage in multi-player settings.

H2: Oil companies display more socially responsible behavior when they operate in areas with a more proactive civil society presence.

- H2a: Oil companies are more socially responsible when faced by civil society groups unified by a collaborative strategy.
- H2b: Oil companies are more socially responsible when interacting with a cohesive civil society-NGO network.

H3: Oil companies display more socially responsible behavior when they are somehow subject to an international regulatory framework.

- H3a: Oil companies are more socially responsible in host countries that ratify a mandatory/legally binding international CSR regime.
- H3b: Oil companies are more socially responsible in host countries that subscribe to voluntary international CSR regimes.
- H3c: Oil companies are more socially responsible when directly participating in international CSR regimes.

H4: Oil companies show a higher level of social commitments when investing in host societies where the government effectively and fairly regulates corporate and civic affairs.

- H4a: Oil companies are more socially responsible where there is a stable and liberal regulatory framework toward the oil and gas sector.
- H4b: Oil companies are more socially responsible where there is an accommodating legal/political system toward minority communities affected by oil developments.

Chapter 4 compares Chinese NOCs’ experiences in Peru and Ecuador where most Chinese oil investments overlap with indigenous territories and discovers diverging patterns of CSR records. In Peru, SAPET, the national subsidiary of the largest Chinese NOC (CNPC) was able to engage with local civil society organizations from the Madre de Dios region and produce positive impacts on indigenous communities by withdrawing from certain protected areas. In Ecuador, on the contrary, Chinese NOCs were heavily criticized for their aggressive expansion into the country’s oil-rich Amazon regions in disregard of local demands. Differences in CSR are then causally traced to varying
strengths of civil society (represented by indigenous organizations) in the two countries in dealing with corporate actors in terms of strategy and unity. Thus, H2 is confirmed. More importantly, the comparative case study of Peru and Ecuador reaches a conjunctive observation that the effect of civic engagement is contingent upon the host government’s policies toward civil society and the oil industry. CSR becomes a luxury where the host government centralizes energy governance, discriminates anti-oil societal voices and depends heavily on oil rents and China, as in Ecuador. Therefore, H4 is found to have commanding power over H2. Lastly, the effectiveness of international CSR instruments is demonstrated through Peru’s stellar performance in upholding the ILO 169 Convention and the EITI (contrasted with Ecuador’s poor record respectively). Nevertheless, the evidence does not adequately establish a causal link between analyzed international initiatives and Chinese NOCs’ social commitments. Thus, H3 can not be sufficiently justified. Instead, CSR is connected to international standards because of a company’s need to comply with host country regulations. Henceforth, the regulatory framework also commands more explanatory power over international-level factors.

Chapter 5 re-examines the roles of host regulatory environments and civil society capacity by comparing Chinese NOCs operating in Colombia and Argentina. While Chinese companies in Colombia are often criticized for their poor labor and environmental records, their operations in Argentina reflect mixed receptions. Again, host governments’ energy governance structures are found to directly determine social commitments. Two important findings deepen our understanding on CSR in a holistic context. First, without stability in governing its hydrocarbons sector (as in the case of Colombia), a liberal-minded host government does not necessarily reward CSR. Second,
the extent to which the regulatory framework encourages CSR depends on the level of decentralization in the framework. A bureaucratically and financially decentralized energy sector organization empowers local and provincial authorities to engage oil firms toward CSR (the case of Argentina). Civil society capacity is weak in both countries due to different constraints. In Argentina, the civic space has been politicized and deinstitutionalized since the Peron era as a result of a dual legacy of Peronist class-based citizenship and neoliberal reforms. In Colombia, civil society organizations failed to coordinate with oil companies because of the decades-long internal violence.

Chapter 6 presents the final case analysis of Chinese NOCs in Venezuela where lack of exogenous incentives along with dire business prospects tentatively open space for a business case for CSR. A cross-examination of Chinese companies’ CSR reporting and independent evaluations discredits the business case or H1. In other words, a corporation’s internal motivations to improve competitiveness and financial performance alone are insufficient to drive CSR without supportive external circumstances. In Venezuela, an extremely inflexible and centralized oil sector biased toward Chinese investments, coupled with an institutionally politicized civil society, forms systematic hindrances on CSR.

The next section connects case findings by piecing together Chinese NOCs’ CSR records in each country logically and visualizing the causal routes to CSR.

### 7.2. A Conjunctive Route to CSR

**Country Findings: Evaluating the Dependent Variable**

Significant variations are observed with regard to Chinese NOCs’ CSR records in the five South American countries, even though it is not possible to derive more
definitive, quantitative comparisons given the limited amount of cases and a qualitative nature of the case inquiry. Table 7.1 compiles and compares each chapter’s findings on the dependent variable—Chinese NOCs’ CSR records in South America on a scale of 1 to 5, with 1 being the best practice and 5 being the worst.

Ranking each country serves to present the project findings in a systematically comparable manner. The case of Chinese NOCs in **Peru** stands out as the best practice for two reasons. First, in spite of hosting smaller Chinese oil investments than other South American destinations, Peru is the only country among the five inquired where Chinese oil firms' CSR reporting covered areas where Chinese corporations only hold minor interests (Blocks 1-AB/8 and 57). Second, Chinese NOCs in Peru went beyond commitments and delivered actual social performance by divesting from an Amazon block (Block 113) where indigenous populations wish to live in isolation and strive to preserve their territory's ecological prints.

By sharp contrast, **Venezuela**, Chinese NOCs' other early destination, did not harvest any meaningful Chinese commitments to social responsibility, despite the fact that Chinese oil interests are most vested there. In Venezuela, Chinese oil companies' limited social initiatives were heavily geared toward philanthropy lacking long-term horizons and real impact. Moreover, the politicized nature of Chinese oil-based loans to Venezuela in combination with the country's centralized energy governance delivers Chinese NOCs as accomplice of corruption, collusion and a myriad of socioeconomic problems that Venezuela suffers as a consequence of dependence on the hydrocarbons sector.
### Table 7.1. Ranking of Chinese NOCs’ CSR Records in South America

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Host Country</th>
<th>Operating Companies</th>
<th>Supporting Evidence</th>
<th>Group</th>
</tr>
</thead>
</table>
| 1       | Peru         | CNPC, PetroChina    | • Comprehensive, specified self-reporting covering majority and minority blocks.  
• CNPC 2006 withdraw from Block 113 as a result of conversation with civil society. | **Best Practice** (Performance +Commitment) |
| 2       | Argentina    | Sinopec, CNOOC      | • Self-reporting (Sinopec) emphasizing labor and environmental protection.  
• Mixed public views affirmative of community initiatives, critical of labor issues.  
• Weak enforcement of CSR promises. | **Intermediate Cases** (Mixed Commitments and Performance) |
| 3       | Colombia     | Sinopec, CNOOC, Sinochem | • Self-reporting emphasizing labor protection and community care.  
• Negative public opinions on environmental, labor and security issues. |       |
| 4       | Ecuador      | CNPC, Sinopec, Sinochem | • Vague self-reporting with focuses on donation and workforce localization.  
• Continuous acquisition of oil concessions in the Amazon in spite of civil protest and negative public opinions.  
• Allegations of collusion with host government. |       |
| 5       | Venezuela    | CNPC, Sinopec       | • Limited self-reporting focusing on donations.  
• Negative public opinions on labor issues.  
• Criticized for fostering corruption and petroization. | **Worst Case** |

**Argentina, Colombia and Ecuador** form intermediate cases of social records in which Chinese NOCs demonstrated limited commitments of varying degrees. In each
case, corporate reports took account of several CSR issues, including workplace governance, environmental protection, community programs and support to the local economy. Notably, all companies stressed workforce localization and vocational training while documenting their CSR activities in these countries. However, observed divergence between applauding self-reporting and mixed to negative public opinions corroborate these cases' intermediate status.

Within this group, Chinese NOCs in Argentina lead the other two, measured by affirmative media coverage on positive impact of several Chinese companies' CSR programs' in its oil-producing regions. For instance, Sinopec's environmental conservation program in Loayza and Duraznillo received high prizes from national NGOs. Nonetheless, due to labor disputes and alleged failures to materialize social and environmental commitments in several cases, Argentina is still outranked by Peru.

Colombia lags behind Argentina based on the observation of antagonistic public opinions on Chinese NOCs that accused the companies of not adhering to local hiring practices and displacing subpar environmental performance leading to frequent operational suspension by local authorities. A unique stress factor in the Colombia case lies with the country's long-standing arm conflict that is yet to be concluded by an open peace process. Chinese oil companies, like any foreign oil business, take up dualistic roles in the armed struggle. On one hand, they fell victims to the internal warfare as oil fields are often situated in conflict zones. On the other hand, the companies were often criticized as accomplices in the armed conflict for paying "war taxes" and subsequently enriching the country's violent sectors.
The disparity between affirmative CSR self-reporting and negative external perceptions is even starker in the case of Ecuador, which occupies the last place in the intermediate group. Although Andespetro, the Ecuadorian branch of CNPC and Sinopec, was featured by its parent companies as a versatile actor in promoting workforce localization, community development and environmental protection, its track record of exploring the Ecuadorian Amazon with an accelerating pace contradicts any positive claim made subjectively. Boston University’s GEGI report pinpoints Ecuador as the only South American country with major Chinese oil investments overlapping with biodiverse areas and indigenous territories. Consequently, Chinese oil companies have been frequently protested by Ecuadorian indigenous nationalities in both national and international arenas. Even the proclaimed achievement of workforce localization becomes challenged when evidence of Andespetro employing all-Chinese working teams for management and logistics in remote Manta community surfaced.

Explaining Case Outcomes: Assessing the Independent Variables

Bulk of the dissertation focuses on establishing causal mechanisms to explain the disparities in social responsibility records between cases. Informed by prevalent CSR theories investigated in Chapter 3, this study constructs the causal mechanisms connecting the two major independent variables, host country regulatory frameworks and host civil society capacity, to CSR performance. The other two independent variables international CSR standard/initiative and bottom-line considerations are inquired in the Peru case (Chapter 4) and the Venezuela case (Chapter 6) respectively. Subsequently, these two factors are dismissed for having insufficient explanatory power. The findings
show the intersectionality and contingency of the variables, evidencing a conjunctive route to CSR. Table 7.2 presents values of the two major independent variables.

**Table 7.2. The Impact of Host Country Sociopolitical Factors on CSR Records**

<table>
<thead>
<tr>
<th>Host Country /Case</th>
<th>Government Regulatory Frameworks</th>
<th>Civil Society Characteristics</th>
<th>Outreach Strategy</th>
<th>CSR Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Peru</strong></td>
<td>Competitive &amp; Decentralized; Local Employment Rules</td>
<td>Institutional Inclusion of minorities; Law of Prior Consultation</td>
<td>Unified Indigenous Front</td>
<td>Collaboration</td>
</tr>
<tr>
<td><strong>Argentina</strong></td>
<td>Decentralized &amp; Competitive w. Progressive Features; Provincial CSR Rules</td>
<td>Class-based, Gendered Governance; Not Favorable twd. Anti-Oil Groups</td>
<td>Politicized w. both Populist &amp; Neoliberal Elements</td>
<td>Collaboration &amp; Protest</td>
</tr>
<tr>
<td><strong>Colombia</strong></td>
<td>Competitive, Centralized but Unstable; Environmental Rules</td>
<td>Institutional Development for Equality &amp; Inclusion</td>
<td>Severely Constrained by Armed Conflicts</td>
<td>Protest</td>
</tr>
<tr>
<td><strong>Ecuador</strong></td>
<td>Biased &amp; Centralized; CSR Provisions</td>
<td>Hostile twd. Anti-Oil Civil Groups; Criminalization</td>
<td>Politicized, Radicalized &amp; Marginalized</td>
<td>Protest</td>
</tr>
<tr>
<td><strong>Venezuela</strong></td>
<td>Biased &amp; Centralized; CSR Provisions</td>
<td>Paternalistic &amp; Authoritarian Governance</td>
<td>Politicized &amp; Polarized</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The Peru case highlights that for Chinese NOCs to commit to CSR and display actual performance, both the regulatory framework and civil society need to be conducive. Furthermore, the two variables entail inward and outward properties. In particular, a CSR-favorable regulatory framework means liberal and competitive industry policies toward extractive investors (an outward feature) on one hand, and decentralized governance mechanisms in terms of bureaucratic structure and revenue redistribution (an internal characteristic) on the other hand. By the same token, a CSR-favorable civil
society outlook entails a unified organizational structure (within) and a collaborative strategy engaging oil companies and the host government (outward). Figure 7.1 visualizes the optimal pathway to social responsibility informed by the Peru case.

**Figure 7.1. The Ideal Route to CSR**

![Diagram of the Ideal Route to CSR](image)

**a. Inter-Connectedness of the Independent Variables**

The two sub-variants of a host government’s regulatory frameworks are intricately connected, reflecting official attitudes toward two broad stakeholder groups of extractive projects, oil companies and relevant civil society groups. A liberal extractive regime is conducive to a government’s open-mindedness toward civic actors. Internally, decentralization in the oil sector capacitates local officials who then incorporate interests of local communities in regulating oil companies. Externally, a competitive oil sector outlook prompts various levels of governments to weigh in societal and community interests vis-a-vis corporate demands.

On the opposite side, a progressive extractive regime promotes special interests and biases. Internally, resource nationalism centralizes revenue and bureaucratic
structures, moving decision-making and enforcement further away from local realities. Externally, a government endorsing a progressive oil regime gravitates toward national and foreign oil interests, often at the cost of embedded civil interests.

The nature of civil regulations also feeds back into the mechanisms of extractive governance frameworks. A government accommodating civil society actors must take into account of community demands for socioeconomic justice and environmental sustainability while balancing these wider claims with oil companies’ narrower financial interests. On the contrary, a government that radicalizes civil voices and erodes civic spaces in the name of national interests and economic development most likely favor a progressive extractive regime featuring centralization and politically biased investment policies.

A government’s CSR legislations pertaining to extractive sectors, such as: domestic participation rules, rules for environmental liabilities, fund allocated for social purposes and anti-corruption mechanisms are partial manifestations of the connections between the extractive regime and civil society governance. Oil-related CSR legislations in developing countries are, nonetheless, still at a development stage and rarely enforced to a satisfactory extent, a reason for which the thesis chooses to focus on oil sector and civil society regulations instead. Figure 7.2 demonstrates the dynamism between the two sub-variables of the regulatory framework variable.
Moreover, oil sector regulations and civil society capacity are related to each other through a government’s civil society legal framework. If a government consults and weighs (more or less equally) both civil and private/corporate opinions in the decision-making process of extractive projects, relevant civil actors as stakeholders, have incentives to collaborate and shape outcomes favorable to their collective interests, be it territorial arrangement, local economic opportunities, community development, or environmental preservation. Under special circumstances, empowered social groups can cause oil companies to transcend legal requirements and prioritize social progress at the expense of economic interests (the case of SAPET in Peru’s Madres de Dios). In other words, the effectiveness of civil society actors in engaging oil companies toward CSR depends upon the host government’s oil sector policies in tandem with its policies toward the civil society. Abstractly speaking, the two independent variables are correlated, demonstrating what is similar to multicollinearity. Figure 7.3 presents the complex relationship among different sub-variables of the two independent variables.
b. The Underpinning Role of Host Government Regulatory Frameworks

A host country’s regulatory frameworks in both the oil and civil sectors are a fundamental factor in motivating oil companies to behave socially well. The extractive governance framework determines the nature of the country’s oil market, thereby shaping behavior of various market participants. In a liberal policy environment, Chinese NOCs have to compete with other oil companies for market shares and answer to local governments and constituents. As a result, they are pressured to pursue higher CSR standards in order to catch up with competitors and satisfy local demands. Moreover, inclusive policies toward minority populations who often occupy oil zones institutionalize development of social capital and encourage civil society actors to participate in local economic affairs, including negotiating with foreign oil companies.

On the opposite side, a progressive extractive regime concentrates decision-making power at the country’s capital and favors national oil companies from home and politically friendly partners. In this sense, Chinese NOCs become the selected few to explore the country’s oil fields, often through deals negotiated with the host government.
directly. Such a privilege of market access lessens a company’s incentive to invest in social and environmental programs. Another important levy against CSR in this case scenario arises from restricted civil spaces as a result of unsupportive government policies with regard to civil society organizations and anti-oil development communities. In other words, under a progressive extractive sector framework accompanied by restrictive civil society policies, costs of social programs outweigh the rewards of being socially responsible.

It was in Peru where Chinese NOCs exemplified higher social commitments and best CSR performance than the other countries, thanks to its competitive and decentralized regulatory framework overseeing extractive developments. It was also in Peru where local communities (often indigenous) in China-involved oil zones were able to organize collectively and exercise their demands as an equal stakeholder with Chinese oil corporations. In a country where civil society was historically weak and disorganized, the strength and cohesiveness of indigenous organizations in the face of foreign oil corporations emerge from Peru’s legal-institutional developments in promoting ethnic equality and civic autonomy, such as the regionally acclaimed Ombudsman’s Office and Law of Prior Consultation. The Peru case is illustrated by Figure 7.1.

While Peru epitomizes an ideal scenario of how supportive regulatory regimes motivate CSR, the remaining country cases represent deviations of different degrees from the ideal type. Consider the two most underperforming cases: Ecuador and Venezuela.

In Ecuador, Andespetro’s social recklessness (indicated by aggressive take-overs in the Amazons and rocky community relationship) is rooted in the Ecuadorian
government’s attempts of resource nationalism and cuddly attitudes toward Chinese oil investments. The government’s centralized control on the hydrocarbons industry further reinforces a hostile policy environment toward civil society, restricting public dissidence and criminalizing anti-oil protests. A system of repressive legal developments including the 1999 Environmental Law and the 2013 Organic Law on Communications, coupled with a series of presidential decrees, aims to promote extractivism as the country’s core national interest while marginalizing antagonistic protests. Underpinned by an eroding policy environment, a previously unified indigenous movement dissolved into internal strife, weakening capacity of the indigenous civil society and further lessening societal checks on oil companies’ behavior. Figure 7.4 illustrates the causal mechanisms.

**Figure 7.4. Ecuador’s Route to CSR**

In Venezuela, the extractive sector governance has been structurally constructed to reflect centralization and state monopoly in a more profound and systematic way than in Ecuador. As the biggest economic sector, the oil industry musters both economic and
political clout. Nationalized PDVSA aligns its interests with the national agenda of funding social programs with oil income and partners with other NOCs from Venezuela’s political allies. Legislations prioritizing oil interests and politicizing oil investments help create a CSR-unfriendly business environment permeated by paternalism and far-reaching state control.

As a result of petro-populism, the Venezuelan civic space has been choked to an existential struggle between pro-Chavez and anti-Chavez coalitions, both suffering losses of autonomy due to state invasion and having demonstrated no independent experience in dealing with Chinese NOCs. Under this sociopolitical context, Chinese NOCs focus on donations-centered CSR activities, limit publicity in spite of Venezuela hosting Chinese NOCs’ biggest investment profile in Latin America and invite criticisms of collusion with the host government in rent-seeking and corruption, factually displaying the worst CSR record. Figure 7.5 shows Venezuela’s experience with Chinese NOCs in terms of CSR.

**Figure 7.5. Venezuela’s Route to CSR**
These case narratives are confirmative of the theoretical reasoning behind H4 that an oil company is more likely to demonstrate social responsibility where a host government effectively and fairly regulates oil industry and related civil affairs. In the broad literature on CSR, the role of government is emphasized by a political economy approach as a provider of public policies regulating corporate behavior\textsuperscript{562} and delivering rights to disadvantaged communities and NGOs\textsuperscript{563}. Such a political dimension of CSR is particularly applicable to the oil industry where issues of environment, human rights and governance accountability are acute and sound legal frameworks to balance oil companies and local populations are needed.

Building upon said theoretical developments, my case analyses contribute to the CSR literature by clarifying specific characteristics of public policies conducive to CSR and making it explicit the importance of both a liberal (competitive and decentralized) oil governance framework and accommodating (inclusive and fair) civil society policies. However, since only five Latin American countries host Chinese oil investments, this project opts for more in-depth small-n case analysis. In the future, more theoretical building is needed from selection of a wider set of cases and test the hypothesis.

c. The Effectuating Role of Civil Society for CSR Performance

Albeit an underlying factor, government regulations alone are insufficient to account for differences in CSR performance. Policy frameworks, by large, stimulate CSR in indirect ways. In one, a liberal regulatory regime constructs a competitive business environment


\textsuperscript{563} Subhabrata Bobby Banerjee, \textit{Corporate Social Responsibility: The Good, the Bad and the Ugly} (Cheltenham: Edward Elgar Publishing Limited, 2007), 144-172.
in which companies must adopt higher CSR stances due to peer pressures, while giving power to regional agencies to oversee oil projects with rules peculiar to local settings. In another way, the host government’s inclusive and tolerant governance of civil society helps create a constructive political climate for local communities and their representatives to seek positive engagement with oil corporations.

On the contrary, the civil society, including various non-governmental organizations, labor unions, grass-root organizations and community boards, represent interests of communities near oil zones with direct stakes in these projects. Oftentimes, the civil society acts as a counterbalance to hegemonic economic interests of development by identifying alternative visions and concerns. It adopts a less biased position than the host government, especially the type of government that favors oil development, centralizes extractive governance and relies on oil revenues for financial health. Most importantly, civil society groups with a local presence have the advantage of directly communicating residents' needs to the companies and verifying actual enforcement of CSR initiatives, over government agencies. When unified and connected to national or international organizations of shared agenda, these civil society groups can effectively work with oil corporations toward mutually acceptable social outcomes, with or without government interventions.

In Peru, indigenous movements in the Madres de Dios region, as a form of civil society, were successful in riveting SAPET to retrieve permanently from Block 113 in spite of previous agreements with Perupetro, the Peruvian government's hydrocarbons licensing authority. In this case, local communities were represented by the region's leading indigenous organization, FENAMAD. With a close working relationship with
AIDESEP, Peru's national NGO for indigenous rights, FENAMAD accepted SAPET's invitation for prior consultation and shared research evidence of territorial overlapping and negative health results for indigenous populations, had the project proceeded. In addition, the indigenous network in Madres de Dios is relatively unified through a civil society consortium focused on information sharing and capacity building.

Argentina's experience with Chinese NOCs serves as a counterfactual example. In general, mixed reviews on Sinopec and CNOOC were traced to the Argentine government's pendulous approach to extractive sector governance, one captured between liberal and progressive elements, as well as a politicized approach to civil society governance. Notably, oil-producing provinces' autonomy in introducing regional environmental and social rules contributed to Chinese NOCs' social commitments, reflected by Sinopec's various agreements with the Santa Cruz government in environmental liabilities, water preservation and local employment. However, none of these agreements came to fruition due to weak civil oversight, inciting local disappoint. This lack of enforcement on CSR commitments is linked to the country's underperforming civil society.

Admittedly, the country receives better scores for its constitutional respect for civil liberties than the other four countries.564 Particularly, its civic organizations are rated as robust and influential in the Argentine society.565 Nevertheless, this dissertation adopts a dubious viewpoint on the strength of the country’s civil society sector for the reason that its autonomy is clipped by a unique combination of populist legacies and neoliberal

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565 Ibid.
forces. By way of explanation, a personalist style of presidential politics, evident throughout the country’s modern history, absorbs various segments of the civil society, from rural poor to organized labor, into normal political processes, compromising the sector’s independent power necessary for holding corporate power (Chinese NOCs’ oil interests in particular) in check. As a result, Chinese NOCs’ CSR commitments were insufficiently implemented.

d. Additional Insights: Energy Trade with China and Oil Dependency

Two other factors, namely host country’s energy trade with China and the importance of the oil sector for the host, enhance the positive effect of regulatory framework and civil society capacity on CSR. These two additive factors are informed by practical judgment and empirical observations. To measure the host country’s energy trade with China, this dissertation uses two indicators: the country’s oil and gas exports to China as a percentage of its total oil and gas exports and those as a percentage of the country’s total exports to China. Moreover, the importance of the hydrocarbons sector for the host country is measured by the indicator \textit{Oil Rents}, which calculates the percentage of a country’s crude oil production in its GDP.

According to table 7.3, there is a generally positive correlation between a host country’s energy exports to China as a percentage of total exports to China on one hand and the country’s ranking in Chinese NOCs’ CSR records in each country respectively (with the exception of Colombia). The same positive correlation can be observed between the host’s oil rents and CSR ranking. In other words, the more the host country sells oil and gas to China (as compared with trade in other goods and services), the more likely a
Chinese NOC acts socially recklessly in that country. By the same token, the more a host country relies on oil revenues, the less likely it receives socially responsible Chinese oil investments.

Table 7.3. Host Country’s Energy Trade Profile with China and Oil Rents

<table>
<thead>
<tr>
<th>Host Country / Case</th>
<th>Energy Trade with China</th>
<th>Importance of the Oil Sector</th>
<th>CSR Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Oil &amp; Gas Exports to China/Oil Exports(^1)</td>
<td>Oil &amp; Gas Exports to China/Oil Exports(^2)</td>
<td>Oil Rents (Crude Oil Production/GDP)(^3)</td>
</tr>
<tr>
<td>Peru</td>
<td>2%</td>
<td>1.19%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Argentina</td>
<td>34.2%</td>
<td>10.2%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Colombia</td>
<td>15.3%</td>
<td>77.7%</td>
<td>8.2%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>2.3%</td>
<td>63.2%</td>
<td>19.1%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>13.6%</td>
<td>77.3%</td>
<td>26.7%</td>
</tr>
</tbody>
</table>

Source: OECD STAN Bilateral Trade Database (By Industry and End-use); World Bank Oil Rents (% of GDP) Database; Case Chapter Findings.

Notes: 1. Oil & Gas exports are calculated in US dollar value at the 2015 level from the OECD STAN Database at https://stats.oecd.org/Index.aspx?DataSetCode=BTDIXE. (with the exception of Peru for which values of exports are based on the 2011 level). 2. Same as “Note 1”. 3. Oil rents data is extracted from the World Bank Oil Rents Database at http://data.worldbank.org/indicator/NY.GDP.PETR.RT.ZS. and reflects the 2014 level.

These findings that a host country’s CSR ranking is positively associated with the weight of its hydrocarbons exports in total exports to China as well as the country’s dependence on oil revenues should be further considered in light of literature on motivations of Chinese oil investments abroad and that on CSR drivers for Chinese NOCs overseas, as espoused in Chapter 2 (Sections 3.2 and 3.3). A 2012 statistical analysis by Quer, Claver and Rienda argues that Chinese outbound investments are positively impacted by the volume of China’s trade with the recipient country.\(^{566}\)

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\(^{566}\) Diego Quer, Enrique Claver and Laura Rienda, “Political Risk, Cultural Distance, and Outward Foreign Direct Investment: Empirical Evidence from Large Chinese Firms,” *Asia Pacific Journal of Management* 29 (2012), 1090.
Other studies on situational factors in a host country that prompt or inhibit Chinese NOCs’ CSR imperatives provide more insight. For example, a 2011 World Bank report on behavioral patterns of NOCs worldwide concludes that a NOC’s likelihood of creating social values can be attributed to the host country’s resource endowments. That is, a NOC has more incentive to invest in social initiatives in a country with relatively small resource endowments.

The dilemma between rich natural resources and investors’ social performance can also be connected to observations on the role of political friendliness and China favoritism in encouraging recklessness in social endeavors. In Ecuador, the host government with an extractivist agenda leans toward Chinese oil investments in forms of both government-backed loans and commercial acquisitions and creates biases in treatment of Chinese oil projects vis-à-vis local civil society, contributing to Chinese NOCs’ undesirable CSR records. Moreover, Chinese NOCs’ worst case of CSR in Venezuela is explained by the host’s utmost dependence on oil revenues to fuel its social welfare agenda and consequential reliance on Chinese finances for such a purpose. Chinese NOCs are criticized to collude with the Venezuelan government to promote rent-seeking and corruption.

Empirical findings of the two additional factors in this dissertation supplement studies on motivational factors of Chinese overseas investments’ CSR. However, further research with a bigger scope of country cases and a more rigorous take on formal modeling/statistical analysis is needed to develop these findings into theoretical

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hypotheses. After all, correlation does not necessarily lead to causation as the observed positive relationships can be subject to various degrees of spuriousness.

7.3. Policy Recommendations and Scholarly Contributions

Civil Society Actors in Host Countries

Notably, tangible results on improving CSR in the oil industry will benefit from competency training of relevant civil society actors. As an important stakeholder group, civil society organizations in oil-rich territories must strengthen their technical and legal capacity in order to develop stronger national and transnational networks.

On one hand, local civil society groups should collaborate with national and international NGOs that share similar cause(s) while negotiating with oil companies operating in the area. Influential NGOs, according to Newell’s liberal governance literature, are critical in holding multinational corporations accountable in a global economy by forging transnational alliances with other stakeholder groups. The importance of collaborating with NGOs is further illustrated in several case studies on oil companies operating in Latin America. For example, the STAN (shareholder transnational advocacy network) analysis in Ecuador pinpoints the role of a unified indigenous network aligning with NGOs in influencing corporate agendas of two oil companies, ChevronTexaco and Burlington Resources, with local sustainability and ownership claims.


In the case of CNPC’s Block 113 in Peru’s Madres de Dios region, the local indigenous organization FENAMAD has developed a working relationship with the national indigenous umbrella organization AIDESEP. In its continuous campaign (from 2003) as the National Program for Indigenous People in Isolation and Initial Contact (PIACI), AIDESEP utilizes help from its local affiliates such as FENAMAD for a better understanding of local contexts in order to promote a state policy regarding preservation of indigenous rights as a collective reflection of local demands. In 2013, the two organizations jointly launched a round of lobby efforts against logging and natural gas activities in the Camisea region.

On the other hand, to better inform and mobilize their local constituents, civil society organizations should develop specialized "on the ground" knowledge and engage with their public and private counterparts in a collaborative and constructive manner. This is a good first step to hold oil corporations accountable in host society settings. The theoretical framework of deliberative democracy, from a constructivist standpoint, advocates for civil society actors to build dialogic relationships with businesses based on mutual benefits and complementarities while using confrontational tactics only as the last resort. Similarly, based upon rationalist calculations of cost and benefit, both the critical cooperation and win-win models pinpoint the importance of collaborative

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techniques such as technical cooperation, dialogue and consultation in assisting civil society organizations to create positive impacts on targeted firms.\textsuperscript{573}

The example of FENAMAD in Peru again illustrates the aforestated importance of collaborative strategies. In its endeavor to dissuade SAPET from drilling in Block 113, the organization worked with area experts on a critical research project to demonstrate the overshadowing social and environmental costs of oil exploration over economic benefits. In doing so, FENAMAD capitalized on its locally grounded technical and legal capacities and utilized a strategy of dialogue and participation.

Last but not least, it is imperative for civil society groups to achieve internal unity. Urteaga-Crovetto’s counter-factual analysis on Peru’s Camisea natural gas project maintains that divisions within the indigenous communities in the project zone resulted in fragile alliances, constraining civil society actors’ ability to reap actual economic benefits from the project and enabling the host government to favor extractive investments over local concerns.\textsuperscript{574} Cohesive civil society networks are instrumental in holding energy companies accountable, as indicated by a case study on Burlington resources in Ecuador’s southern Amazon region\textsuperscript{575} and a comparative analysis of oil-related conflicts in the Amazon regions of Ecuador, Peru and Colombia\textsuperscript{576}.

\textsuperscript{575} McAteer, Cerretti, and Ali, “Shareholder Activism and,” 186.
\textsuperscript{576} Patricia I. Vasquez, \textit{Oil Sparks in the Amazon: Local Conflicts, Indigenous Populations, and Natural Resources} (Athens: University of Georgia Press, 2014), 90-103.
In Ecuador, as *Chapter Four* reveals, the indigenous cause, once strong and unified in the 1990s, has now given way to internal strife and radicalization. Disagreements between local and umbrella organizations, along with endogenous differences within the indigenous society, empowered oil companies to undertake a “divide and conquer” strategy.

Through capacity building, civil society actors can shape policy changes in favor of their claims and influence political debates. That means to strategically involve corporate and government counterparts, to bring to their attention local demands and concerns, to collaboratively seek common grounds and compromises while reserving confrontational tactics as a last resort. Case study findings from this research project amplify previous theoretical works on the role of civil society actors in CSR with rich contextual details and causal-process construction.

**Host Governments’ Regulatory Frameworks**

Indeed, a vibrant and collaborative civic space imposes necessary checks and balances for corporate behavior in local settings, bringing various community demands to the light and ensuring enforcement of CSR promises. However, civic engagement is only a parcel and impermanent factor in underlying social responsibility for both endogenous and exogenous reasons. Internally, the civil society is a fluid arena, undergoing constant shifts of wax and wane, conditioned by external conditions, the most influential of which being changes in government policies and attitudes. Therefore, effective civic engagement depends on accommodating government frameworks toward the private and civic sectors respectively, as this dissertation demonstrates through its case studies and theoretical
reasoning. Expressly, a “strong and well-functioning public sphere” is pivotal in advancing a sustainable CSR agenda.

Literature in this camp embraces a consensus on the significance of government regulations in underpinning CSR. In the first place, legal instruments to impose certain environmental, labor, and human rights standards must be in place to promote socially responsible enterprises. These standards are crystalized as CSR legislations, in Vogel’s study on Western-headquartered corporations and Lozano’s examination of the EU’s political discourse on CSR. In the hydrocarbons sector where environmental degradation, human rights violation and government corruption are acute issues, Watts advocates for governments to effectuate CSR through sound legal and statutory programs. Furthermore, Frynas’ works on the intersectionality of oil development and local environment, governance, and development argue that social undertakings must incorporate mandatory elements through government policies that define corporate responsibility, furnish economic incentives for sustainability, and construct a formal legal framework for CSR.

In addition to offering CSR legislations, this line of literature also examines the kind of government actions related to the civil society. Per Banerjee’s political economy

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approach, CSR is a sociopolitical process in which the nation-states absorb demands from growing social movements and build institutional capabilities and political will to deliver rights to marginalized communities whose well-being is impacted by neoliberal globalization.\(^{584}\) Frynas’ work on oil multinationals concludes that CSR can achieve success in countries where the government is effective in delivering public goods to the minority communities where oil projects are present.\(^{585}\)

Nonetheless, scholarly works on how government regulations influence CSR either focuses extensively on legal frameworks in Western home states\(^{586}\) or categorizes the group of developing host governments as a homogenous cluster of unstable, corrupt regimes plagued by weak rule of law\(^{587}\).

Resonating with key literary findings, my project compliments existing literature by casually deducing divergences in regulatory frameworks within five developing countries that host Chinese oil investments. Important differences in host governments sequentially impact corporate behavior, informing policy suggestions in regard to hydrocarbons policies as well as policies and official attitudes toward the civil society.

First, to motivate inbound oil companies to adopt meaningful socially responsible initiatives, host governments must enact and enforce sustainable policies in their hydrocarbons sectors. Specifically, there are two dimensions that compose sustainable energy policies. One, national legislations must give autonomy to sub-national regulatory

\(^{584}\) Banerjee, Corporate Social Responsibility, 156-7.
\(^{585}\) Frynas, Beyond Corporate Social, 169.
\(^{586}\) ibid; Doremus et al.; Lozano et al.
entities in the oil and gas field. Regulatory decentralization empowers local authorities to formulate regionally appropriate measures and helps them build enforcement capacities in their exchanges with foreign oil corporations. Chinese NOCs’ experience with some Patagonian provinces in the areas of water treatment, environmental liabilities and local employment demonstrates the key role of regional entities in formulating specific CSR policies in the energy field and negotiating with corporate actors. Equally important, host governments ought to create a necessary policy environment for a liberal market on hydrocarbons, given that a fair playing ground exerts peer pressure for energy companies to proactively seek a license to operate and showcase CSR. In Ecuador and Venezuela, host governments’ favoritism toward Chinese NOCs in considerations of political friendliness and generous loans backed by the Chinese state is a vital ingredient in pivoting these companies toward reckless behavior. Therefore, competitive investment policies toward an array of domestic and foreign market participants are essential.

Second, civic regulations must capacitate rather than hinder the development of a vibrant civil society, giving equitable voices to civic vis-à-vis corporate players. Genuine empowerment means that the host government encourages civil society actors to actively partake in decision-making processes as a key stakeholder, on one hand, and allows the civil sector to autonomously form and express its own set of interests and claims in the face of oil developments. Unambiguous extractivism in Ecuador, for example, tilts the governments toward Chinese NOCs at the expense of local communities, often marginalized ethnic minorities, while civil dissidents against hydrocarbons projects are systematically criminalized and dealt with harsh penalties. In Argentina whereas Chinese NOCs demonstrated high CSR commitments, actual enforcement is inevitably
compromised because a dual legacy of Peronism and neoliberalism has left the Argentine civic space highly politicized and squeezed by clouts of personalized political leaderships. Among the five countries under investigation, Peru stands out via its government’s accommodating policies toward the indigenous populations, as exemplified by the acclaimed Ombudsman’s Office and the unprecedented Law of Prior Consultation.

**Corporate Social Responsibility in the Broad Subject of China-Latin America Relations**

Scholarly works on the subject of the relationship between China and Latin America started to proliferate since the late 2000s. At the beginning, projects focus exclusively on general trade and investment patterns as well as geopolitical implications of the newly developed relationship, entertaining with big, thorny questions such as, “Is China a benevolent partner for Latin America?”, “Is China contributing to a primarization trend of economies in the region?”, “How important do geopolitical calculations (Taiwan, the U.S.) weigh in China’s insertion into Latin America?”. In all cases, China is treated as a homogenous unit, encompassing the government, its various economic agents, and cultural ambassadors, all of which collectively initiate partnerships with their counterparts in the region in search for primary resources, manufacturing export destinations, diplomatic recognition, and sociocultural exchanges. In other words, early analyses mainly tackle country-level interactions.

Later works on the subject study the sub-national dimension such as corporate governance, firm performance and firm-civic engagement. The most prominent example is a rich pool of field research projects conducted by the Boston University under its Global Economic Governance Initiative (GEGI) on various Chinese investments in Latin
America. Summarizing country findings based on eight Latin American countries, GEGI’s final rapport makes a list of best practices established by Chinese companies in upholding sound labor standards, adhering to environmental preservation, and celebrating indigenous rights. Uniquely informative to students interested in learning on-the-ground facts about Chinese involvement in Latin America, the GEGI case studies offer insights on a range of industries such as manufacturing, power generation, mining and hydrocarbons. The nature of these reports is to furnish policy recommendations for all stakeholders involved, including: the Chinese government, Latin American governments, Chinese investors, and Latin American civil society.

Tackling the theme of corporate social responsibility in the oil industry in five South American countries, my dissertation adopts a narrower scope. Meanwhile, the project is also more extensive and systematic by incorporating theoretically informed hypotheses with accordingly designed case studies. Specifically, it scrutinizes the effects of host government regulations and civic engagement on CSR performance through comparative case studies and within-case process tracing. Its structured method and rich empirical narratives thus make valuable contributions to the emerging field of China-Latin America studies.

In addition to enriching academic knowledge on sub-national phenomena in the general literature on China-Latin America relations, this dissertation project also makes an attempt to bridge micro-level firm performance with country-level macroeconomic trends, by establishing a positive link between a host country’s reliance on oil exports and those destined for China, on one hand, and Chinese NOCs’ CSR records in the said country. Due to limitations on length and a resolution for sharpness and focus, this
undertaking does not delve into constructing causal mechanisms between the two factors. Such an enterprise will be a worthy topic for future scholarships.
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