THE POLITICS OF SOUTH-SOUTH INVESTMENT
CHINESE, BRAZILIAN, AND RUSSIAN INVESTMENT INTO THE EX-COLONIAL WORLD: THE POLITICS OF SOUTH-SOUTH INVESTMENT

By ALEXANDER MOLDOVAN, B.A.

A Thesis Submitted to the School of Graduate Studies in Partial Fulfilment of the Requirements for the Degree Master of Arts

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TITLE: Chinese, Brazilian, and Russian Investment into the Ex-Colonial World: The politics of South-South Investment

AUTHOR: Alexander Moldovan, B.A. (York University)

SUPERVISOR: Professor Alina Sajed

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Lay Abstract:

The goal of this thesis is to explore the relationships that Brazil, Russia, and China have with the developing world. Specifically observed is the relationship that the governments of Brazil, Russia, and China have with domestically owned private capital to facilitate investment into Africa, Latin America, and Asia. The argument made is that these state-to-private sector relationships in the domestic economies of the case countries perpetuate new forms of colonial relationships abroad. Investment and inter-state relations are the areas examined to make this case. From the perspective of my problematic, my contributions to scholarship include: an analysis of changes in the Brazilian financial sector in 2005 and 2014; an analysis of Russian multinational corporate revival post-2014; an analysis of Chinese investment patterns; and a theoretical insertion of uneven and combined development into the study of the contemporary relations of developing areas.
Abstract:

The major emphasis of this thesis is on the state to private sector relationships formed at a domestic level of each case study. The developmental trajectories of these relationships in China, Russia, and Brazil are examined through the beginning of the 2008 crisis to 2014. As argued below, these relationships are determinant in the ways in which local capital and state power transplants and reproduces in the ex-colonial world. To examine these relationships, this thesis offers a re-conceptualization of dialectics and the theory of uneven and combined development in a broader Marxist ontology of international capitalist political economy. In analyzing state-based methodologies of transnational firm movement, this thesis speaks to gaps in critical political economy concerning the contemporary characterization of Brazilian, Chinese, and Russian investment into the ex-colonial world. This course of argumentation is propelled by new discoveries within an analysis of secondary OECD and firm data. Macro investment data is used in conjunction with data gathered from financial and non-financial firms in Brazil and Russia. The allocation and movement of financial and productive resources is traced in this way. Legal policies and structural mechanisms of state agencies such as development banks and export credit agencies are explored. In analyzing these two factors in the relationships Brazil, Russia, and China have with the ex-colonial world the case is made that the underlying feature is one of neo-coloniality.
Acknowledgements:

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Chapter 1: Rising Economies and Transnational Political Power

1. Introductory Remarks

International financial and economic governance has drastically changed and opened up since the outset of the Global Financial Crisis (GFC) in 2007, as new state actors are exerting more and more influence into governance bodies. In the immediate aftermath of the GFC, states like Brazil, Russia, and China have experienced growth rates furthering the development of diversified trade and investment patterns internationally. Explosive growth from certain states in the developing world has given way to a reshaping of international economic institutions. Formal and well established institutions like the International Monetary Fund (IMF) and the World Bank have seen a shake-up in their voting shares. Traditional western informal governance clubs, such as the G7, have been eclipsed as new clubs, the G20, have been established to bring in these new emerging states. At the same time, an alphabet soup of formal and informal governance institutions between developing states has emerged, BASIC (i.e. Brazil, South Africa, India, China), BRICS (i.e. Brazil, Russia, India, China, South Africa), and BIC (i.e. Brazil, India, China) are just a few examples.

An awareness of the increasing role of emerging countries in the contemporary global political economy by the scholarly community has led to serious discussion as to how these emergent states are interacting as a part of these new groups. Overall, there seems to be a vocal consensus that these states

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are not only changing the composition of existing groups and creating their own, but are en route to changing the very foundation of world economic order. Marion Fourcade, for instance, argues that the creation of the BRICS as a southern block of states acts to “reorient the governance structures of the world economy away from the traditional stronghold of Europe”\(^3\). While observing the increasingly prevalent role of the G20 rather than the G7 in informal governance, Robert Wade notes that “the world economy has shifted from “unipolar” toward “multipolar””\(^4\).

From the same analytical focus as the two previous authors, Philip Golub claims that “[s]ystemic change at political level is evident” but that “[t]he politics of re-emergence has lagged behind economics”\(^5\). Golub’s borrowing from world system approach calls into question the place of anti-colonial ideology, and “Third Worldism” more generally, given an abrupt change in the international political economy. Here he isolates two interesting phenomena that emerging powers face in the world system. On one hand, uneven economic development coupled with asymmetric impact of the crisis is catapulting emerging BRICS states into the upper reaches of political economic governance while, on the other hand, the institutions they have formed and worked to reform only represent a faction of the ex-colonial world.

Echoing this contradistinction, Padraig Carmody explains the BRICS phenomenon as “simultaneously progressive and exclusionary”\(^6\) in that “tensions [arise] between reform, co-optation and regression”\(^7\). In a non-static global economic governance environment, the particular conjunctures faced by states that liberals conceive as middle powers, world systems theorists’ term as semi-peripheral, and as some Marxists label sub-imperialist deserve a particular attention for their role in the international system. Specifically, the interactions between these emerging economies in relation to the rest of the ex-colonial world is a pertinent one that deserves further study.

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\(^3\) (Fourcade 2013)
\(^4\) (R. Wade 2011);
\(^7\) Ibid
The scope of this thesis focuses on the relations between the cases of Russia, Brazil, and China with the larger developing world. These states and the localized or national economies within their boundaries are particular parts of a changing world order that scholarship is increasingly recognizing. Contemporary scholarship is beginning to address the impact of the BRICS on world order. Two commentaries run like a thread through the contemporary study of the BRICS. First, is that there is a need for a more systematized study. Flowing from this there is a need for analytical nuance in touching upon the asymmetry of the actors within the BRICS grouping. Given the need for particularity and systematization, each case study is a chapter in length and focuses on the localized experience of that particular case in relation to the broader global south. The section below traces the parameters of the inquiry. Section 3 is devoted to observing the uneasy whole that is the BRICS mechanism. The rest of the chapter focuses on the theoretical conception of the inquiry itself followed by a review of pertinent literature.

2. Hypothesis

The focus of this thesis is to observe whether this exchange is a movement towards inter-South solidarity or whether this economic and political interplay is merely a replication of existing North-South relationships of domination. If either case applies, what this research seeks to elucidate is the conditions under which these relationships manifest themselves. These relationships need to be studied in regards to how relations of power manifest in bilateral as well as multilateral investment and trade engagements. To concretize and historicize these transformative trends, this thesis narrows in on the relationships between Brazil, Russia, and China with other emerging economies in the developing world.

While each BRIC country is unique, they all occupy this precarious middle position in global political and economic governance. They occupy, or have occupied the discourse of harbingers of redistributive
third world prosperity while they position atop the lists of rapidly developing and industrializing states. Moreover, each of these states has emerged from clear cut developing economic positions characterized by conditional IMF lending, donor state status, and industry and financial dependence on first world money centres.

Escaping the structural vice of western capital, Russia has pursued a policy of state-based economic dirigisme to push past conditional lending and donor status. Brazil, following the election of the first Workers Party government, has accelerated trade and growth rates and has become a large investor abroad. The Chinese economy is the second largest in the world having had some of the most remarkable growth rates attained by any state in the past 100 years. Chinese policy has capitalized on economic openness to facilitate the development of well formulated mechanisms for externalization. A global Chinese reach in trade and investment has drawn a lot of attention to China’s accelerated importance in the global economic system: therefore, raising questions surrounding relations of power between it and other states/economies. Following very similar state-based market support strategies, albeit with nuanced policy deviation, each state is in transcend stage of movement, rising above their former positions in the international system.

The collective imaginary of the BRICS demonstrates a discursive opening towards a pluralistic conception of power within the international political economic order. Each one of these cases touches a contradictory discursive space between the bountiful, redistributive reformer and the emerging, rising power. I am going beyond these two hopeful ideals and touch on the historical and material space of each case in their own contemporary development and interaction with the ex-colonial world. A preliminary hypothesis was based on research concentrating on dynamics of externalization of each localized capitalism, that is, in observing the state to private sector routes of financial interaction. While cognoscente that the processes generated from the interaction of the cases with the former colonial world have not assumed stable forms, my preliminary hypothesis was that Brazilian, Russian, and Chinese engagement in the ex-colonial world exhibits neo-colonial qualities. In exploring the processes exhibited
in each case, the nuances and degrees of variation underscored core similarities with systems of western domination.

By straying away from collective generalities generated by the BRICS image and focusing on particularistic qualities of each case, I found that each rising power constructed a regional juridical-legal space. These spaces underscore the directionality of investment, signifying strengthened transnational bonds which overcome localized legal market boundaries. These spaces come from the methodologies of state-sponsored externalization mechanisms which create avenues for the de-territorialisation of locally owned capital. Whether this occurs to create export consumer markets or to facilitate the international transplantation of rising power capital is a secondary matter in relation to the question posed. What this research has found is that Brazil, China, and Russia utilize similar state-based governance mechanisms as the west along with state-to-industry financing mechanisms to created scalar hierarchies of increasingly exclusive economic space. Assortments of bilateral and multilateral trade, investment, and security legal mechanisms that are emblematic of American or EU imperialism are replicated. Simultaneously, state-centric methods of appropriation such as export credit agencies, state-owned banks, and state-owned corporations are utilized to perpetuate firm-level externalization into the ex-colonial world.

The particular development of each case raises the natural question as to the cohesion of the collective. The forms of externalization in the unity of the BRICS collective mechanisms is not explored in this document due to spatial constraints and the relatively new nature of the BRICS New Development Bank and Credit Reserve Agreement. Below, I delve into a more thorough discussion of the theoretical framework guiding my argumentation. To preface it, the way I attempt to ontologically set the basis to solve my guiding question blurs the line between trade and investment research to arrive to a more holistic conception of created legal order. Existing research in each realm has extrapolated a need to do so. Daniela Donno and Nita Rudra, for example, focus explicitly on BRICS trade, yet they make a fair point relating to the paradox of rising power interaction in the 21st century. They claim, “the BRICs are fundamentally changing the shape of the world economy and paving a path toward greater global politico-economic
stability”\textsuperscript{11}. How BRICS states re-mould global governance to create a stability suited for them depends on particular internalized mechanisms of externalization or international structural reform that comes from within. These mechanisms which build domestic MNC, propel both investment and trade forward. The base-point for this spatial reshaping and creation is within the political economic movement of each state. The syncing of three particular national movements to do this internationally has implications for international political economy in particular and international relations as a whole. In this sense, the BRICS image represents much more than the sum of the parts, however, each state contains its own movements with highly particular implications for scalar spatial order and South-South relationships.

3. **The Dialectics of South-South Capital Accumulation: Actor Shaped Systems**

This thesis examines the political foundations of transnational social relations that create capital movement from Brazil, Russia, and China into the former colonial world. These relationships will be examined from the perspective of actor-structural creation emanating from a class analysis of a political regime’s relationships with private capital. The actions of transnational firms that are nationally based create micro-, mezzo-, and macro-level changes on world order. In lieu of a broader class analysis, this thesis is focused on the relationships between firms and the home state as it evolves through crisis to propagate scalar patterns of governance throughout the former colonial world. The effects of the economic crisis on each case is briefly discussed within Chapters 2, 3, and 4. Chapters 2 and 3 delve into a more elaborate analysis of the domestic economy where crisis and class conflict are examined in regards to the alterations of existing state-to-bourgeoisie relationships. To examine the broader relationship between the case countries and the former colonial world, a Marxist conceptual framework building upon class analysis is used.

The set of tools provided by Marxism are ontologically grounded in dialectics applied to the material world. Contemporary scholarship on dialectics in international relations has worked to reposition

\textsuperscript{11} (Donno and Rudra 2014)
dialectics as logical tool for an analyses of the international change. In turning this logic to IR, Erika Cudworth and Stephen Hobden remark that, “[r]eality in dialectics is seen as in a state of perpetual flux, and part of dialectical analysis is the attempt to understand those processes of change. Furthermore, several accounts of dialectics indicate that it provides an attempt to grapple with the essentially chaotic features of the world.” In taking reality to be in flux, a dialectical approach bases itself on a series of principles that are widely contested. In grounding a dialectical materialist approach to analyze a class based subject network, this thesis utilizes a narrow definition of the features of dialectics. A dialectic approach includes three primary features: a unity of contradictory forces in a universal/systemic as well as in a particular sense; change as an expression of antecedent contradictory forms; and change as a transition from qualitative features into qualitative ones or vice versa.

The “dialectic recognises contradictions as the source of change,” as Benno Teschke and Can Cemgil point out that, “[t]hese contradictions are general existential properties of social relations. They arise from the simple ontological premise that phenomena as abstracted by human beings are non-identical with other phenomena.” Contradictions in the social world is what produces social change. Noting the body of structural dialectical work in IR that vacuums in all change to macro level processes, Teschke and Cemgil express a need to move past an ontological starting point set at a level of analysis in addressing social structural change processes through an agency-based analysis. In other words, particular images must be accounted for in a universal mural of changing processes.

13 Ibid 627
14 Teschke, Benno, and Can Cemgil. 2014. "The Dialectic of the Concrete: Reconsidering Dialectic for IR and Foreign Policy Analysis." Globalizations 11 (5): 616.; He also posits that, “while non-dialectical approaches deal with contradictions logically, dialectics sees contradictions as inherent in the complex existence of social life, and unlike non-dialectical methods it does not hold that abstractions require purification from their concrete contradictions in ideal-typical ways. On the contrary, dialectics sees contradictions as constitutive of the concrete existence of any phenomenon. While non-dialectical views recognise only formal-logical contradictions between two logical propositions, dialectics deals with real contradictions in the concrete relations between human phenomena, which resolve themselves over time in unpredictable ways, instead of wishing them away.” (Teschke and Cemgil 2014, 612).
15 (Teschke and Cemgil 2014, 620)
Shannon Brincat understands dialectics as a “way of thinking—or what, I believe, is best regarded as an approach—that understands things through their own development, change, and movement and in their relation and interconnectivity with all other things”\textsuperscript{16}. Interconnectivity is the recognition of a plurality of complex actor-to-actor interactions. In the realms of these actors’ micro-level interaction, “imperceptible changes will at some point translate into a change of attributes”\textsuperscript{17}. Thus, forms evolve in attributive and/or numerical ways within the context of complex interaction.

Ontologically, the larger analysis of this thesis focuses on the interaction between the state and the private-owned nationally lodged economy. Below is an outline of the conceptual variables segregated by social form and function. The state is conceptually divided in A) its role as coordinated armed agent of internal and external force, B) its role as a legislative entity that preserves juridical-legal stability internally and externally, and C) its role as an appropriating force within the economy. The state in all three capacities is assumed to take on a rational, and purpose oriented existence. This purpose can be drawn from the movement of state policy. Policies in all three respects evolve on an antecedent basis with varying degrees of coordination that works in conjunction with other actors to facilitate systemic well-being. While the state in the first instance remains important, in fitting within the purpose of this thesis only the latter two instances are explored. That is, the role of the state in the economy as an agent of appropriation and its role in juridical-legal coordination for the benefit of national capital domestically and abroad.

Along with the state in these respects, private capital is also observed as an interconnected network of actors. I adopt a Leninist framework for imperialism as a state-lead movement of finance capital abroad. In dividing the state along two axes, I also divide the concept of finance capital into its two component parts: bank based capital and industrially based capital. Lenin’s original unity of the two came as a

\begin{flushleft}
\textsuperscript{17} (Cudworth and Hobden 2014, 365); Cudworth notes this concept of quality into quantity and vice versa is expressed as a “tipping point” or “phase change” in complexity theory. I may add that this concept arises in physics as “phase transition,” in statistics as a “power law” and in evolutionary biology as “punctuated equilibrium”.
\end{flushleft}
conceptual extrapolation from the actual environment of the development of capital in western Europe at his time of writing. While the term still applies, the conceptual components rooted in the reality of each case interface with the state and with each other in unique dynamics. To concretize the concepts of the state as an appropriator functioning in a market with bank capital and industrial capital, I employ Marxist conceptions of the firm as an agent within a market\textsuperscript{18}. While the state simultaneously creates the juridical legal mechanism of the market (regulation, infrastructure, etc.) it also intervenes in the market through its own firms based in finance and production. The coordinated, as well as uncoordinated, actions between these three actors in their various functions (expressed as state policy or as a firm initiative to further seek profit) are the variables which I consider to understand the movement of a localized capitalism within Brazil, China, and Russia to the abroad.

The way these variables mutually engage is to construct a system of state-led neodevelopmentalism\textsuperscript{19} which has particular methods of externalization. Constructing a systemic problematic of social interactions may seem to run counterintuitively with Teschke’s and Cemgil’s polemic regarding an over-focus with “the reproductive circuit of capital”\textsuperscript{20}. While this seems to be the general sum total of the interactions between the variables observed, the reproduction and maintenance of this political economic movement comes from the complex choices and decisions of the actors observed in their dynamic intercourse during a long period of extra-variable systemic crisis.

I marry an analysis of the mutual intercourse of the social variables listed above to a broad extrapolation of Marxist concepts inherent to the functions of the state and capital from a neo-Leninist

\textsuperscript{18} This is rooted in post-War American Marxism of Baran as well as the Eurocommunism of Poulantzas and the dependentista Marxism of Cardoso. Firms are interesting from the perspective of a dialectical analysis because they embody their own sets of contradictions while they engage with contradictory interaction with other actors they come into contact with.

\textsuperscript{19} We can observe neodevelopmentalism as the sum-total political expressions of state-based, pro-capital systems of accumulation. The formation of these systems is briefly traced in each chapter. A more contemporary political understanding of the general body of these policies can be found in 2010. "TEN THESES ON NEW DEVELOPMENTALISM." Sao Paulo School of Economics of Getulio Vargas Foundation. September 29. Accessed December 16, 2015. http://www.tenthesesonnewdevelopmentalism.org/, although this document is comprehensive a general explanation of neodevelopmentalism as I’ve defined it leave room for case variance

\textsuperscript{20} (Teschke and Cemgil 2014, 617)
I use the term externalization mechanisms to encapsulate a research focus that is set to observe actors constructing systems that are designed to penetrate consumer markets and labour markets abroad. As such certain precise elements of the process itself are intentionally glossed over. For example, the conceptual type of dependence perpetuated in each case remains as a grey area in lieu of a broader understanding of the networks of external movement of a locally concentrated capitalist circuit. To make sense of these networks as systems of interaction that facilitate a certain spatial creation abroad, I employ a newly re-developed historicist Marxist conception of development.

Over the past several years there have been several meta-theoretical discussions on the utilization of the theory of uneven and combined development (U&CD) in International Relations to provide a sociological and historically rooted explanation for the international and geopolitical. Reading U&CD from a sociological perspective and bringing it to bear on IR is also useful for carving a path beyond methodological nationalism. This theory provides a Marxist explanation for asymmetrical fragmentation and uneven development around the world. Moreover, this provides a nuanced perspective from which

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21 The creation of dependence largely depends on which firm-actors need to do what to expand and to grow. In this sense, Leninist, Cordosian, and Poulantzian forms of classical imperialism, industrialized dependence, and internalized bourgeoisie creation is evident simultaneously within each case.


23 (Sassen, Elements of a Sociology of Globalization 2007, 23-32) illustrates the capacity of disciplinary sociology to do this quite well.

to observe South-South engagement that brings in historical specificity into a general discussion of crisis and development.

Political scientists concur that development is “uneven,” this concept is used here to examine the implication of a globalized world where unevenly developed localities are interconnected. U&CD was first articulated coherently by Leon Trotsky to explain the conditions of development that lead to the 1917 revolution in Russia. The bare bones of this theory illustrate that territories which experience capitalism in a belated fashion experience it, and along with it class relations in general, in a different way from those which organically experienced a semi-linear transition from feudal forms of state and society into capitalist or bourgeois forms. In a context where political forms that adopt capitalist relations of production later, and in asymmetry, to other forms Trotsky makes the argument that a statist response is necessary for indigenous development. This state involvement results in coordinated production which, as he argues, is warranted to overcome previous economic forms of production by developing paces of capital growth that outpaces those forms.

Brincat explains the seminal place of the relation between the concepts of Lenin and Trotsky and a dialectical approach to post-colonial IR quite lucidly. She explains:

Lenin (1950) offered both an explanation for international war through capitalist expansion and a new form of capitalist expropriation that linked finance capital to colonialism. Trotsky’s analysis of uneven and combined development—how states developed independently, in ways that are quantitatively unequal and qualitatively different, and yet in relation to each other—was also instrumental in grounding a theory of IR and International Political Economy that were openly dialectical (see Trotsky, 1931). Lenin and Trotsky demonstrated the keen potential for a dialectical analysis of global social forces that combined economic, imperialist, colonial, and state processes.

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28 Ibid
Bearing in mind that there have clearly been changes in terms of state policy practices that facilitate this externalization, it exists as a policy movement emanating from the relationship of the state to finance capital. Lenin illustrates legally defined colonial entities and colonial governance policies of his time to facilitate a specific pattern domination catered to the needs of politically distinct capitalisms. Since the 1960s we have observed an alteration of forms of policy that secures external territory for foreign capital reproduction that has come as an adjustment to the wave of class struggle that lead political decolonization. This thesis traces changes in state policies that form institutions which shape the upper layer of national capital’s territoriality in the post-crisis period. The international system changes as new forms of juridical-legal scalar governance take shape under the foundations of the dialectical movements of the social interaction between these particular states and the particular firms they support.

Trotsky’s theory of development entails externalization and replication in a given mode of production from the perspective of the movements of a social structure’s actors while giving adding depth to state functions. In the cases examined, uneven asymmetries in sectoral development and capital allocation create porous market openings for commercial activity to take place. The combination of socio-economic space within a transnational political framework occurs in how states interact with national capital. The kind of transnational political framework shapes the reaches and purpose of national capital in any given locality where it is granted space, finance, and security prior to entrance.

State-to-state policies create transnational political frameworks for the expansion and reproduction of capital by establishing malleable governance hierarchies. Treaty systems that secure investment, make returns profitable, gain and facilitate the access of investment, and secure private property itself perpetuate an extended reach of neodevelopmental capitalism. While state-to-firm supports through export financing, lobbying, deal making, tariff and tax reduction, and complex legal mechanisms of sub-leasing enables, in varying sense, stable market environments for a state-to-private sector regulated externalization process to occur.
I regard Brazilian, Russian, and Chinese processes of engagement with the developing world as a largely unfinished project mid-development. Certain features of their imperialism and perpetuating dependence can be distinguished from classical mediums for understanding imperialism embodied in Lenin and traditional understandings of dependent industrialized development. The chart below summarizes a few of broad typological distinctions. It is meant to briefly provide clarity as to the further use of concepts and terms utilized in this thesis.

*Figure 1: Characteristics of New Coloniality*

<table>
<thead>
<tr>
<th>Concept</th>
<th>Imperialism</th>
<th>Dependency</th>
<th>New Coloniality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flow of capital</td>
<td>Advanced to underdeveloped areas</td>
<td>Underdeveloped to advanced</td>
<td>Properties of both</td>
</tr>
<tr>
<td>Multilateral</td>
<td>None</td>
<td>Structure tuned to western</td>
<td>New structuration of capital flows</td>
</tr>
<tr>
<td>Institutions</td>
<td></td>
<td>investment</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>Private banks</td>
<td>Private banks</td>
<td>Public institutions</td>
</tr>
<tr>
<td>Intermediation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependent</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Industrialization</td>
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<td>in Host</td>
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<tr>
<td>Control and</td>
<td>In Home</td>
<td>In Home</td>
<td>In Home</td>
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<tr>
<td>ownership of MNC</td>
<td></td>
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</tr>
</tbody>
</table>
The terms imperialism and dependency are utilized frequently throughout this thesis. While no attempt is made to appropriate and reconfigure their original meaning, I utilize them in light of changes in the political economic interplay between finance capital and the state. These terms, as I utilize them, may implicitly stray in their original meaning in the text below within the typological limits described above.

In addition to this, U&CD escapes domestic level reductionism while accounting for multifaceted historical processes that are generally ignored in inter-state anarchy explanations within Neo-Gramscian, Realist, and Neo-Weberian historiographic literature. This theory allows for a conceptual bridging in accounting for the development of Brazil, Russia, and China as non-static forms engaging with other entities. The dual processes of unevenness and combination simultaneously account for the movement of capital to compete and invest in the ex-colonial world while giving these states, and the capital within them, a certain relative agency vis-à-vis western states and capital.

4. Literature Review

The section above discusses the parameters of the areas in which a Marxist analysis may prove to shed better light on the relationships Brazil, Russia, and China have with ex-colonial states. This section briefly outlines the surrounding literature with a commentary on the theoretical gaps observed in existing perspectives. Mainstream IR literature that speaks the most to south-south relations exists in world systems theoretical approaches. These approaches, however, have ontological deficiencies. In their structural over-determinism, the way actor-networks shape the structuration of political interaction is lost. Systematic yet actor focused analysis congregates around Gramscian IR and dependency theory. These approaches shed light on mezzo-level shifting structural processes, but are conceptually clouded by theories of sub-imperialism and unequal exchange. Finally, mainstream economic literature that observes

\[\text{Callinicos and Rosenberg 2008}\]
\[\text{Ibid; (Green, Beyond Coxian Historicism: The 19th Century World Order and the Promise of Uneven and Combined Development 2014)}\]
South-South trade and investment policy include third world realist approaches, varieties of capitalism perspectives, and liberal economics will be discussed below.

World systems theory observes secular trends in the world-system to comprehend social change in the world-economy and world-political order\(^{31}\). The theory states that world systems are in perpetual motion where change is determined primarily through breaking-points in a various assortment of cyclical patterns\(^{32}\). Within broad up and down movements of political and economic cycles there is also a dialectical approach that generally circulates between state action and capital accumulation\(^{33}\). While these abstract constructions present coherent formulations for systemic change, the \textit{a priori} attachment to macro-level change conditions the criteria for actors capacity and decision making. It is thus ontologically limiting. World-systems approaches are methodologically influenced by early Marxist approaches concerning historical process and geographic diversity and their methods influence latter work. This focus of the cycles themselves, within world-systems theory, leads to a methodological approach which maintains the construct more than shed light on processes that give way to development\(^{34}\). In regards to this macro-level orientation, world-systems approaches are limiting in observing constructed networks that feed into the multiplicity of South-South relations.

Gramscian IR introduces a host of conceptual tools which they use to understand the development of world order which can be useful in observing South-South relations particularly. It can be generally split into two streams that apply Gramscian concepts (i.e. hegemony, war of movement, war of position, consent/coercion etc.) in different ways. The Amsterdam school applies Antonio Gramsci’s theoretical concepts in a mezzo-level network to observe capital reproduction and state formation. Coxian


\(^{33}\) (Arrighi, The Long Twentieth Century 2010)

Gramscians utilize Gramsci to elucidate a juridical-legal order in international relations that crystallizes structural power. The Coxian application of Gramscian concepts to IR retains a highly structural formulation that solidifies world order into an inter-state legal structure that is reminiscent to problematics in neorealist approaches.

The Amsterdam school adopts an approach that traces bourgeoisie network to define structuration. This network focus conceptually de-territorializes and homogenizes the bourgeoisie as a class. The conception of the state brackets out intervention; withstanding, its function in opening juridical legal market space. In this sense, different states defend the material interests and systemic expansion of one bourgeoisie. While their overall approach remains fascinating, their conceptual framework lends itself to a similar cyclical repetition reminiscent of Coxian IR and world-systems approaches. To be clear they argue that their conception of class has utilized the state system to displace and absorb “contender states” which seek to advance a section of inward looking capital. Kees van der Pijl, along with others, contends that this dominance creates waves of contention, displacement, and absorption which works to reinforce the power of this Atlantic based capital. This path dependent logic, which overly simplifies capital-to-state relationships makes it difficult to analyze contentions in the political economy. The approaches sketched out above have fundamental ontological deficiencies in their over-structuration of reproduction mechanisms within the world-system and a lack of conceptual focus on the policy/political interactions between actors.

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36 (Green, Beyond Coxian Historicism: The 19th Century World Order and the Promise of Uneven and Combined Development 2014); (Green, Uneven and combined development and the Anglo-German prelude to World War I 2012)


In addition to these paradigmatic approaches to the study of South-South interactions there is a rich body of literature that adds to my theoretical construction. Celso Furtado and Fernando Henrique Cardoso produced a theoretical foundation that is grounded in actor-state relationships to articulate a cohesive theory of underdeveloped political formations. This, coupled with a coherent theory of the capitalist firm as a unit in a dependent economy leaves conceptual room for analytical variance on the internal structuration of dependent economies. The implication of their conceptual additions are that we can expect to see different arrangements that bourgeoisie owned firms interact with the state and translate these interactions transnationally through network ties between dependent formations and each other as well as with the developed formations. These arrangements touch a firm’s sectoral involvement, their employment arrangements, their securitization of liquidity, loan conditionality, and their ownership as they vary over space and time. Thus, there are many elements to draw from dependency theory’s concern with the relationships between the state and different forms of private ownership that make all facets of dependency theory relevant, methodologically and ontologically, to the understanding of South-South relations on a capitalist basis. It is through these concepts that build on a trajectory of Marxist theory where a conversation on South-South relations becomes a debate.

Within this contemporary scholarly discussion two problematic concepts that are integrated into the body of work surrounding under-development are often utilized. The lack of fluidity and structural over-determination in contemporary applications of sub-imperialism and unequal exchange constrain a

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sense of actor inspired change in the interconnected totality of the world economy\textsuperscript{43}. Sub-imperialism is a conception that builds on Lenin concept of multiple imperialist processes, but one that sees devolution of authority by a central imperialism to others to govern over regions\textsuperscript{44}. This attempt at understanding world order was developed in the context of declining US presence in many parts of the global south during a period of tension in the Cold War during the 1970s. Its foundations are theoretically rooted in political economic functions of dependence that are no longer as clear cut as they were in mid to late 1970s.

This brings us to the theory of unequal exchange, as articulated by Samir Amin and Arghiri Emmanuel, specifically addresses dependent, axial, political economic relationships. Tracing upon the works of Amin as a more comprehensive expression of the theory, unequal exchange asserts that due to differences in technique and technology underdeveloped ex-colonial states will face chronic and cemented imbalance of trade vis-à-vis ex-colonizer states\textsuperscript{45}. This line of reasoning runs counter to the notion that states experiencing belated capitalist development can jump forward. This theory, although developed in the context of the 1970s, provides the bedrock assumption for contemporary concerns regarding the evolution of the international trade regime\textsuperscript{46} solidifying these differences through GAT, TRIPS, TRIMS, and BITS. Given the effort by Northern states to tighten patent protection and preserve monopoly on technology through legal means we must ask: is this working to preserve a system of unequal exchange?

Despite the natural state of uneven exchange perpetuated by technical and technological deficiencies being exacerbated by an increasingly constrictive international legal framework Brazil,
Russia, and China are still making the leap. They do so in two ways. First, international legal frameworks are constantly being circumvented by an increasingly large shadow economy, which is estimated to be worth $10 trillion\textsuperscript{47}, where the dissemination of technical and technological expertise operates apart from enforcement mechanisms enshrined in inter-state treaties\textsuperscript{48}. Secondly, innovation and the concentration of capital, two phenomena that should not be happening if unequal exchange is rooted in the world economy, is taking place in these states. Brazilian firms, such as steel giant Gerdau has been so successful in its operations that it has rapidly expanded across the US market, most likely agglomerating American educated engineers into its ranks. Firms like Embraer are adding high value manufactured products to the export composition of the Brazilian economy\textsuperscript{49} while cornering the African airplane market\textsuperscript{50}. Russian state owned oil and gas corporations compete with western firms in the third world. In focusing on hard trade disparities that stem from supposedly insurmountable technological and technical backwardness, unequal exchange tells us relatively little about mechanisms of firm/capital development and expansion; thus, making it inapt to deal with global asymmetries however they axially present themselves. The premises of sub-imperialism and unequal exchange that revolve around a momentary political structural locking based on technical differentiation between different loci of capitalist development is no longer as valid for use today as it was 40 years ago. Frankly, I am sceptical to see a fusion of unequal exchange with an approach that seeks to observe multiplicity in development; however, this is a point of contention within the literature\textsuperscript{51}.

\textsuperscript{49} Mulder, Nanno. 2009. \textit{Weak Links Between Exports and Economic Growth in Latin America and the Caribbean}. Series, Santiago, Chile: ECLAC.
Differing paradigms in international relations soak up other areas of political science and social theory to add to their constructs. Hybrid epistemologies created from this shed light on different aspects of South-South interaction that may help to elucidate specific concepts in the theoretical argument that I make above. Certain strands of critical IPE have been informed from varieties of capitalism (VoC) approaches to construct analytical structures. I maintain that VoC approaches generally have difficulty in “sorting” third world states into non-clear cut, ideal-typical varieties. When they are able to, it remains difficult to compare them. Contemporary VoC modeling also does not account for specific parameters of state configuration where Brazil, Russia, and China can be easily classified. This is again because of the particularities of the gross state involvement in the economy that exists beyond regulatory capacities outlined within the parameters of what is considered a liberal market economy or a coordinated market economy. When the state plays such an appropriating function in the economy it takes on a character of its own that cuts across these paradigmatic creations. To avoid limiting the agency of the state in the reproduction of capital abroad I ontologically separate the functions of the state threefold in terms of legal, security and economic functions. Analyzing these three functions of the state in relation to the trajectories of firm external movement determines the feature of the social character of Brazilian, Russian, or Chinese capitals’ interaction with the former colonial world. This methodologically deductive approach enables the contours of the structuration of South-South relations to outline itself. In addition to my general observations for the limited applicability of a VoC approach to these three cases, there does exist a body

52 While Gill’s structural neoliberalism cuts across a notion of VoCs, the constructions of Cox, Marini, Gunder Frank, Arrighi and Wallerstein are dependant upon variance in the international political economy.
53 I put forward that this is the same dilemma faced by Weberian ideal-typical constructs from this
of scholarship that is wary of its application to the non-West in general due to a plethora of nuanced reasoning stemming from the nature of non-Western capitalist development\textsuperscript{56}.

Third world realism deduces the interests of third world states “on the basis of [post-colonial states’] inherent political and economic characteristics”\textsuperscript{57}. Theoretically, it expresses a realist perspective through the eyes of third world states. This stream of neorealist IR actually has a lot to say in respect to how South-South political forms and firms interact, from a policy and discursive perspective. Leslie Elliott Armijo and Saori N. Katada push the neorealist analysis into the realm of financial statecraft. While my analysis explicitly stays away from systemic challenges, its onus is on the state as a legal entity that exercises policy which establish semi-systemic patterns of externalization\textsuperscript{58}. Theirs is a conceptualization of a function of the state as a policy actor which actively challenges and shapes inter-political and inter-economic processes. I echo this notion with the addition that the direction of policy is relational (shaped by, while shaping for) the political economic circuit of the economic development function of the state discussed above.

Lastly, there is a whole host of regional integration literature that observes policy tools of third world states as a market unification and extension process\textsuperscript{59}. This literature opens the door to a wide discussion, that is accessible to a variety of different approaches, on the relationship between trade and


investment policy and power. The ontological re-working of Lenin’s conception of how policy relates to
the externalization of capitalism has been reworked in world-systems theory, dependency theory, and
Gramscian IR. I stay away from abstract questions of power, in lieu of examining relational processes of
political economic movement that shapes policy. The policy for capital to externalize has to create
juridical legal extensions of a domestic market environment. In this sense, the literature on South-South
free trade, customs unions, and politico-economic regional integration is reflected on to understand the
shaping of scalar forms of governance. These forms of governance, which are created by a policy function
of the state, are in all three cases shaped by state-firm externalization relations.

5. Parameters of Inquiry

This thesis examines the narrow implications of Russian, Brazilian, and Chinese interaction within
the former colonial world to be able to infer upon broader South-South relationships. Utilizing a
conceptually Marxist framework, this inquiry will be based on the interaction between the state and
localized bourgeois, examined through the unit of the firm in each context. The primary focus is the
formulation of a directional movement to externalize a local firm. I argue that this movement entails the
establishment of asymmetrically governable space that creates a dependant link between the host economy
and the home economy. I illustrate the actor movements, or the political economic circuit movement, of
externalization specifically in the Brazilian and Russian cases. There, I rely on two sets of class analysis
based on dichotomies: that of Lenin’s finance capital and my own division of the state in its ontological
functions vis-à-vis capital. In these chapters I examine the trajectories of the relationships between the
largest, most conglomerated, and most multinational firms and the state as an economic agent (bank or
company) over time. I examine private firm relations with the state in its function for creation of legal
bridges into other localities. Finally, I examine securitization patterns that physically assure the owners
of private and public capital the physical well-being of their private property through the use of armed

60 As a note this function is carried out very differently in every case.
force by the sovereign state. I argue that this movement increasingly solidifies/hardens a structure of host
dependence which entrenches asymmetrical divisions in the structuration of South-South relationships.

The following three chapters are based on a case of Brazil, Russia, and China. Each chapter will
contain roughly the same structure with different content that is tailored to the specificity of each case.
They will begin with a historical materialist analysis of the general trajectory of bourgeois-state relations
domestically. This applies the aforementioned theoretical paradigm in the context after the 2008 and the
ensuing crises of over-production. The following section then examines the engagement of finance capital
and the state in each case with different third world states. Each chapter will first strive to demonstrate
the parameters of capital development locally then strive to build that bridge internationally. The first two
focus on the circuit relationship with Chapter 2 leaning more on a deconstruction of the bank-based
element and Chapter 3 focusing on the implication of industrial-based capital. The case of China in
Chapter 4 represents a large variation in terms of having quantitatively larger scale investment and
qualitatively more complex mechanisms for externalization than the first two cases. The externalization
movement in Chapter 4 is explored in relation to broader scalar structures that shape South-South
cooperation. The concluding discussion chapter summarizes my findings along with commentary on the
coordinated structure of the three cases internationally.
Chapter 2: Brazil Going Global: The Power Relations of National Capitalism Expanding Transnationally

1. Introduction

In reference to Brazil’s engagement with Africa, Padraig Carmody notes that, “there is no neat separation between Brazilian geopolitics and economics in Africa.”61 This chapter explores the dynamics of Brazilian state engagement abroad. It discusses whether existing involvement reflects a Bandung altruism or a state-backed corporate advance of Brazilian capital. An examination of the territorial entity of the Brazilian state along with locally based finance capital in relation to African and other Latin American counterparts is offered. The results of this examination characterize the structural foundations of Brazilian foreign involvement on the basis of class relations.

Carmody, as per a few other scholars62, arrives at his conclusions based on the syncing of geopolitical maneuvering on the part of the state with the interests of the Brazilian private sector. He makes a fairly clear case that Brazilian diplomacy, which focuses on foreign security, investment and trade deals struck with African states which coincides with corporate engagement on the continent63. This maneuvering on the part of the state to secure private sector investment (along with a stable security environment to do business through legal investment treaty mechanisms as well as with security through military treaties) abroad is built into the foundations of the Worker’s Party (PT) government policy from 2004 to 2015.

In a western context state policy makers have certain routes into securing foreign market space. This market space can be framed as a place to sell excess goods at competitive prices (trade) or a space in

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63 (Carmody 2013, 109-132)
which firms engage in active participation through the setting up of affiliates (investment). Policy makers secure market space for the replication of capital, in a legalistic sense, through bilateral investment treaties and free trade agreements\(^6^4\). Brazilian state policy has these same levers to maneuver entry into foreign market space. However, the differences with western engagement is that the degree to which the state is directly engaged in the economy is radically different.

The question of engagement being either South-South altruism or home-host dominance must be separated from the guiding premise of whether or not Brazilian engagement is beneficial to its partners’ writ large. Transnational social relationships cannot be viewed as balance sheet between two developmentally oriented states, observed as monolithic wholes, existing in a vacuum. Instead, social relationships stemming from Brazilian neodevelopmentalist policy at home need to be analyzed in terms of the materialization of their transnationalized forms. It is in the social relationships stemming from a transnationalization of Brazilian finance capital operating in a context of multi-faceted crisis that contextualizes the interactions of social actors and states whose relations generates the structuration of Brazilian engagement with the developing world.

To observe these social relationships play out, this chapter is divided into two parts. The first explores the nuances of Brazilian neodevelopmentalist policy. It specifically takes into account the structure of Brazilian industry and bank capital through the 2008 crisis to 2014 while exploring patterns of concentration of bank-based and industrial capital. Particular attention is paid to the role of the state as an appropriating and guiding force through the turbulence of this period. Once the domestic process of this accumulation is taken into account the second part of this chapter explores the outgrowth of finance capital. This section highlights the intensification of recent foreign engagement for the purposes of

securing trade and investment space abroad. The first sub-section focuses on FDI trends. The relations that extend beyond the state, but which are fueled by it, are discernible in the realm of an analysis of FDI. FDI is a picture of assessing capital to capital and capital to labour interactions because the available data on FDI is largely based on state-to-state transfers that are convoluted by an array of factors. The broad brush strokes of FDI data is supplemented with an analysis of the engagement of Brazilian multinationals, banks, and state enterprises in Africa and Latin America. In this second sub-section, the moving parts of capitalist economic and social life are examined. Specific attention is drawn to the process of market penetration and economic sublation from the governance locality of the Brazilian polity into African and Latin American political economic territory. The networks responsible for transnational capitalist reproduction (in this case the state, finance, and industry) are roundly examined. Finally, this chapter turns towards exploring state-to-state relationships in the realms of trade, investment and military defense. This is particularly relevant to the securitization of production sites and trade flows of the investment of Brazilian national industry abroad. What is generally found is that state support eases this process of reproduction outside of Brazil’s territorial boundaries. The state then engages in the legal and armed maintenance of the security of industry and finance engaged abroad through multilateral and bilateral juridical-legal means.

2. Theory and Methodology

Theoretically, this chapter seeks to build upon existing concepts of Marxist theory that may lend well into elucidating the relationship that Brazil has with the African and Latin American regions from the perspective of political economy. The concept of uneven and combined development accounts for an orientation of the state towards development and modernization. This developmental initiative of the state

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65 The existence of off-shore tax havens and of comprehensive banking conglomerates makes liquid capital movement difficult to trace on a firm to firm or firm to bank basis. The added feature of the statization of data with respects to FDI lends to a degree of opaqueness depending on the legal requirements of admissible corporate data in each state.

66 Sublation, or aufheben, is a term Lenin borrows from Hegel’s logic to express the movement of capitalist development where expansion of the productive forces changes, “to supersede, put an end to, but simultaneously maintain, preserve” its previous form.
meets Lenin’s formula for imperialism in an interesting way. Lenin posits that a marriage between bank capital and industrial capital uses the state apparatus of force as a foreign policy tool to facilitate externalization and transnational economic linkages. Trotsky’s concept accounts for the asymmetrical development of capitalism globally, a variable that Lenin does not consider in depth. In the case of Brazil at this juncture, the state is inserting itself into the relationship between bank based capital and industrial capital to coordinate and support the externalization of particular Brazilian firms. The reproduction of Brazilian owned and operated capital in the ex-colonial world re-create a new sense of dependent interdependence whereby power is increasingly concentrated in Brazil. The theoretical purpose of this chapter is highlighting the way in which the three operational variables of the state as a market actor, inherent in Trotsky’s conception of uneven and combined development and Lenin’s externalization formula.

The sequence of figures reflects the movement of the theoretical operational variables while the accompanying analysis elucidates their interconnection with each other in their sublation. The first figure depicts a macro level progression of the Brazilian economy in terms of GDP size over time for a general outlook. The second figure delves into a market level to illustrate changes in the composition of the banking sector ranked by firm size in 2005 and 2014 for a comparative time-lapse depicting the state of the financial sector before the crisis and post-crisis adaptations to their effects after their implementation. Figures 3 through 6 express FDI trends into and out of Brazil. As remarked above, an analysis based on macro state-to-state reported FDI data is highly problematic, but makes sense of a general depiction of the changing relational movements of large Brazilian financial and non-financial investment patterns. Beyond general investment changes in terms of regional flows, unidirectional flows from Brazil to Angola, Argentina, Chile, Colombia, Mozambique and Peru are examined. This macro level relying on

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67 Lenin’s formula consists of the dominating role of bank based capital in its fused relationship with industry, this new form of monopoly capitalism then uses the state to reproduce itself beyond the borders of the national – state enforced – market.
state centric FDI analysis is followed by an analysis of the networks of investment in Figure 7 which depicts select firm penetration into the aforementioned markets and beyond.

The only originally gathered data presented is in Figure 2. The data was collected through company annual reports and 20-F forms gathered from McMaster’s Allen H. Gould Trading Floor. Most of the discussion that delves into firms comes from the same point of data collection. Given the propensity of the largest Brazilian financial and non-financial firms to trade in US exchanges and to make it past American regulation, I took the listed figures at face value. Given the regularity of input and relative transparency of Brazilian national GDP averages and FDI figures I accepted the UNCTAD and World Bank data as valid.

The logic of this chapter begins with the position of the domestic economy. Then it observes the insertion of the state into the economy during the crisis, followed by an analysis of how Brazilian financial and non-financial firms engage with ex-colonial markets. In 2009, we see punctuated equilibrium where there is an inversion of Brazilian north/south FDI flows and an explosion of FDI moving into third world countries. This coincides with a new state-to-private sector dynamic; whereby, the state finances literally chart out industrial expansion abroad while at the same time giving room for the privately owned banking sector to engage in heavy merging and acquisition activity in southern markets. These two directions of externalization are at once the culmination of a 20-year history of revived yet mild state-to-private sector support resulting in the product of increased state involvement in the economy at a key juncture. This turns from a qualitative relationship, between the state and bourgeois, into a quantitative relationship; whereby, the latter is being heavily subsidized by the former. Thus, we observe a quantitative overtake in terms of lending/regulation in this relation between state as an economic actor within this network vis-à-vis the industrial and financial bourgeoisie owned firms. Reflective in the influx of the state owned finance into the market during the crisis is a trend of conglomerate firm expansion into areas where the state achieved a large degree of legal cohesion through market penetration efforts. Tools to achieve this range from BITs, Customs Unions, trade clarity agreements, and contract lobbying to inter-state securitization.
assurances. This evident economic movement of Brazilian capital out and to the south is another juncture perpetuated by the state political involvement. Here we see the political force of the state to re-shape its economic role to direct large concentration of national capital into cost saving and rent-seeking relationships with the global south. With regards to the nature of the economic exchange, I make the claim that this embodies the creation and replication of capitalist relations where political authority within the economic exchange between Brazil and its partners is rooted in the Brazilian state and the Brazilian private sector.

3. Processes of Brazilian Post-Crisis Development

3.1 The PT and the Crisis

Armando Bioto and Tanya Berringer, two Poulantzian neo-Gramscians, view the rise of the PT in the 2002 elections in Brazil as a force that constitutes a different “hegemonic bloc” than the precursor Social Democratic Party of Fernando Henrique Cardoso. Cardoso, as they argue, represented an opening to foreign capital; thus, maintaining the legacy inherited from the dictatorship era. The PT government on the other hand represented the collective interests of the “internal grande bourgeoisie, which is the front’s driving force, to the lower middle class, urban workers, and the peasantry”68. The interests of this government would be to improve the conditions of living of the last three sectors of society while ensuring the growth and development of the first, the indigenous Brazilian private sector.


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There has been much discussion and debate in regards to the causation of the upward GDP climb from, roughly, 2004 to 2008\(^7\). The slide from 2008 to 2009 appears to move parallel to the development of the economy in a post-GFC environment. The bounce back from 2009 to 2011 has nominally been under explored in contemporary scholarship\(^7\). This explanation does not necessarily build in the market reforms in the context of an on going state-to-market funding formula as plausible factors for renewed growth. Moreover, the slide downwards from 2011 to 2013 is a story that is very much under-explored. The way in which the state intersects with the private sector underpins the 2009 to 2013 changes. Understanding this slide depends on the post-recession recovery policies of the PT. Exploring the factors at play within

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\(^{70}\) See (Hiscock and Lo 2014) in respect to Brazil. The special issues in the Review of International Political Economy vol. 20 (2) and Third World Quarterly vol. 34 (6) account loosely for this phenomenon in the stable BRICS grouping.

the Brazilian economy during these two periods gives meaning to Brazilian engagement abroad in the aftermath of the GFC.

To grasp the macro-economic environment one needs to move to micro-particularities of governance and policy. It is here that the particularities of state involvement with the private sector is fully flushed out. This is important inasmuch as it highlights Brazil’s unique developmentalist trajectory as a precursor to engagement abroad.

3.2 Brazilian Industrialization: A Snapshot of U&CD

The Brazilian state has historically wavered in utilizing policy mechanisms to facilitate a state-based approach to industrialization (ISI) versus an open market liberalization approach. As such, Brazilian state owned financial institutions are old, well established, and cover both industrial and retail financing. Moreover, they have gone through peaks and troughs in terms of how they are utilized by a given government in a given economic context. Figure 2 provides a snapshot of a nine-year period from 2005, two years into Lula’s first term, to 2014, four years into Dilma Rouseff’s first term. The purpose of this chart is to illustrate the size of each institution relative to each other. As a methodological note, the size of a bank indicated in terms of total assets. However, this opaque indicator, however, does not allow for a deeper understanding of the type of financial institution as well as respective strategies for market insertion. These aspects will be discussed below. Of course, this snapshot is a precursory note to understanding the story of what happened in 2008-9. This period is roughly the reason behind the dynamic changes in the banking sector. For the purposes of the narrower inquiry this period remains significant for grasping the approaches of Brazil’s increasingly active reach in Africa and South America.

72 (Ban 2013) and (Saad Filho 2010)
It is important to first remark that the GFC did not hit Brazil as hard as other G20 states. This can be observed in both the effects of the crisis and are due to structural effects inherent in that market. No banks declared bankruptcy and the ability for the state to absorb the crisis was much later than in the advanced capitalist states because tight regulations were set in place. For example, Brazil had a capital requirement ratio at 11% in 2008 which is higher than the Basel II requirements. Finally, most Brazilian banks were structurally able to profit in the domestic market without looking abroad. However, despite the lesser impact of the crisis in 2008-9 the qualitative and quantitative changes in the financial sector are extensive. Moreover, it is important to note that foreign owned banks hosted in Brazil only account for roughly 15% of the sector (with HSBC and Santander accounting for 6.96% to 10.26% of the market) indicating that large capital pull-out by foreign owned banks not only did not happen, but rather the largest of these institutions actually increased in size.

Quantitative changes include concentration of the sector to the top ten banks, a substantive increase in the total assets (size) of public banks, and a general increase in absolute asset figures in the
sector. The first change that should be noted in Figure 2 is that the sector is highly concentrated in the top ten banks. These institutions increased their share of the market by 17.47% from 2005 to 2014. This, of course, went along with an absolute increase in total assets by about 645% in the top ten banks. Rather this growth right through the crisis of the top ten, and of the sector more broadly, re-affirms a capacity of the Brazilian banking sector to profit from the domestic market generally. In addition to concentration and sectorial growth, the total asset size of the top ten public institutions increased by 15.72% vis-à-vis sectorial totals. This can be explained by the fractions of percentage increases of Caixa Econômica Federal (CEF) and Branco do Brasil (BB), but mostly by the emergence of the National Bank for Economic and Social Development (BNDES) into the top ten as the 5th largest bank in the country.

Qualitatively, there were a number of policy shifts enacted during the crisis that lead to a different arrangement of the quantitative figures. These policies would have a market effect that, coupled with a global slowdown that hit the advanced economies of the west first and re-bounded to the emerging states in 2014, accelerated Brazilian investment and trade policies vis-à-vis the non-emerging developing world. At a sector level, the regulatory response was to shield the private banking sector and root out or “fix” private lenders that were exposed to Northern contagion. While there were a variety of policy mechanisms used to do this, the broad strategy was to use state owned banks (BNDES in particular) to provide liquidity to a highly concentrated, and increasingly diversified, Brazilian industry. The publically owned financial firms took over lending to industrial firms; thereby, substituting themselves as public institutions for privately owned lending. This placed the market burden of continued investment on the back of state-owned financial vehicles. This was done to guarantee continued investment amid market uncertainty while the private financial sector was stewarded by state regulation through a recovery. This would be called: bailing out the rich. The remnants of this policy at a state level not only created the sharp qualitative changes outlined above, they also shaped the bedrock of an even more accelerated movement of Brazilian capitalism into non-emerging developing economies.
3.3 Public Banking Re-emergence: Why, how, and for whom?

The process of externalization of capital increases pace in earnest when the public banking sector was re-formulated. BB, CEF, and BNDES respectively handled retail, commercial, and long-term capitalist national development banking. As mentioned above, BNDES was heavily financed mid-crisis with the aim for it to provide industrial financing. Industrial financing, primarily conducted by BNDES, is a non-neutral phenomenon in Brazil meaning loans and equity are not tools used on an ad hoc basis. Rather, as a few analysis have pointed out, the Lula government used the state to back the strengthening of “national champions” in “big business.”

One scholar notes that out of the 30 largest Brazilian transnational corporations (TNCs) all of them have had either a direct loan or ownerships relation under BNDES. The same author, writing in 2009, is unabated in going into the important relationships between state and big industry, arguing that industrialization happens generally when the state plays an active role in industrial development while specifically claiming that the BNDES has established mechanisms of reciprocity with the private sector. The value of this for external relationships is fairly clear, as of 2007 the assets of the top 20 Brazilians TNCs abroad accounted for 50% of FDI outflows. The Brazilian government thus utilized BNDES financing to direct the growth and pace of a few TNCs which would be very concentrated in their contributions to the export market. The way it operates as an export credit agency will be detailed more below, however, its impact on the domestic economy is highly fascinating.

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77 (Almeida 2009, 47-48)
78 Ibid 51
I utilize the terms national champion firm and indigenous/industrial bourgeoisie to designate certain firms that are legally bound and/or owned by a primary shareholder of Brazilian nationality. These are both the largest firms in the domestic economy and the firms that invest the most in foreign markets. For context, the 2014 UNCTAD World Investment report ranks the top 100 MNCs from the non-OECD world. Five Brazil’s MNCs: Vale (#5), Petrobras (#29), Gerdau (#30), JBS (#59), and Embraer (#79) made the list. The largest trend in their externalization stems from exports abroad. All of these firms (other than the state owned Petrobras) have over 50% more foreign sales than domestic. Additionally, Vale and JBS have large portions of their officially recorded workforce outside the boundaries of Brazil. While Gerdau and Embraer maintain a local workforce, the majority of their assets remain abroad. What this indicates is that these companies all externalize based on increasing sale revenues. This natural outgrowth beyond the domestic market is then supplemented by a movement of capital abroad. We can see that from within the firms themselves, a tendency towards establishing dependent industrial relationships in other socio-economic formations is evident. This instance of dependence simultaneously resembles different forms of dependence as outlined by Lenin and Cardoso. These specific firms and their general movement are tangentially discussed through the chapter; however, its primary focus is to discuss state insertion into the economy.

The relationships between government officials running the state apparatus and the oligarchic private sector go beyond financing. There are two more elements to consider. These are the market restructuring/shaping capacity of the state as well as back-room deals between the two groups. State owned firms operate on the market with a power to shape it and with the relative autonomous reach to do so. For example, BNDES loans move through intermediary companies and through firms it directly owns in networks. These loans have generated a tendency of facilitating private sector mergers due to socialization between the BNDES lenders and private executives/shareholders. The reach of BNDES is

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limited however to certain dynamics related to its own capacity on a complex market. Of 286 firms on
the Sao Paolo Stock Exchange from the period between 2002 and 2009, 31% had BNDES loans and 14%
of them had BNDES equity in them, meaning that BNDES was part owner\textsuperscript{81}. It can be safe to ascertain
that most of these companies receiving loans are high earning, profitable corporations that play on a
market-based competitive advantage, as these qualities generally fit into loaning criteria\textsuperscript{82}. An example
of one such enterprise is JBS S.A. of which BNDES holds 22.99% of its shares\textsuperscript{83}. This firm is Brazil’s
largest exporter of food with 58.4% of its exports going towards developing economies\textsuperscript{84}. A BNDES
representative chairs JBS’s sustainability committee which makes executive decisions on global risk\textsuperscript{85}.
Moreover, in 2013 BNDES gave the company a $20 million real loan at 0.1% interest so it could “qualify
for federal and state tax incentives”\textsuperscript{86}. Thus, in regards to firms which BNDES has equity in, the influence
of the bank goes into executive decision making and to the dynamics of its loans.

However, the reach of BNDES into private industry should not be characterized as a convenient
addition to business operation so much as its governance and loan capacities have become a structural
need for the private sector. Embraer, ranked 4\textsuperscript{th} out of 20 MNCs that hold assets abroad\textsuperscript{87}, states clearly
in its 20-F form that should the Brazilian government ease subsidies to it as a supplier or subsidies on the
demand side then it would take a competitive hit internationally\textsuperscript{88}. This form specifically cites BNDES
and its Export Guarantee Fund as financing 20% of export deliveries for the company from 2004 to 2013\textsuperscript{89}.
The engagement of BNDES with the private sector acts as a peg to stabilize and increase profits and
mitigate risk in their transactions abroad. This market implant of BNDES, whose role as primary lender

\begin{thebibliography}{9}
\bibitem{81} (Lazzrini, et al. 2011, 5-13)
\bibitem{82} Ibid 4
\bibitem{83} JBS S.A. 2013. \textit{Annual and Sustainability Report 2013}. Annual Report, JBS S.A. p 64.
\bibitem{84} Ibid 17
\bibitem{85} Ibid 29
\bibitem{86} Ibid 63
\bibitem{87} (FDC-CPII 2007)
\bibitem{89} Ibid
\end{thebibliography}
to industry was bolstered in the aftermath of the crisis, is bolstered by legal, legislative, and presidential mechanisms of state intervention.

In terms of industry, the liberalization waves of the 1990s caused the privatization of a number of state owned firms. Although a number of large Brazilian enterprises (giants like Vale and Embraer) were turned to the private sector (having a domestic and foreign ownership)\(^\text{90}\) the state set both a “golden share” stipulation as well as a head office requirement in Brazil. The golden shares inadvertently allowed the government to *de facto* manipulate the upper management of these firms in terms of executive selection and corporate direction. A case of this happening was in the reshuffling of the executive board at Vale in 2011\(^\text{91}\). At the same time, these firms were no longer tied to the credit rating of the Brazilian state and would have access to capital market financing in the United States. The dynamics of the crisis in these northern financial markets, along with a conflict between the Rousseff government and credit rating agencies\(^\text{92}\) restricted the capacity of these concentrated national champions from accessing credit. This was the gap which BNDES was brought in to cover, as the private banking sector was in recovery mode from 2008 onwards. A final yet interesting caveat to the relationships between the state and big business is the question mark of political backscratching and to what degree political favours between government officials and private sector executives guarantees BNDES loans\(^\text{93}\).


\(^{\text{93}}\) "The lack of encompassing peak associations, capable of controlling freeriding, pushes firms to establish their own connections (Schneider, 2004). Consistent with this logic, several empirical studies have found a significant association between campaign donations for Brazilian politicians and firm-level profitability (Bandeira-de- Mello and Marcon, 2005), preferential finance (Claessens et al., 2008), and access to government contracts (Boas et al., 2011).” In (Lazzrini, et al. 2011, 15). Allegations against Lula surfaced last year suggesting that he authorized a scheme of state banks moving money to the PT to buy opposition member votes in the legislature. This is a scheme were a series of his aides have already been convicted of sentencing ranging from 10 to 40 years in prison, see Reuters. 2013. "Lula Corruption Case: Former President Of Brazil Faces Allegations Of Vote-Buying Scheme." *The Huffington Post*, September 9. http://www.huffingtonpost.com/2013/01/09/lula-corruption-case-brazil-president-vote-
3.4 The Private Banking Sector: Consolidation and Expansion

As the public banking sector was revamped to keep industrial financing going amid the crisis, private banks were shielded and fixed through regulatory mechanisms. State sponsored restructuring caused Itau and Unibanco to be fused during the crisis. Banks experiencing toxic balance sheets (as was the case with Unibanco) were either forcibly merged or had sold some of their toxic assets to state owned banks (BB and CEF)\(^\text{94}\). In this sense, while the public sector was dealing with the need for industrial investment in the economy, these banks were given breathing room. In the context of a general private decline of wealth, however, these private banks sought mergers and acquisitions abroad. Itau Unibanco went on a buying spree in Chile where it bought out HSBC’s operations in 2011 and where it purchased Corpbanca; thus, making Itau Unibanco not only the biggest commercial bank in Chile but the biggest private bank in Latin America.

The irony in this is that the Brazilian government shielded the private sector institutions from the credit market with the intention that these institutions would eventually return. While BNDES loans have slowed down since 2014, the private sector has still been reluctant to hand out credit\(^\text{95}\). Instead they have taken an approach of initiating M&A activity abroad, consolidating this activity, while accessing previously closed markets.

3.5 Summary

During the outset of the crisis, specifically from 2008 to 2009 as detailed in Figure 1, the PT effects of the above discussed PT reforms effectively concentrated the capital of the private banking sector and reinforced big industry’s relationships with state lenders. These two effects triggered two internationalized phenomena in the 2011 to 2013 stagnant period that will be discussed in the section

\(^{94}\) (EMIS 2014)  
\(^{95}\) (EMIS, 2014, 30)
below. Firstly, consolidation coupled with stability in the domestic market for private banks lead to an outward orientation into different parts of South America and Africa. Secondly, public lenders moved to enhance their partnership with big industry, and in some cases private banking, abroad. These factors were caused by two reasons. Chiefly, the reluctance of private banks to loan to big industry and the general low credit ratings of Brazilian enterprises pushed industry into the bosom of the state. This reluctance among private banks arrives despite high growth in the Brazilian economy. It is from 2011 to 2013 where the crisis tail ended the Chinese economy. This effected the Brazilian export markets raising questions in regards to the medium to long term profitability of Brazilian firms’ dependent on exogenous markets to facilitate growth (i.e. Vale selling steel to China to produce cars, machines, etc.). Private banks, sensing this systemic drawback in the Brazilian economy, have turned to buying up affiliates in the rest of the developing world. In other words, a structural crisis, rather the supposition of a structural crisis, in Brazilian industry has pushed private banks, public banks, and private industry to capture market share abroad both in terms of investment (mergers and affiliate set up) and in terms of export markets.

The reason why these firms are moving abroad is thus contingent upon their interests in facilitating continued profit in the context of a stagnant world economy. This has pushed these industries into overt engagement in new marketplaces. While the reasoning behind this engagement between Brazil and non-emerging developing states is induced by a long term profit seeking motive this does not fully answer whether this engagement replicates North-South relationships or if this is a signal of South-South cooperation. What this does tell us, however, is that the motives for expansion derive from the same sense of profit and exploitation that drive Northern firms and banks to engage in Southern markets. Below, the dynamics of this rapid and diversified push abroad will be discussed with specific reference to how Brazilian firms, financial institutions, and the state interact with the ex-colonial world in a political economic perspective.
4. Processes of Transnationalization

The domestic economic development of both the private sector and the state response set the tone for contemporary Brazilian engagement abroad. This of course comes on the back of pre-existing policy discourses and trajectories activated by the PT earlier in their time in government. The process of the GFC accelerated this extraterritorial engagement. To make sense of the nuances of extraterritorial engagement with the ex-colonial world an ideal starting place is a brief overview of bulk FDI trends. This will demonstrate the general movements of the Brazilian economy without distinction of type of ownership or sectorial breakdowns.

4.1 Making Sense of Brazilian Foreign Investment

The most recent FDI data for Brazil is listed in the figures below. FDI flows and stocks are segregated in the first and second figures between developing and developed economies while the final figures are depictions of changes in stock and flows over time. Figure 3 juxtaposes outward stocks vs. outflows while Figure 4 gives a more particular breakdown of FDI going into a select group of developing states. Building on this, Figure 5 illustrates patterns in terms of inflows in stocks and flows. Finally, Figure 6 shows FDI trends, comparing in and out stock and in and out flows. It should be noted that these figures mask money moved through off shore financial centres which act as a variable that makes tracing specific amounts very difficult. Additionally, money moved back from host to the home economies may distort the figures somewhat as well. These general trends outlined below, however, are enough to demonstrate certain patterns in Brazilian investment.

Figure 3 demonstrates an inverse correlation between declining FDI flows between 2006 and 2012 and steadily increasing FDI stocks during the same period of time. The lines representing developed countries represent an extreme of this correlation, a sharp decline in flows coupled with a curve upwards in stock, while investment into developing countries mimics the GDP fluctuations encapsulated in Figure 1 and explained above.
This unusual correlation in the developed lines can be attributed to the differences between stocks and flows. Flows are a continuous measure of investment over time whereas stocks represent fixed wealth controlled by Brazilian corporations abroad. This correlation roughly indicates that while the GFC and Eurozone crises impacted, Brazilian firms slowed down the rate at which they were investing in those

\[ \text{(UNCTAD n.d.)} \]
economies to the point that they were taking money out of their affiliates. At the same time, however, these affiliates were producing skyrocketing results.

Interestingly, the point at which flows drop for both lines is when the crisis impacted Brazil in 2008. The deviation in the flows from 2009 to 2011 represents firms looking to invest in the ex-colonial world while reducing investment from the west. In terms of stock, the turn to the developing world produced weaker results for Brazilian transnational than the general trajectory of investing in the west. From 2011 to 2012, the same years when Brazil re-entered stagnant GDP we see a drop in flows for both sets while stocks for both shoot straight up.

These trends indicate two features of how Brazilian firms engage abroad. Firstly, corporations in Brazil are invested in the health of their domestic market and react internationally based on those needs as evidenced by their reduced outflows vis-à-vis increased returns. Secondly, there appears to have been a general movement or re-orientation of investment into the developing world as an outcome of A) the uneven distribution of the crisis at its outset along with B) the slip in developing against the developed stock figures. Developed stock outpacing developing stock in 2009 indicates that returns from the developing world remained steady against the west, which plunged into more crisis. This explains the 2009 to 2010 jump in flows, which are a reaction to the 2009 gains and an investment of green and brownfield investment from areas that had steadily supplied more returns over-time. Brazilian capital, through its capacities to competitively generate profit has, thus oriented towards the South as a more concentrated area of investment.

Below, Figure 4 provides a breakdown for FDI stock from Brazil in Angola, Argentina, Chile, Colombia, Mozambique, and Peru. This chart demonstrates three central aspects to Brazilian outward investment to the ex-colonial world. Firstly, Argentina, which is in Mercosur with Brazil, experiences the highest rate of investment. This captures the correlation between inter-state trade and investment agreements and real investment itself. In this regard, the ease of access created by the state entails greater
proportionate investment in a given country. This is important to remark because during Lula’s time in office (2003-11) Brazil “signed 112 treaties with thirty-seven African countries”\(^97\). Naturally, these treaties, which will be discussed further below, are a gateway for these figures to climb, as already evidenced by jumps in Mozambique and Angola in 2011 and 2012 respectively. Secondly, there is a clear increase in investment over time as well as a diversification of investment to the plurality of states in the chart. Thirdly, the influence of Brazilian “national champions” is captured in the chart quite clearly. In Figure 6 we will see an isolated case of Brazilian FDI outflows overtaking inflows in the year 2006, much of this going to Africa and Latin America. The year 2006 is an isolated case in this trend but one that propels optimism for engagement\(^98\). When 2006 is examined closely $2.2 billion was invested in Chile alone. At this time Itau purchased BankBoston’s affiliates. While this is one case, it demonstrates the outward growth of large Brazilian banks and corporates.

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\(^{97}\) Carmody, 2013, 116

\(^{98}\) Carmody, 2013, 119

\(^{99}\) UNCTAD. n.d. "FDI/TNC Database." Database.
Figure 5 depicts the stocks and flows in the Brazilian economy. Most of this takes the forms of equity and affiliate enterprises held by foreign transnationals and banks in Brazilian industry. Here the developed curves are most interesting as they follow the trajectory of the GDP curves in the 2008-2009 period. This is coupled with a huge rebound in flows in the growth years of 2009-11 with another drop. This tail ending by foreign investors reflects not the control of foreign capital over the Brazilian economy, but rather its tail ending Brazilian growth to turn profit. This is best encapsulated in the stock chart where despite wild fluctuation in the flows, foreign enterprises are still grossly making money.

*Figure 6100: Inward Investment*

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100 Ibid
The data above juxtaposes FDI in-stock vs FDI in-flows. The amounts of USD going into Brazil are segregated by groups of developed and developing countries. This allows for a comparison of transient flows to constant stock movements. There are three, non-self evident, interesting features in these graphs. Firstly, there is an explosion of FDI coming from developed countries in the wake of 2009. This is likely due to an array of factors including: dollar re-allocation by Brazilian MNCs and speculative investment on sturdy Brazilian markets following stabilization efforts in the post-crisis period and a delay in the impact of the crisis on Brazil immediately after its outbreak. The second feature is the dip in the in-flow chart in 2011. While not substantial, the slope of the decline signals an entry into a slow decline. From 2011 through to 2012 a decline in in-FDI flows highlights a general lack in investment. This decline correlates with a similar GDP decline which indicates contracted growth has developed hand in hand with a decline in foreign investment. The third feature of Figure 5 is the increase in in-stock FDI from 2010 to 2012. On account of a decline in in-flows during the same period, the rate of the increase in value of in-stocks comes from the value increasing in Brazilian markets. The two charts speak to each other in indicating a value increase of stocks held by western firms during a period when general GDP decline and withdrawn investment.
The figure below juxtaposes inward FDI stocks and flows to their outward counterparts. To chronologically display the trends, the data is set from the first full year of the PT in government, 2004 to the most available information in 2013. The stock chart demonstrates a slow increasing trajectory of outward stock while an inward jump takes place after 2009. The inward stock movement is a continuation of the same post-2009 trends. In tandem with the second chart on FDI flows, the outward stock movement is peculiar. The inflows and in-stock in both graphs loosely synchronizes and is responsible for externalization of MNC investment along with surplus-value repartition from Brazilian MNC affiliates abroad. There is an inverse correlation between outflows and out-stock. The out-stock increases year on year even at times of low increases in flow (2005, 2007, and 2010) as well as during negative reported flows (2009, 2011, 2012, and 2013). Moreover, consistent increases in the in-figures post-2010 occur just after the first year of outflow negative growth. The inverse correlation in the out-figures indicates the prevalence of consistent merger and acquisition activities while funds transfers from home to host for greenfield projects, or any projects for that matter, appear to be cut off. This indicates a forced self-sufficiency for foreign operations among large Brazilian MNCs which appear to utilize an M&A approach to foreign market penetration as opposed to direct investment in the form of greenfield investment.
The above graphs indicate the general movement of foreign FDI into Brazil as well as general dynamics concerning Brazilian OFDI. Figure 3 demonstrates a divergence between OFDI stock and OFDI flows. In 2009 we see OFDI stock jump towards developed countries in a buy up following the crisis. In 2011 OFDI stock going to developing countries jumps as well. The OFDI flows demonstrate a climb in developing from 2009 to 2011 and a sharp trajectory of decline in flows to developed countries from 2008.

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101 Ibid
to 2012. By sampling a select few developing countries in Africa and Latin America, Figure 4 charts a general expansion in OFDI stock in these non-BRICS and non-developed countries. Figure 3 shows a recent increase in the propensity of investment outward, dichotomizing different trends in Brazil’s outward investment relationship with the developing and developed countries. Figure 4 aims to picture the scale of investment to a few developing countries while demonstrating upward trajectory of that investment. In juxtaposing in-stock and in-flows, Figure 5 demonstrates that most of the flows come from developed countries. The relationship that Brazil exhibits in Figures 3 and 5 demonstrates that Brazil has qualities of a semi-peripheral country where it dominates lesser developed areas while still maintaining a large portion of foreign internalized capital. The Brazilian Central Bank’s foreign capital survey traces the largest foreign investors as the Netherlands, the USA, and Spain. At the same time, a parallel phenomenon of internalization occurs as Brazilian firms target African and Latin American markets for investment. As financial OFDI was examined above, which non-financial firm is doing what and where will be discussed below in a more detailed examination of Brazilian OFDI. However, it is worth examining the generalities of the relationship Brazil has with its finance capital in its own national (or nationally regulated) market along with the position of Brazilian firms penetrating into southern markets. This double movement is what Figure 6 begins to delve into.

Brazilian Central Bank census figures put total foreign investment in Brazil at $705.9 billion USD in 2013. A set of figures record Brazilian MNC OFDI at $391.57 billion USD. By observing the movement and the trajectories of total OFDI versus total inward FDI we can situate Brazil’s trajectory in the world system to give clarity to its relationship to the ex-colonial world. IFDI into Brazil disproportionately comes from the global north. Brazilian records of the rates go to 1995 citing total IFDI

103 Ibid
in the country at $281.424\textsuperscript{105}. From 1995 to 2013 IFDI there was a per cent change increase by 250.83\% with a 13.93\% year-on-year rate of increase. The records for OFDI begin in 2007 at $140.36 in millions of USD\textsuperscript{106}. The rate at which OFDI increased from 2007 to 2013 is 279.62\% with a 32.67\% year-on-year increase. The percentage changes in OFDI outpaced IDFI growth by 28.79\% while on a year basis the increases in OFDI outpace IFDI increases by a rate of about 3:1. Thus, the trajectories of the rates of increase in MNC IFDI into Brazil is considerably less than Brazilian OFDI into the world. When the totals for 2013 are compared, IFDI is 180.27\% larger than OFDI. In juxtaposing the two sets of 2010 figures the percentage difference was 244.57\% with IFDI being larger than OFDI. It is observable that with respect to the trajectories taken Brazilian OFDI, with its unique onus southern markets for competitive purposes, is on pace to rival and surpass IFDI entering Brazil. This is despite spikes in IFDI after 2010. Should current differential growth rates remain static, or if they keep up with similar growth pangs as they did through the crisis from 2008 to 2012 and increase against declining GDP, then OFDI will outpace IFDI rates in 5.5 years.

The macroeconomic trajectories of the OFDI rates of Brazilian MNC national champions like Vale, Gerdau, Embraer and others are on their way to outpace the rate at which non-Brazilian MNC investment in the Brazilian domestic market. This is important because it demonstrates the relatively fast pace at which Brazilian MNCs are externalizing and profiting in that way faster and more efficiently than their MNC counterparts are able to do on the Brazilian market in the sectors in which they operate. Greater profit generation coupled with secured lines of fiscal operation through the state put Brazilian MNCs into a relationship with the state apparatus and ruling parties than foreign MNCs. The closeness and gains demonstrated in this arrangement thus far spills over into a relationship of further mutual-cooperation

\textsuperscript{106} (Brazilian Capital Abroad (CBE) Survey - Base-Year 2013)
between the state and national champion MNCs that operate within a closed sector of the economy which cross the border to seek further profits in innovative ways.

Poulantzian, among other Marxian, approaches to development push a mezzo-level analysis in their conceptualization of the internalization of capital. In the history of Brazilian industrialization there exists an acute sectoral division of labour between local and foreign firms. Foreign capital transplanted itself in specific and transnational ways. F.H. Cardoso uses the term dependent capitalist development with respect to specific sectoral firm cleavages that maintain a position of internal colony in the dependent social formation. He examines this compact of internalization in relation to the Brazilian based yet foreign owned auto manufacturing industry that acted as a manufacturing springboard for sales into Latin America. As of 2013, the largest sectors invested in are financial services (14%), beverages (12%), telecommunications (8%), and oil and gas extraction (6%). Foreign operations within the local market do not necessarily rub Brazilian MNCs that are largely extractive and focused on high value manufacturing. The firms linked into developmental bank financing framework do not compete in the same places for customers nor with the same institutions for financing with foreign firms in Brazil. Moreover, if we are to segregate bulk IFDI data we would find that no one firm or groups of firms from a specific national grouping has any serious clout over vital sectors of Brazilian industry or finance. At a mezzo-level, the special relationship between state financial vehicle and national champion propel contemporary Brazilian outgrowth of capital. It is the needs of the firm and state interwoven that drive Brazilian policy in Africa, Latin America, and Asia. Brazilian capitalism’s circuit-like financial compact has developed a relative outward drive based on a specific internalization dynamic.

From the bulk FDI figures in the graphs above we can deduce that Brazil has an embedded relationship with select states in the ex-colonial world. Additionally, this relationship is highly determined

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108 Ibid
109 (Banco Central do Brasil, *Census of Foreign Capital in Brazil - 2013 Results*, 2013)
by the movements of a select few industrial and financial giants. These giants, as explained above, grew to have a deeper hold on Brazilian economic life under the PT governments. Furthermore, these bulk trends indicate that while Brazilian firms still profit from Northern markets and that investment into this area are still active, they are stagnating while the pace of investment into the Global South is on the increase. Drawing from these insights from generally opaque bulk figures, the section below will explore the interconnections between state banks and private finance capital through the internationalizing experience of Brazilian capitalism.

4.2 Networking Abroad

A series of factors go into how Brazilian finance capital moves abroad with state aid. The legacy of the PT in championing national giants has led to relationships that facilitate foreign firms in their acquisitions abroad. The way the PT stabilized the economy through the GFC domestically in 2008-9 was to set up the state banks as watchdogs for industrial development. This has entailed an innovative role for public banks engaging internationally. At the same time, the mechanisms to avert crisis in 2008-9 have opened up a gap between private industry and private bank capital. In this gap, private bank capital has averted its systemic role as an investor in industry which freed resources to pursue mergers abroad, thus stifling the process of consolidation of capital through that avenue. Additionally, the strengthening of the state owned financial vehicles to power through the GFC changed in 2011-2013 to state owned banks actively helping all sectors of the economy engage abroad through investment and off-shoring. Instead of Lenin’s model of banks leading a relationship with industry to engage extraterritorially we see the state insert itself into this process to facilitate the conglomeration of both.

An example of the clientelistic relations inherent to Brazilian capital is when Lula goes abroad to Africa or Latin America to call for closer relationships between partners, millions of dollars in deals get
signed by the states hosting him and private sector officials from Brazil who tag along. These informal relationships have taken a more formal form. In 2009 BNDES set up its Latin America offices in Uruguay and in 2013 offices for African investment were set up in Johannesburg, South Africa. In setting up these offices BNDES reaches outward in its capacity as an export credit agency to establish commercial linkages to boost Brazilian export and investment ties.

One interesting capacity of these offices is to directly facilitate procurement deals to bolster the competitive advantage of Brazilian enterprises in global trade. An example of this is a recent deal struck by the African office that saw African airlines purchase planes from Embraer. The restructuring of BNDES to be the economic waypoint for economic intercourse of Brazil with Latin America and Africa is a tool for South-South diplomatic efforts aimed at securing deals for the export of high and medium technologically developed manufactured Brazilian goods. The BNDES offices abroad act to facilitate a 20-year process of export diversification, in this case to partners where Brazil can efficiently compete.

In setting up these offices for the development of export-based relationships, BNDES also ties in bank capital through its Exim Automatic loans. Set up in 2010, these loans to banks act to transfer the risk of buying Brazilian export goods to BNDES. Recently, Bradesco signed a $200 million USD loan to finance exports of capital goods from Brazil to buyers in Africa. In this risk-averse relationship,
Bradesco can then finance the movement of capital to Africa; thus, BNDES becomes actively involved in the movement of capital abroad. In facilitating private bank capital’s directive to move capital abroad BNDES then becomes the glue that holds the economic basis of Lenin’s imperialism together. The movement of capital abroad by finance capital to take advantage of new markets and cut labour costs is the basis for capitalism to spread and territorially divide the world. In relation to this paradigm, the question of relationships of control surrounding the sales, or rather if Bradesco and BNDES sell capital to Brazilian industrial firms or indigenous African ones then arises.

In focusing on the specific nature of this one loan through Exim Automatic, one can lose sight of larger trends relating to Brazilian corporates in Africa. A report done by the Fundação Dom Cabral (FDC) and the Columbia Centre for International Investment (CCII) in 2007 found that the top twenty Brazilian MNCs accounted for over half of the country’s FDI outward stock. Apart from this concentration, small and medium sized firms are also turning into multinationals. The table below is an excerpt from Alexandre de Frietas Barbosa et al’s adaption of the figures from the FDC-CCII report on just Africa.
On top of the geographical spread of Brazilian MNC operations there is also a certain depth, as they
collective control multi-billion dollar operations and significant sections of the host economies.
Odebrecht, for instance, is the largest private sector employer in Angola\textsuperscript{117}. A quantitative and
geographical depiction of this is that Gerdau S.A., one of the world’s largest steel manufacturers, spent
$601 million USD on acquisitions in Colombia, El Salvador, Nicaragua, Belize, Guatemala, Honduras,
and India since 2008\textsuperscript{118}. There exists a political economic chain of power where, behind BNDES’s
mission of facilitating exports, there are overt mechanisms used by Brazilians finance capital to move
capital abroad. Contingent to this process is the economic control of subsidiaries abroad by state backed

\begin{table}[h]
\begin{center}
\begin{tabular}{ |l|l|l| } 
\hline
\textbf{Name} & \textbf{Industry} & \textbf{Destination Country} \\
\hline
Adeco Agropecuária & Sugar & Algeria, Angola, Cameroon, Equatorial Guinea, \\
& Ethanol & Libya, Mauritania and Republic of the Congo \\
\hline
Andrade Gutierrez * & Construction & Angola \\
\hline
Aquamec Equipamentos Ltda. & Water Treatment & Angola, Morocco, Mozambique and South \\
& & Africa \\
\hline
Camargo Corrêa & Construction & Angola, Guinea, Mozambique and South Africa \\
\hline
Companhia Vale do Rio Doce (CVRD) & Mining & Egypt (joint venture with a national enterprise, \\
& Metals & GB Auto S.A.E) and South Africa \\
\hline
Marcopolo S.A. & Bus Manufacture & Angola \\
\hline
Medabil & Construction & Angola, Botswana, Djibouti, Gabon, Liberia, \\
& Materials & Libya, Mozambique, Republic of the Congo \\
& & and South Africa \\
\hline
Odebrecht & Diversified, but & Angola, Botswana, Gabon, Liberia, \\
& mainly & Libya, Mozambique, Republic of the Congo \\
& construction & and South Africa \\
\hline
Petrobras S.A (Petróleo & Oil & Algeria, Angola, Equatorial Guinea, Libya, \\
Brasileiro S.A) & & Madagascar, Mozambique, Nigeria, Senegal \\
& & and Tanzania \\
\hline
Symnetics & Management & Angola \\
& Consultancy & \\
\hline
Volkswagen Caminhões & Bus Manufacture & South Africa \\
& e Onibus & \\
\hline
Weg S.A. & Electro-mechanical & Algeria, Angola, Botswana, Cameroon, Cote \\
& & D’Ivoire, Democratic Republic of the Congo, \\
& & Ghana, Guinea, Kenya, Mauritania, Morocco, \\
& & Mozambique, Namibia, Niger, Nigeria, South \\
& & Africa, Togo, Tunisia, Zambia and \\
& & Zimbabwe. \\
\hline
\end{tabular}
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\textsuperscript{117} (Carmody, 2013, 121 )
MNCs. State support through the development bank results in a firm’s legal acquisition of localities of production in the global south.

Economic inter-relations between Brazilian capital and markets abroad does not end in a picture of a detached relationships between development bank and private firms. Development banks are engaging in joint ventures, acquisitions, and bilateral agreements to pave market entry for the market penetration of Brazilian private finance and multiple industries. In Africa specifically, state backed banks like BNDES and BB are forging partnerships with local development and central banks for a variety of purposes. Central to this is inter-state trust building for the developmental process and market access. An example of this trust building is BNDES’s Memorandum of Understanding (MoU) with the National Investment Bank (BNI) of Mozambique. This agreement “formalizes a structure for mutual cooperation between the two countries in order to foster programs and develop projects of common interest”\(^\text{119}\). And more importantly it encourages both institutions “to study possibilities of |financing and co-financing to support investment projects| that satisfy the interests and operational policies of both institutions and policies in both countries”\(^\text{120}\). In short, BNDES’s trust building with local development banks coincides with facilitating Brazilian MNC development in Mozambique.

Apart from inter-bank deals and loans that facilitate actual movement of capital along with economic engagement, state banks also work in wide variety of ways to engender market access from partner governments. For example, BB and Bradesco signed a tri-partite MoU with Espirito Sancto from Portugal in 2009 to expand into Africa\(^\text{121}\). This deal saw the Brazilian banks piggy back on the already involved Portuguese bank’s involvement while adding additional lobbying power to expand banking

\(^{120}\) Ibid Emphasis added
operations from the three parties to the MoU continent wide. These two moves of Bradesco, in cooperation with public banks, signals that public banks are coordinating everything from market access to giving cheap loans to private banks in an effort to get them more involved in overseas markets.

Private banks, of course, do not just look for expansion abroad with the direct help of public institutions. In fact, the economic compromise struck to evade a domestic crisis in 2008-9 gave the private banks room to maneuver. They used this opportunity to jump abroad. In 2014, Itau Unibanco expanded its operations in Chile and Colombia by purchasing Corpbanca, the fourth largest bank in Chile\textsuperscript{122} and the fifth largest in Colombia\textsuperscript{123}. Brazil’s largest investment bank, BTG Pactual, which has affiliates in Chile, Mexico, and Colombia has recently applied to open an affiliate in Peru; thus, giving it access to the major Pacific economies in Latin America\textsuperscript{124}. The expansion of retail and investment banking in Latin America by Brazilian banks means that they are cornering the sector. Bank capital, as part of Lenin’s original formulation sets the pace for investment into the real productive economy. This expansion allows them, regulatory impulses aside, to have a say in determining who gets loans and at what rates which then has a trickle effect on how companies operate. This combined with the pro-Brazilian MNC policies of BNDES also means that private Brazilian banks operating abroad can sign cheap loans with BNDES (as Bradesco did in with Exim Automatic) on the conditionality that those funds translate into boosting Brazilian exports to the countries they are active in.

Relating back to the theoretical paradigm sketched out in the first chapter it is imperative that these economic movements be drawn back to the historical trajectories which they represent. The seeds of the consolidation of the Brazilian economy in a few firms occurred far before the parameters that this dissertation seeks to explore; however, the effects of this consolidation are visible today. More than


anything, it is represented in the shares of FDI being consolidated in the hands of 20 firms. This heavy consolidation is an outcome of the historical development of Brazilian capitalism arriving at a monopolistic phase of indigenous capital development later than its western and northern counterparts. To get to this point of consolidation, processes of state involvement were key in nursing this growth. Moreover, the state has continued to play a role in the movement of Brazilian capital abroad to, in a sense, make up for the inherent unevenness Brazilian capital faces in the global political economy.

While the banking and industrial sectors experience a general uneven playing field, amid state-based aid, they engage globally with the north and south in a combined manner. Thus, when the north faced acute crisis in 2007-2009, Brazilian MNCs did seek to profit in this environment in those markets. At the same time, however, global unevenness and combination of market spaces meant that there exist other markets in which MNCs and banks sought access in order to exercise a competitive advantage while seeking to profit at lower costs. This is also not necessarily relational to market openness as the Chilean economy can be considered relatively open compared to Angola’s closed economy. Rather, the conditions for expansion abroad from the perspective of banks and MNCs are indicative of A) a slowdown in the capacity of a domestic economy to turn profits and B) the capacity to make that up abroad. As explained earlier in the chapter, 2011 marked the beginning of a slowdown in Brazil, which will assuredly deepen into recession given a Chinese ripple effect and a deepening European crisis. As elaborated upon above both banks and MNCs, the marriage officiated through the state creating finance capital, from Brazil are deepening their already prudent involvement in Africa and Latin America. Thus, the two conditions for outward movement are fulfilled in a relationship that Lenin describes as the economic basis for imperialism. The key exception to this case from a direct parallel with the paradigmatic framework Lenin

provides is the role of the state, which is accounted for if we think of the state, in this case, as an incubator to a local capitalism that is much weaker than other capitals internationally.

The above sections concentrate on the economic foundations of Brazilian imperialism. The section below is going to tie this into a more overt inter-state geopolitics. In essence, moving from the expansion of Brazilian capitalist “combines” that illustrate an increasingly competed-over South to illustrate how this translates into an inter-state dynamic. These two elements explicate how Brazil interacts with the world around it; thus, shaping the contours of a parallel with northern involvement in the south.

4.3 The Functions of the State

By the state dimension I hope to draw attention to normal routes of inter-state economic and geopolitical intercourse that occur through formal intergovernmental organizations that maintain inter-state commercial relationships. For the purposes of space in this dissertation, the intricate dynamics of the United Nations and WTO mechanisms will largely be ignored, instead focus will be given to Mercosur and Unasur as well as bilateral investment treaties. The utilization by states of these mechanisms sheds light on the direction that the state hopes to take international investment. Multilateral mechanisms are the sphere whereby the state engages with the extra-territorial world around it to ease the expansion of autonomous domestic finance capital abroad while facilitating the defense of these interests through legal means.

Brazilian diplomatic relationships with the third world have historically shifted based on the strategic interests of a given Brazilian regime\textsuperscript{126}. Local integration efforts in South America, however, have been a constant feature of Brazilian foreign policy while relationships with Africa and Asia tend to be more variable on given government preference\textsuperscript{127}. The PT government has led Brazil to deepen ad hoc

\textsuperscript{126} (White 2010) and (Lazzrini, et al. 2011)
\textsuperscript{127} Brazil has shifted the levels of foreign policy relations from the abertura regime, to the first civilian governments to the PT regime with respect to Africa and Asia. This is demonstrated through fluctuations in embassy numbers in a given region along with the frequency of lucrative state visits. See (White 2010) for a diplomatic history of engagement.
diplomatic ties as well as institutional capacities with respect to both Africa and Latin America. This has been done through enhancing regional investment and trade provisions as well as establishing bilateral investment treaties with a select group of African states. The engagement through these particular avenues with the rest of the global south is more reflective of the interests of the national champion firms along with private banks than with the omnipresent discourse of solidarity put forward by the PT. In addition to these avenues, the way in which the PT government has handled localized crises and inter-regional integration through multilateral mechanisms also reflects conglomerate interest. The recent regional crisis that took place surrounding the Paraguayan parliamentary coup crisis, in addition to the Brazilian positions regarding to North-South vs. South-South inter-regional integration will be examined below.

Trade and investment policies at the state level have developed through bilateral and multilateral means while generally staying away from deadlocked global governance institutions like the WTO. Bilaterally, the Brazilian government has signed bilateral investment treaties (BITs) with states outside of trade and investment blocks of which it remains a part. To use the agreements with Angola\(^{128}\) and Mozambique\(^{129}\) as cases, there are a number of interesting qualities to them. Aside from being almost identical to each other, these agreements drop the pretexts of common southern-ness often echoed in Brazilian diplomatic language to sell engagement and strictly deal with investment provisions. Stylistically, they look like treaties between France or England and Angola or Mozambique. Aside from encouraging and mandating a proliferation of investment, these treaties structurally establish infrastructure in the form of Ombudsmen and Consultative Committees, which have direct representatives from the private sector involved, to monitor compliance and to figure out legislative changes that can ease investment for both parties. The treaties also outline preliminary areas of policy harmonization while also forbidding nationalizations and expropriations\(^{130}\).

\(^{128}\) This agreement was signed on April 4\(^{th}\) 2015  
\(^{129}\) This agreement was signed on March 30\(^{th}\) 2015  
The trade and investment relationships between Brazil and its partners are already unbalanced and unidirectional. These relationships are characterized by the strength of Brazilian capital involved in Angola and Mozambique. The arrangement which these BITs create aims to deepen this through guaranteeing the proprietary agency of these firms while enabling the partner states to open up and change their investment policies. These arrangements on one front mimic western and northern engagement with the third world while acting as a sober prelude to Brazil’s discursively deep yet industry-facilitated multilateralism.

4.3.1 Multilateral Trade

Brazil has a history of being a constitutive part of multilateral trade and investment arrangements in Latin America. The two key blocks that Brazil maintains a key position through its leadership in recent debacles are Unasur and Mercosur. Brazil was a founding member state of the still developing Unasur, an arrangement which may or may not unfold in a similar integration pattern as the European Union. It is in a much more economically oriented Mercosur, however, that Brazil has recently played a more prominent and hegemonic role. In this body, Brazil, as the largest economic partner, has had final say where it truly matters. This is evident both in terms of how Brazil manages the internal and external political environment of the customs union. This is particularly evident on the issue of which other regional integration areas it has lead Mercosur to sign free trade or BIT agreements along with Brazil’s handling of the Paraguay parliamentary coup amidst Venezuelan accession.

The PT government has utilized Mercosur as a tool to create and preserve an economic area suited towards the national development of its firms and banks. On one hand it has sought to utilize Mercosur as a tool to create positive investment and export space throughout the continent while simultaneously utilizing its mechanisms to deny this space to competing branches of European capital. In regards to

continental expansion, Brazil lead Mercosur into a complementation agreement\textsuperscript{131} with the Andean Community which went into force in 2006. Much like the aforementioned BITs, this agreement created an atmosphere conducive to Brazilian export and investment abroad. Between the two blocks, this agreement establishes anti-dumping mechanisms\textsuperscript{132}, rules of origin procedures\textsuperscript{133}, and a dispute settlement structure\textsuperscript{134}. All of which are very standard procedures for giving MNCs a sense of confidence in international regulation. Along with these very orthodox clauses, the treaty makes a special emphasis on facilitating the “progressive liberalization, expansion, and diversification of commerce in services” between the states part to the agreement\textsuperscript{135}. In addition to this perspective on deepening trade, the treaty also sets technological development in terms of science, infrastructure, shipping, and transport to facilitate the material needs of MNCs to conduct exchange internationally. With these stipulations this agreement goes above and beyond a normal trade agreement.

We can juxtapose this agreement between two South American blocks, a region where again Brazil out ranks every other economy in terms of size, to the Brazilian stance on a Mercosur-EU deal. The PT government and the EU have been slow moving to develop on a free trade idea first pitched in 1999. Negotiations have been on and off since 2004, with the heads of state of both blocks reiterating their willingness to enter such an agreement in 2010. From 2004 to 2015 there have been on and off rumblings about the deal. Interestingly enough, the EU was open to signing an agreement with just Brazil on account of Argentine unwillingness to sign on. This proposal, which was very swiftly rejected, would have effectively legally distanced Brazil from the rest of Mercosur; thus, burying its weight in local international institutions. As Brazil takes over the 2016 Mercosur presidency, some observers believe one

\textsuperscript{131} Such agreements have been signed between Mercosur and other developing states such as India, Egypt, and Mexico thus making this kind of agreement on one hand non-unique to South America, but rather re-enforcing the conception of these types of agreements as being brought into force with developing, and not developed, states.


\textsuperscript{133} Ibid

\textsuperscript{134} Ibid 6

\textsuperscript{135} Ibid 7
will finally be signed. However, as of the latest joint ministerial meeting on June 11th 2015 the two parties have only agreed to submit their idea for market access to each other by the last quarter of 2015\textsuperscript{136}. Aside from very intricate differences between Argentina and Brazil on the scope of market access to offer, the Brazilian position would very much skirt around the sectors dominated by big industry\textsuperscript{137}. For example, trade in services and reforms to government procurement would be welcome while opening investment for agriculture or certain industries are areas where even the employers’ association are wary about\textsuperscript{138}.

In comparing these two sets of agreement we see how asymmetry between negotiating partners plays out. In South America, integration through the mediums of trade and investment is fast tracked due to economic expansion of Brazil in the region and the overall size and impact of the Brazilian economy. When it comes to negotiating with a larger body, however, the deals become more nuanced to particularistic needs. These inter-state economic agreements that harmonize investment and export processes reflect a partial need of capital in setting up more tailored legal architectures within territory to invest, produce, sell, and generate profit. From the perspective of Brazilian MNCs the question of profitability is closely linked to the unevenness of capitalist development; hence, in one respect these needs are quickly articulated with a desire for states to inject funding into transportation to develop them while in another case a delicate dance is undertaken to insure against unwanted ends from a more capital intensive region.

As a customs union, Mercosur follows a trajectory of fostering functional spillover at an institutional level to improve multilateral relations. As such Mercosur’s institutional direction in fostering inter-regional dialogue begets an agenda as it is the semi-collective voice of a group of specific integrated economies. The agenda of how to deal with foreign relations expresses itself in the organization’s


\textsuperscript{138} Ibid
deliberative bodies. It is here that we can see a dominating position played by the state of Brazil in regard to policies that affect national champions within the block. Brazil’s policies surrounding the external relations of Mercosur demonstrate an intense sensitivity to both capitalist development and geopolitical concerns, the way it maneuvers within the block sheds a different light on these two factors.

Brazilian policy with regards to in-group governance within Mercosur has selectively backed rules and regulations, which have put the interests of its firms and banks on a given issue. For example, while the Paraguayan legislature was grappling with Venezuela’s adherence to the Ushuaia protocol, the “democracy clause” of Mercosur, in regards to the latter’s accession, the rest of Mercosur suspended Paraguay on the same clause while admitting Venezuela to the block. In regards to Venezuela, Brazil enjoys a healthy export market, a positive balance of trade, and a friendly government weary of foreign intervention on the continent. The relationship between Brazil and Paraguay is more complex and reflective of the internal crisis Paraguay experienced leading up to its suspension.

As of 2006, “5 percent of the largest farms [in Brazil] occupied more than 69.3 percent” of the arable land\textsuperscript{139}. Agriculture has only gotten more concentrated in the hands of a few agribusinesses since 1975. During the Alberto Stroessner dictatorship in Paraguay a number of these agribusinesses acquired vast amounts of land in Paraguay, just over the Brazilian border starting a process labeled as “private colonization”\textsuperscript{140}. By the late 2000s, migration of Brazilian workers into Paraguay, along with increased land holdings by Brazilians (or brasiguayos) changed the demographic landscape of the eastern departments of Paraguay, whereby Portuguese-speaking people made up a majority in certain areas. The drive to accumulate capital on the part of agro-capital in Brazil resulted in an expansion into foreign markets; thus, triggering an export of Brazil’s agrarian crisis into Paraguay. It is in dealing with the crisis between brasiguayo landlordism and Paraguayan campesinos, who saw their lands expropriated and sold


off, that President Lugo was illegally impeached by right wing forces formerly loyal to the dictatorship. The PT waving the Ushuaia protocol at the Paraguayan legislature as the crisis happened was only a show as suspension from Mercosur still enabled Paraguay to have an open border with Brazil; thus, preserving the economic links between Lusophone landlords and Brazil. Moreover, Paraguay was allowed back into Mercosur following the presidential elections in 2013. It is the entrails of this crisis that allowed the PT administration to push Venezuela through to full membership as the Paraguayan legislature was stripped of political voice inside the governing bodies of Mercosur. This careful maneuvering saw the geopolitical goals of Brazil achieved while at the same time preserving the structural power of Brazilian capital at home and abroad.

Brazilian use of Mercosur corresponds to the statist national development approach it undertook in facilitating the development of BNDES as way out of the crisis. In this regard, Mercosur is a tool for the facilitation of national development as guided by the interests of the private sector both within and outside of the common market structure. Foreign trade policy thus becomes an arm to strengthen and increase the wealth of the national champions.

5. Conclusion

The domestic foundations of the Brazilian banking sector were re-organized in the aftermath of the crisis. This was directly responsible for an immediate rebound. During this rebound private banks initiated mergers abroad to enter into developing economies that were also experiencing growth while public banks expanded rapidly to holster industrial growth. This industrial growth built upon past patterns and institutions of an orientation towards export oriented finance. These mechanisms for turning outside of the Brazilian economy by finance capital along with the stagnation of the 2011 to 2013 (and beyond) period signalled a certain crisis, more accurately a reduced profitability, within the political economy of Brazil.
The Brazilian private sector is turning abroad for these reasons while the Brazilian state, in its capacity as an appropriating force in the banking sector, is nurturing this. State-owned banks were the cornerstones of the recovery from the crisis and they are the lifeline that is literally building bridges for national enterprises abroad. This outgrowth of Brazilian finance capital infused by a high degree of state activism comes about for the reason of profit. Expanding into economies where it can find cheaper reserves of labour than in Brazil while selling high value manufactured goods at competitive prices to states in Latin America and Africa. This is not the Bandung spirit manifested in international cooperation, rather it is the hallmark expansionism of Western capitalism with the notable exception of a raised fist of solidarity from the new exploiter to the exploited.
Chapter 3: Russian Development and Global Engagement

1. Finance Capital and the Creation of New Forms of Scalar Regional Governance

This chapter examines the Russian international engagement. Russia’s global role has been characterized by a backdrop of sharp economic vacillations. In the past twenty years, Russia has been the largest economy to transition from a planned economy to free market economy and back to a mixed market economy. Internationally this is reflected succinctly in its transitions from donor status, to a recipient of aid, and back to a donor. In this changing environment within the Russian political economy there has been sharp discussion on its integration into the world economic and political system.

Debates in policy circles in Russia and within the west have taken two distinct forms. Liberal intergovernmentalists have pursued the position of Russia integrating into the west through political intergovernmental organization in the UN, Council of Europe, and bodies of this type. At the same time, they assumed a transition into a capitalist economy would bolster interdependent linkages between it and the west. Mirroring this position, realists have viewed Russia as an historical antithesis to the west. Within Russia this has manifested, in its most crude form, in ideological Duganism which poses the two as civilizationally distinct. The security dilemma between Russia and the west has also been viewed, due to the non-integration of the two, as an insurmountable barrier, thus creating considerable friction.

Both strands of thought have been overtly focused on Russian engagement with the west, or more recently on the BRICS. This arrives to the detriment of Russian involvement with the rest of the developing world as well as the transition economies in Eastern Europe. For a state that once actively supported insurgent movements and left wing governments throughout Asia, Africa, and Latin America

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there is a vacuum in terms of its political engagement with these areas today. This chapter draws clear linkages from Russia’s turbulent domestic changes to the evolving relationships it has with partner states in Eurasia, Africa, Latin America, and Asia. Aside from a brief summary of the transition to a market economy, this chapter will dedicate most of its focus on the period between 2008 and 2014.

Two brief caveats are important to take into account. Firstly, the recent processes unfolded in the aftermath of the Ukraine crisis have not yet crystalized. Sharp turns in inter-state relations may alter some of the variables used to examine the hypotheses sketched below. Secondly, as compared to the openness of Brazilian FDI data, Russia’s figures are inadequate. Out of the top five investing states into the Russian economy, four are off-shore tax havens. The opaqueness of these figures thus moves beyond who is investing bringing up questions as to where this money is originally coming from. In place of these data sets, a quantitative onus is placed on figures from corporate annual reports and central bank information. The preceding chapter utilized FDI as a medium to capture Brazilian macro-investment flows, which were used to capture a broad picture of mezzo-economic processes in the Brazilian economy. As the data for an analysis of macro-economic engagement between Russia and the ex-colonial world is demonstrably unreliable, the mezzo-level analysis will be extended. A qualitative onus is placed on international accords and reports that indicate any materialization of trade and investment relationships.

Therefore, there is more of a discussion on the inter-relations between actors that lead to state involvement in the private economy which create for Russia new structures of scalar regional governance. As in the previous chapter, the interpenetration of the variables of the state, industry, and banking is examined to observe how Russia and Russian capital engage with the ex-colonial world. There is an observable trend that coincides with Brazilian externalization. In Russia, a similar circuit of state-finance to private capital lending and support exists. The relative size of each variable to each other as well as the different media of profit extraction in the Russian context are different than those explored in Brazil.

Despite this difference a state-supported externalization of finance capital is observable in both contexts despite the different functions played within this circuit due to size differentials. In tandem with this similar financing process, the Russian state also parallels Brazil in the creation of new forms of regional governance. Regional schema through bilateral and multilateral space facilitates for Russian capital the production of new forms of coloniality.

This chapter is structured in the following way. The following subsections offer a brief contextualization of contemporary Russian external engagement. Section 2 explores the general post-2008 economic context through gross GDP fluctuations. Section 3 builds an overview into a longer mezzo level analysis in terms of observing firm level relations with state economic institutions. Sections 4, 5, and 6 focus on the inter-actions between the variables examined. The purpose of this examination is to get a closer look at the movement of state in relation to finance and industry in acute crisis periods and draw linkages to changing mechanisms of externalization. The idea being that these exogenous shocks engender an environment of creative destruction to the foundations of political-economic stability for movement of state-to-industrial support. Shocks necessitate changes to the form of engagement and necessitate reforms to the mechanisms of engagement. Finally, Section 7 examines Russian exports in the context of re-industrialization policies.

1.1 Literature on the Russian State and the Economy

To provide context for the inter-penetration of variables this section explores changes in the interaction between the state and the private sector in contemporary Russia. The size of the state in the financial and extractive sectors entails a different coexistence between the state, banks, and manufacturing/extractive industries. To put Putin’s rise into perspective, by 1995, the Yeltsin government boasted a 100% privatization. By the end of his second term in 1999, most Russians saw their livelihoods devastated. Macro-economic instability in the form of hyperinflation and the rouble crisis wreaked havoc on a newly capitalist economy. Unemployment officially was recorded at 13.3%
while estimates at the real rate go as far as 26%. The economic picture of Russian society on the eve of Putin’s 2000 election victory demonstrates state economic mismanagement, an oligarchic bourgeois elite, and widespread social anguish at the status quo.

The first Putin administration overhauled much of the institutional framework of the market. As Andrei Yakovlev notes, “a new version of the joint-stock company law was passed, the bankruptcy law was revised, a code of corporate behavior was designed, the dissemination of best practices of corporate governance was promoted, a reform of the judicial system was launched, and the system of law enforcement was upgraded”. This institutional reform re-shaped the parameters of domestic market governance with enforced legal parameters on the conduct of firms in the market place, a turn away from the anarchy of the Yeltsin years. In the structural reconfiguring of the state there was an implicit alliance between Putin and a certain section of the oligarchy.

Putin put the wheels of the liberalization process into reverse as he reformed the networks of organization. By clearing out sections of the political and bourgeois elites through legal and semi-legal expropriation, the Russian economy went from almost total privatization in 1995 to one where the state owns 50% of the economy in 2014. State control in the oil industry, which in 1998 to 1999 was at 10%, was in 2014 between 40% and 45%. Domestic state-owned banks make up an even larger portion of total assets in Russia than in Brazil. Today, the state is the largest lender and is inserted into controlling positions in the productive inter-firm value-chains in Russia and countries within its geographic

\[145\] Yakovlev 2008, 7
\[148\] Ibid
proximity. Thus former networks were rearranged with a clear centralization of forces back into the hands of the state.

The state, on one hand, acts as a creator of market architecture to secure the functioning of capitalism. It is here that private property is made guaranteeable and trust mechanisms are established through the backdrop of an active state. The state, on the other hand, still maintains the capacity to act as a direct accumulating force in society, accumulating and allocating surplus in one way or another. State enterprises facilitate this role. Yakovlev’s work is particularly fascinating in terms of the relationship between the state and private sector. Utilizing a broad questionnaires for top executives in Russian firms he notes, “that the formal indicators of the quality of corporate governance in Russia of the early 2000s were higher in companies under state control or with a stake held by the government”\textsuperscript{149}. He explains that this is due to “the stage of development”\textsuperscript{150} a sense of “proper order was introduced” to the functions of the economy with state penetration\textsuperscript{151}. This research, along with a host of other works\textsuperscript{152}, indicates that Putin dug the state into the economy in his push to restructure juridical-legal components of market activity, managerial structuration within state-owned enterprises, and regain state owned enterprises. The altered sizing and impact of the state in the Russian political economy indicates changes to the largest firms in the CIS and some of the largest non-western oil and gas firms in the ex-colonial world.

1.2 Theoretical Remarks

The preceding chapter traced the movement and reactions of Brazilian capital to a changing international environment. A re-evaluation of Lenin’s variables of finance capital was needed to position the agency of the state. The state, in Brazil, took an active role in banking to promote the continued development of national firms. Instead of an organic linkage between bank or money capital and industry

\textsuperscript{149} (Yakovlev 2008, 20)
\textsuperscript{150} Ibid 21
\textsuperscript{151} Ibid
\textsuperscript{152} (Gaddy and Ickes 2010); (Gorkina 2015); (Gros and Steinherr 2004); (Mankoff 2010); Trenin, Dmitiri. 2007. "Russia Redefines Itself and Its Relations with the West." \textit{The Washington Quarterly} 30 (2): 95-105.; and (Varese 2001)
where the former directs the latter, the state incubates both. This incubation creates a fertile environment for increased interaction beyond the borders of the Brazilian state. The formula is generally applicable in this context, however, it needs to be tailored for the belated emergence of capitalism in Brazil more broadly.

A lagging development over a long history internalized industrial dependence on advanced states has chronically stunted the development of locally owned and managed capital in Brazil. Thus the existence of unevenly developed areas in a global market restrains the ability to develop, without state interference. This is not to say Brazil has completely overcome this unevenness but that state intervention has propelled forward industries in which Brazil experiences a competitive advantage. Industries such as extraction (Vale), steel production (Gerdau), and foodstuffs (JBS) are far from the entirely elastic and intrinsically stable industries that propelled western states forward in the post-war boom. Thus, while advances are made in propelling industry forward, these are still for the most part industries of dependence – dependence itself being an outcome of this unevenness in a global market.

In transitioning from a planned economy where everything is state-owned to one where private property is the norm, Russian industry has earnestly entered this uneven global environment. A rocky entrance into global capitalism under Yeltsin necessitated a domestic policy return to state-backed industrial and financial development. The identical direction of this movement plays out very differently in Russia than it did for Brazil in terms the types of state interaction and the factors contributing to them. The conditions that intensified a drift to state-backed capitalism in Russia is discussed below in Section 2. How this type of state-industry relationship relates to Russian firm and state interaction abroad is discussed in the Section 3. The interactions between the variables of bank-based capital, industrial capital, and the state as an appropriating and financing force will be discussed in Sections 4, 5, and 6. As the avenues for financing and closed circuit systemic inter-dependence are explored these three sections directly discuss the form and function of the externalization of the circuit created by the aforementioned political economic variables. Section 7 explores the direct outgrowth of formal and informal state policy
in regards to the outgrowth of policies oriented towards the nurturing and exporting of state-backed market champions.

The processes and systems of foreign relations and economic management that Russian state people have formulated began in social systems formulated before and after the dissolution of the Soviet Union. The post-2008 economic crises and the response of the Russian state to the crisis are reflective of an intensification of historically rooted processes of centralization that are emblematic of Putin’s years in government. Although all the variables discussed are pressured by an array of exogenous and endogenous factors including commodity crisis, changes in the balance of trade, and liquidity crisis, the general pattern of state supported private conglomerates exists in Russia. State supported juridical-legal mechanisms that facilitate firm externalization is present. In addition to bilateral economic mechanisms there also exists an array of multilateral economic venues of Russian engagement (Eurasian Union, CIS, etc.) as well as security mechanisms in both diplomatic mechanisms. These mechanisms extend a variety of legal extensions of the rights of Russian MNCs and the Russian state over parts of the world that remain asymmetrically underdeveloped vis-a-vis Russia. There is some semblance of value in the deconstruction of the political economy of the state and finance capital. In this breakdown two state-centred processes are evident. First, it is the function of the state that secures the foundation for externalization through processes of financing. The state, committed to the elevation and reproduction of a specific capital perpetuates an economic uneven asymmetry. In preserving the oligarchic firms, the Russian state sustains and deepens scalar regional divisions within the economy. Second, it is also a function of the state, which utilizes the CSTO, the SCO, the CIS, the Eurasian Union and bilateral tools to create an extended juridical territory from which it can fuel the on-going productive processes of its major private and state-owned industrial conglomerates. While a certain cohort of power is being incubated and preserved, it is also being exported through the creation and maintenance of Russian created and backed structures of trans-border governance. The former process entails the state promoting harmonious economic de-territorialisation while the latter process is the state aggressively seeking to legally secure promising
localities for its domestically owned extractive, metal processing, and pipeline sectors. In tandem, both functions of the state contribute to perpetuate a form of imperialistic engagement.

2. The Economy Post 2008

After the fall of the USSR, most Central and Eastern European economies underwent a period of opening to western investors and western banking. Russia presents a case whereby this did not happen. Comparatively, western investors did not enter the economy in the same proportions as Czech Republic or the Baltic states. Many scholars attribute this to weak investor protection, frequently changing laws related to companies, an early propensity for crisis, and the lack of EU accession as a motivator for integration and reform. As a result, the economy has generally been dominated by Russian owned and operated financial and non-financial firms as compared to other post-socialist states, which received an influx of foreign firm penetration.

David Lane makes the case that weak investment links and bank penetration from the west into the Russian economy as well as stricter fiscal policy in the aftermath of the rouble crisis led to an insulation from the impact of the 2008 and Eurozone crisis\textsuperscript{153}. The following is an outline of Russian GDP from 1996 to 2014.

This graph demonstrates three interesting aspects of the Russian economy. First, the general upward swing of growth from the 1998 crisis to 2007, which coincides with Putin’s presidency, is fairly remarkable. Secondly, the drop between 2008 and 2009 is not as large as the drops in other CEE states. Thirdly, the reduced growth in 2014 signals a period to come of recessive growth. This contraction is due in part to the war sanctions coming as a result of the Ukrainian crisis and in part to a Chinese slowdown stifling demand for raw materials such as copper, steel, aluminum and oil. These factors will be explored further below. It is interesting to note that this GDP graph follows a very similar tempo to that of Brazil.

3. Finance Capital and the State: Remarks on the Sanctions and the Crisis

Returning to the two wings of finance capital, we see in the Russian case a higher degree of state involvement than in Brazil. Whereas in Brazil there exists a distance between politicians and the private sector where state involvement acted in a way to incubate the private sector. In Russia, ties of loyalism bring the state and the oligarchy into the same fold. This becomes abundantly clear when looking at how much of the banking and manufacturing sectors the state owns. My analysis here strays away from

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154 (UNCTAD 2014)
observing FDI flows and takes a more direct approach in observing firms and how they engage abroad. The reason being is that the Russian oligarchy, and oddly enough certain state enterprises, are fond of using off shore tax havens to escape taxes. A firm by firm analysis of a sample of the largest exporters and banks is the only way to see what is happening in their engagement with the state and foreign partners.

Before delving into the results of these findings, it is worth mentioning the general economic situation Russian multinationals face in their global operating environments in 2014 that were different from 2013, 2012, and 2011. The sanctions are an important consideration in evaluating data in 2014 for the Russian economy in two respects. The networks that sustain the functioning of the capacity of bank and industrial capital accumulation in the context of the firm are changed. This is observed in the sheer economic impacts of the sanctions on the firms themselves. This changes the economic environment of the state’s appropriating institutions whether financial or industrial in and of themselves. The sanctions also change the nature of the relationships between the state and the national bourgeoisie. These economic effects on the national bourgeoisie and the appropriating arms of the Russian state come as result of a political decision on the part of American, European, Canadian, Japanese, and Australian officials in relation to the unraveling situation in Ukraine. The relationship between the national bourgeoisie and the state due to these exogenous shocks is changed based on several network factors and through mediums of elite communication, state sector to private sector support, and policy changes on the part of the Russian state. The effects of the sanctions force the national bourgeoisie into an uneasy, yet far closer relationships to the government.

The effects of the sanctions thus far add an uncertainty and restriction in the international financial and lending markets. The logic behind the sanctions threatens these same firms with asset freezes of affiliates and subsidiaries in the G7 for further compliance with the Putin regime. The sanctions, which also target state oil companies also affect the section of the national bourgeoisie based in metal conglomerates. A slowdown in pipeline construction or a slowdown in demand for their products from state-owned oil companies has had an adverse impact on their corporate health. In this sense, the sanctions
in conjunction with the crisis have torn open cleavages in the economic operations in terms of commodity prices, demand for finished and non-finished goods, regularity of credit, and regularity of contracts for these firms in relation to the state while threatening further isolation. It is in mitigating the impact of both the sanctions on the national bourgeoisie that the state is carving out a new relationship with the national bourgeoisie. The crisis in commodities is international, the slump in demand for produced goods is international, and the isolation of Russian banks from credit in international markets has also international reverberations. The ways in which the state is reshaping this relationship to the national bourgeoisie relies on new strategies for mitigating an inter-state political environment in conjunction with fighting a battle to ensure the flourishing of the industrial and banking sectors in a hostile global economic environment. The form of Russian externalization changes, as the closed circuit political economic movement alters under the pressure of crisis.

4. Banking

The banking sector, although primarily state owned, has followed consistent patterns of concentration and growth since the early 2000s. In December 2007, there were 1,136 credit institutions in Russia\textsuperscript{155}. Adjusted for inflation, they had a combined total of $825,795 million USD while 66 institutions accounted for 80% of total sectoral wealth\textsuperscript{156}. By December 2009 the total firms in the sector were cut to 1,058 while wealth rose to $972,196 million and concentration became confined to 49 institutions controlling 80% of sectoral assets\textsuperscript{157}. There is a trend for asset growth, attrition in total institutions, and attrition at the top end. In December 2011 total firms dropped further to 978, total assets increased to $1,291,830 USD millions, firms concentrated at the top shrunk to 46\textsuperscript{158}. Throughout the onset


\textsuperscript{156} Ibid


of the GFC, the Russian banking sector was organically concentrating and expanding. Nothing seemed to be amiss.

The most recent statistics turn this pattern on its head. In April 2015 total firms dropped 815 and the top firms controlling 80% of assets dropped to 32. These drops fall at relatively the same rate of attrition as in the past. However, there was an asset drop to $1,249,010 USD millions\(^{159}\). The differences in the 2015 statistics reflect the impact of the sanctions regime on the Russian financial sector. While Russian banks fared well and exhibited organic processes of asset accumulation and concentration through the GFC, the impact of the sanctions as an economic weapon of political intercourse, interrupted previously stable trends of asset accumulation.

There are many reasons attributed to the relative success in stabilization of the emerging economies through the GFC compared to the west. It has been argued that the stability of the Russian financial sector through the GFC comes as a result of the insulation of the sector from outside contagion. Specifically, this has come through the lack of expansive host and ownership relationships by foreign banks in the domestic economy\(^{160}\). Another usual explanation is that the recent historical experiences of the 1998 crisis has tightened the regulatory ship. Although these are two very plausible reasons for stability regulation needs to be taken into account with how Russian banks operate to explain the differences between the two crises on the sector.

The Central Bank of Russia has been attempting to phase in Basel II and III since 2008. However, the framework that existed during the crisis was “stricter than the Basel Committee in several areas”\(^{161}\). Particularly, the capital adequacy ratio was 25% higher, however, certain countercyclical buffers aside from this are non-existent\(^{162}\). In this sense, the prime regulatory concern was maintaining the solvency of


\(^{160}\) Lane 2010

\(^{161}\) Ernst and Young, n.d. Implementing Basel II/III in Russia. Ernst and Young. Ernst and Young, n.d. Implementing Basel II/III in Russia. Ernst and Young.

\(^{162}\) Ibid
the banks while the focus was not placed on anterior counter-cyclical policy. This framework did not necessarily beget the most effective crisis abatement policy. When the liquidity crisis touched down, the Russian government turned towards the Oil Stabilization Fund, National Welfare Fund, and Reserve Fund to provide liquidity when the crisis landed. Russian banks were thus set to have higher buffers in case of the liquidity concerns while the stabilization funds were largely based on commodity exports.

At the end of 2008 and beginning of 2009, the liquidity crisis in the west permeated the Russian banking sector. At the same time, the price of oil and other commodities Russian firms and the state depend on to sell abroad declined. Thus, systems in place, which acted as the bailout infrastructure, saw cuts to inputs in their liquidity. In a similar way that these regulatory systems came under pressure, firms in the oil and extractive sector saw the combined pressures on their access to both short-term lending as well as their reduced returns on commodity markets. Russian terms of trade declined drastically as the liquidity crisis ravaged the banking sector. To bump past the liquidity crisis, the Central Bank of Russia (CBR) has the fourth largest foreign exchange reserves in the world. It elected to utilize these foreign reserves to artificially manipulate the interest rates through a sell off. Monetary and fiscal policies helped regain equilibrium in the banking sector so normality resumed in 2011.

In terms of the degree of state involvement in the banking sector, the literature generally remarks on the question as being one of degree in addition to nuance. There has yet to be a study that examines how this happens considering the effects of the crisis. What seems to have happened in the immediate post-crisis period following 2009, banks looked to foreign exchange and stock markets “in order to generate income and cover expenses”\textsuperscript{164}. In 2012, large banks began to “sharply reduce fund raising from external capital markets”\textsuperscript{165}. In lieu of this, banks began to rely more on the Central Bank and the Ministry


of Finance for financing, particularly for short-term loans\textsuperscript{166}. By 2012, an “infusion of public funds to the banking system caused an increase in the share of the state in private and joint stock banks"\textsuperscript{167}. The post-GFC period demonstrates, “evidence of the systematic tendency of growth of the state support to the banking system”\textsuperscript{168}. The kind of support given by the state to the banking sector created a structural environment for the Ministry of Finance and CBR to direct the pace of investment. This is apart from considering their roles as purveyors of monetary policy, in a hands off sense, as well as the state’s direct or indirect ownership of large sectors of the real economy.

While the state has a lot of indirect control over the banking sector it also has a lot of direct say in it. According to 2013 figures, out of the top ten largest banks weighted by assets, the top six are state owned\textsuperscript{169}. The assets of those six institutions combined make up 53% of the total share of assets of the sector\textsuperscript{170}. Without accounting for public banks owned at the regional level or of smaller institutions created by the state for specific investment purposes we can clearly see that a majority of financial assets are owned and operated by state controlled institutions.

These six banks are also the key lenders for some of the largest Russian MNCs. These include Mechel, UC Rusal, Gazprom, TMK, Norilsk Nickel, Inter Rao, Rosneft, Acron, Lukoil, and AtomEnergoProm. These six banks are thus important parts of investment into firms that operate in the real economy that also act to externalize Russian capitalism. The state has had a relatively close grip on the banking sector through direct and indirect ownership of institutions in addition to its organs fiscally pulling the sector as a whole closer towards it.

This closeness has engendered a form of state directed capitalism. Given the more cohesive management of the state sector by Putin, we can isolate the networks of control going from in and around

\textsuperscript{166} Ibid
\textsuperscript{167} (Gorkina 2015)
\textsuperscript{168} (Khromov 2012)
\textsuperscript{169} (Gorkina 2015, 28)
\textsuperscript{170} Ibid 27-28
the political elite around Putin through the financial sector (state owned banks, CBR, and the Ministry of Finance) and out to industry (both public and private). The 2014 crisis disrupted the financial side of this stream by blocking all state owned banks from borrowing on US and European capital markets. This disrupted short term lending, for which the state had to dip into its reserves. What the post-GFC period allowed was a tightening of the relationships between the state and financial sector. In the aftermath of the 2014 sanctions, the state used the dependency of the financial sector to re-orient the real economy.

5. Industry

The sanctions provided political space to implement dependence alleviating reforms to the real economy whose structure was primed in the way the financial sector was adjusted in the recovery period. To deal with the real economy while keeping the transnational elements of this dissertation real I took a snapshot of the largest transnationalized Russian firms. Following Baran, Sweezy, Cardoso, and Poulantzas I place an onus on the modern corporation as self-containing unit of capital accumulation. Particularly, I observed the 2014 and 2013 annual reports of the top twenty corporations with headquarters in Russia ranked by foreign assets as of 2011\(^{171}\). This year, 2011, is the first in which Russia surpassed its 2008 GDP rate, so at this point the economy looked as if it was entering a cycle of perpetual growth while the industrialized west was still in decline. In 2011, the proportion of total outward FDI stock that the top 20 non-financial MNCs accounted for was 30.09%.

In 2011, these firms maintain foreign operations in extractive industries, refineries, and a wide array of metal processing plants in every continent. When exports are taken into account these firms have a substantial reach around the world at the level of the productive process as well as at the level of individual consumption. Through the route of transnational reproduction, Russian industrial capitalism changes the face of owner/worker relationships in pocketed localities throughout the world. This occurs

\(^{171}\) This list was based on a survey by Kuznetsov, Alexey. 2013. *Global Expansion of Russian Multinationals after the Crisis: Results of 2011*. Moscow and New York: Institute of World Economy and International Relations and Vale Columbia Centre.
through a semi-organic process of firm growth following a corresponding expansion in the market of scale and value-chain which leads to de-territorial expansion for greater returns. MNC financing through the centralizing efforts of the Putin government up to 2011 transformed the interests of the state in the economy as a financial agent. Thus while the state seeks to propel fiscal returns from investments, it also plays the role of a midwife to the productive non-financial corporate economy in nurturing further growth and expansion.

The sanctions, which will be further discussed below, had two distinct impacts on the outward movement of this coordinated political economy from the perspective of the top 20 Russian MNCs. The first impact is the severing of all financial linkages Russian non-financial MNCs had with the west, which underlay the basis for a liquidity crisis in Russian corporate finance. With the elimination of routes to western finance this pushes them to non-western and state-owned lending avenues. Secondly, there is a slow movement of Russian capital from the United States. This is partially due to the pressures and incentives of the Russian government and partially due to the limited capacity of these firms to operate in markets where their operations may be threatened with expropriation. The results of the sanctions entailed a pullout of operations from western localities and a corporate fiscal turn to the non-west for liquidity. This represents the extent to which the sanctions severed a whole economic layer of interdependence between Russia and the west. It also indicates that so long as these sanctions last Russian finance capital’s need for externalization, either through an outlet of production or consumption, will take place in the direction of the ex-colonial world. This is the general direction of the Russian economy; the data for the externalization of the top third of Russian conglomerates can be found in a chart in Appendix A.

The first thing to remark about this list, is that it is not as much a list of the top twenty enterprises anymore so much as a list of the top eighteen. UC Rusal purchased Norilsk Nickle and Severstal now owns NordGold. There are a couple interesting dichotomies that can be made to segregate the companies on this list as well. These dichotomies bring to light intersecting cleavages. These dichotomies include: state versus private ownership; companies incorporated in Russia or abroad; and the type of company. On
the list there are nine privately owned mining companies, five state owned oil companies, one private and one public sea and rail transportation companies, one private chemical producer, one state electricity producer, one private conglomerate, and one state uranium producer. These dichotomies highlight a national bourgeoisie that is generally dependent on the state banks for operational loans, state oil companies for a continued stream of buyers, and state infrastructure companies for transportation. We also see that the primary foreign investment companies are not diversified.

In interpreting this data, I could not account for changes in foreign assets for 2013 and 2014 without using surveys, however, there were other indicators of sharp economic change that spoke to the nature of the 2014 crisis as well as the evolution of the relationships between industrial capital, the state, and bank capital. Among these include a high concentration of ownership, astonishingly high debt equity ratios, a general decline in assets, a structural reliance on the Russian state in various capacities, and a generalized restructuring of the avenue of international engagement of firms.

Ownership of these firms is highly concentrated often moving between several holding companies. Out of twenty firms eight are state owned. Eleven are controlled directly or indirectly by one person. Of these eleven two gentlemen each control two firms on the list. Only one firm, Acron, has a plurality of owners. Thus the ownership of the top twenty Russian firms in terms of foreign assets is highly concentrated between the state and a select group of oligarchs. Six of the firms are either directly incorporated in OTHs or their parent is located in one of them. Another six of these companies have subsidiaries in OTHs. Oddly enough these include Gazprom, Inter Rao, and Rosneft which are state owned companies. The prevalence of OTHs on this list comes about due to two factors: evading taxes and syphoning off more surplus profits in host countries, which is what I attribute the logic behind the public companies engaging in this practice, and doing the same thing in regards to the Russian Federation.

A key reason for offshoring by Russian multinationals is to avoid taxes by taking advantage of investment qualifications that apply to foreign firms in the Russian tax code. This trend has not gone past
Russian policy makers. In fact, during the Cypriot Crisis, Russian policy makers did not respond aggressively to the expropriation of Russian wealth, rather they wished to see EU bailout measures result in the wealth of foreign resident oligarchs coming back to Russia. When this did not materialize, the Putin administration did not hesitate to use the sanction crisis to rein in the existing oligarchy back in. This was done in November 2014 through a series of amendments to the tax code to include controlled foreign company (CFC) clauses. The CFC clauses target officially non-Russian companies that are managed in Russia and owned by Russian citizens. Although this adds more complexity to the Russian tax code, it is clearly a move by the state to rein in some of these companies that are avoiding taxes through the use of OTHs.

The contestation between the state and the national bourgeoisie in terms of the legal mechanisms of taxation can on one hand be chalked up to the state in a crisis due to the unfolding Ukraine crisis. On the other hand, the private sector is experiencing very pronounced economic stagnation as evident from the declining GDP in the graph above. The state appears to be tightening the tax noose when the national bourgeoisie need medium term liquidity guarantees and state support for generalized expansion. The Russian tax code as many of the annual reports note, is a frequently altered and selectively applied. On one hand these new changes, if applied will boost state revenues while on the other it signals a pulling of the bourgeoisie closer to the state.

Liquidity is a centre piece to the crisis in Russian public finance, one which has reverberated into the private sector. This can be measured through the high leveraging of these corporations and a fire sale of assets. Debt equity ratios are calculated by dividing shareholders’ equity from total liabilities. It is used to measure a firm’s leverage, or how much debt is undertaken to finance operations. While increased leverage increases the amounts by which companies can pursue operations, it comes with much greater risks in terms of potential losses. The range of debt equity ratios in the top twenty investors goes from

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Lukoil’s 37.58% ratio\textsuperscript{173} to Sistema’s 550.46% ratio\textsuperscript{174}. The average for the private sector, withholding MMK where data was unavailable, was a ratio of 189.22%. This means that the biggest foreign investors propagating a global Russia are high risk enterprises.

A third interesting trend was a general decline in assets between 2013 and 2014. For example, Severstal’s assets from 2012 to 2014 are as follows: 2012, $15,707 million USD; 2013, $14,533; and 2014, $7,560\textsuperscript{175}. The decline from 2013 to 2014 represents 52% of the asset base\textsuperscript{176}. While this is an extreme example, private firms such as TMK, UC Rusal, Evraz, and Sistema have experienced multimillion to multibillion dollar drops in assets. While the sanctions discursively target the oligarchy, it appears that the steel oligarchs have retorted materially by selling off North American and European assets\textsuperscript{177}. An obvious reason for the asset sales are that they are one way of reducing corporate debts. A clear indication of the asset sales is the re-focus of the steel companies on the Russian market.

A Russia Beyond the Headlines articles notes, “[p]rovided the economy remains stable, in seven or eight years’ time there will be no need to export: The domestic market will be large enough to consume all the production of Russian steelmakers”\textsuperscript{178}. Demand for steel in Russia comes from the state owned infrastructure and oil sectors. A sell off of profitable Western production facilities eases the debt burden for steelmakers while putting them closer to the state that the sanctions are trying to distance them from. Moreover, given the steel producers have a monopolistic control of the sector in Russia an exodus from Western facilities accompanied by an introversion of production with a focus on the export and domestic markets fundamentally changes the way they engage with the rest of the world.

\begin{thebibliography}{9}
\bibitem{Lukoil} Lukoil. 2014. \emph{Lukoil Annual Report}. Annual Report, Lukoil, 1-244.
\bibitem{Sistema} Joint Stock Financial Corporation Sistema. 2014. \emph{Sistema JSFC Annual Report 2014}. Annual Report, Sistema JSFC.
\bibitem{Severstal} Severstal. 2014. \emph{Value Driven, Client Focused}. Annual Report, Severstal.
\bibitem{Karnaukh} Ibid
\end{thebibliography}
A drift away from the west in terms of exports and investment means a drift to another locality. Investment could be internalized through the ISI schema for a period and could hypothetically create a more advantageous position for Russian capital through value increases in product processing on global markets. If ISI works, then eventually overproduction will necessitate exports beyond the national territory and industrial disunity will lead to plant relocation. If it does not, then the integrated extractive component of the Russian political economy will naturally express externalization in the ex-colonial world. Given the nature of an extractive movement we can see an insertion of the whole Russian political economic network into the former colonies. Southern pulls at the coat-tails of Russian finance and industry have large political ramifications given the network of state-finance permeating within industry. A precedent case exists in Russian oil and gas as well as pipeline deals with the Maliki and al-Abadi governments of Iraq leading to a more committed political and security position taken in Syria and Iraq.

State support of industry takes on an increasingly political role in securing the business operations of this Russian financing-industrial complex. The form of coloniality emanates from the economic and political insertion of the state to maintain the reproduction of Russian national industry. The juridical-legal hostility facing national industry in the west is only matched by the state-backed juridical-legal economic agreements that seek to physically secure open markets as well as the property of these national firms in external conditions. This is the seminal foundation for Russian political scalar engagement beyond its own borders. To make sense of the movements of Russian MNCs during the crisis it would be pertinent to engage with the state and its policy reactions.

6. The State

State engagement with the national bourgeoisie occurs in two frames, one is the relationship of the state as a regulator and the other with the state as a lender and owner of the means of oil production. While the fiscal and monetary results of this were discussed above the methodology of state-private sector
interactions through industrial policy will be explored below. The results thus far have been an uncomfortable nearing of the national bourgeoisie to the state out of material necessity and practical lack of any political alternative.

Putin approached the oligarchy much in the same aggressive way he has before while he used the crisis to push the question of taxation of off-shore wealth. The conglomerate, Sistema, has recently been embroiled in a court challenge into the illegal privatization of Bashneft, one of its subsidiaries. Its owner was imprisoned and was subsequently released due to pressure on Putin.

While the state has been aggressive in re-appropriating sectors of the economy, it has also re-established contingency efforts to ensure short, long and medium term economic normalization. The fiscal and monetary aspects of this were previously discussed. As noted, the devaluation of the currency allowed for cheaper exports in general. The short term response was an alteration of export tax rates whereby copper and nickel taxes were slashed in June 2014. While putting Russia in line with WTO regulations the move benefited Norilsk Nickle and UC Rusal to pull for higher returns by exporting cheaply on the international markets\textsuperscript{179}. The increased value of returns due to tax cuts and a devalued currency in a sense made up for the adverse effects of a devalued rouble. Consequentially, the rebounding international prices in late 2014 and early 2015 and the push to export drove up the domestic prices of copper and nickel. This had an adverse effect on steel producers\textsuperscript{180} including NLMK, Mechel, Severstal, Evraz, and MMK driving them to raise their prices due to increased commodity costs. The costs of this are then returned to the state in the form of increased contractual pay outs for steel and metallurgical contracts\textsuperscript{181}. The effects of monetary and fiscal changes were mitigated in that realm by the state while prices due to the international markets stabilized the industries owned by the national bourgeoisie. While this form of price stabilization


\textsuperscript{181} Ibid
arrived by an acute awareness of the international markets, it acted as a short term countercyclical policy measure that moved the economy towards exporting while simultaneously reinforcing a private sector reliance on state owned companies absorbing costs.

Steel, the most transnational section of the private corporate economy, achieved a sense of short term stabilization for their Russian production base while they sought to sell their subsidiaries in the West. The policies for short term stabilization brought the national bourgeoisie closer to the state financially. This was a first step from the catalyst effects of the sanction regime. From coordinating the stabilization of the economy, Putin speaks to a non-isolationist and expansionist state-industry complex. Isolation from western markets is relieved with external economic engagement. This has seen an accelerated partnership with the developing world in lieu of the sanctions from the west. The mechanics, however, depend on the application of national industrial development policies. Mikhail Yemelyanov a member of the Duma encapsulates this well in an interview he gave to the ITAR-TASS news agency, where he notes that the sanctions gives Russia “more time to close our markets to US goods and to devote ourselves to import substitution”.

7. Industrial Substitution and Russian Neodevelopmentalism

The relationship between the state in its political and economic functions to the private sector reflects a period of turbulence. Russian policy makers appear to be vocally dedicated to utilizing the sanctions as artificial trade barriers to forge a large-scale import substitution policy. The import strategy led by state economic policy aims to decrease the dependence of Russia on complex foreign manufactured goods to enable their domestic production. This policy goes hand in hand with industrial divestment from the west and a re-allocation of funds for this domestic, locally owned, export-driven manufacturing turn.

This alters the dynamic between non-western host states of Russian MNCs on a firm-to-host level. Politically, this re-shapes a neo-colonial dynamic between the political intercourse between Russia and BRICS and well as non-BRICS states.

The temporal dimension of the import substitution strategy as applied to industry is interesting. The EU and US sanctions are in place pending Russian policy changes in Ukraine. Moreover, the Russian industrial sanctions have been brought to the WTO’s dispute settlement mechanism and are likely to be branded as illegal tariffs. In a sense, Russian policy is seeking to use a small temporal gap in global political economic regularity to adjust structural deficiencies at an industrial level.

The import substitution strategy appears to be continually developing. The notable sectors affected by the strategy include agriculture, oil and gas, and steel and pipe production. The agricultural strategy has come in cohesion with the sanctions. In response to the western economic sanctions Russia levied sanctions on the import of agriculture from the EU. The adverse impact of this on the EU was marginal at best\(^{184}\). While Russia is the fourth largest food producer on the planet, it imports high value European products\(^ {185}\). The sanctions opened room for high valued added domestic production with products like posh cheese and cured meat\(^ {186}\).

Creating space for domestic production to develop has been a cornerstone of the policy in oil and gas as well as steel and pipe production. Producers have generally acted in concert with each other through the process. For example, Lukoil reported in it 2014 annual report that it is forgoing importing foreign machinery in lieu of using domestically made goods. To do this it has signed agreements with Norilsk Nickle and MMK. Gazprom has also voided contracts from sanctioning states for engineering and


\(^{186}\) Ibid
machine goods to make room for domestic contracts\textsuperscript{187}. It has also extended research and development (R&D) cooperation agreements with Russian firms, specifically with TMK\textsuperscript{188}.

The general trend is that the large state oil companies are opening space in their procurement and R&D policies to buy and help develop domestic made goods from private firms in steel production. In addition to this form of state support amidst a switch into a heavier export based economy the export credit infrastructure in Russia has been supporting the private steel sector to boost exports. Evraz, Mechel, UC Rusal, and NMLK all have export financing agreements. In the case of Mechel, the export credit agreements are used for their capital investment program\textsuperscript{189}. Here we see direct state support for capital procurement for exporters.

Export lending and export insurance schemes on the part of the Russian state to business are congregated into two organizations. The Export Insurance Agency of Russia (Exiar) which was established in 2011 and the Eximbank of Russia which was established in 1994. In June 2014 as part of the import substitution and export re-orientation of the economy Putin ordered the conglomeration of both institutions into Exiar to create a hub for export support\textsuperscript{190}. In this sense, manufacturers have concrete institutions to provide lending and insurance for export related activities. This would theoretically ease financing for capital procurement and turn large conglomerates away from western derivative markets for insurance purposes. This would contribute to a far sighted distancing from the western financial sphere. As in the case with Brazilian BNDES and the Chinese Eximbank, the strengthening of Exiar strengthens the state-to-corporate financial bond through externalizing conditionality. The strengthening of this


mechanism to propel Russian MNCs to export changes the pathways of their externalization to one of bolstering the production of high-value products for eventual export – thus, taking advantage of value asymmetries and propagating an export-based form of dependent uneven exchange upon Russian trading partners.

Changes to the export-financing regime are part and parcel of the import substitution export oriented economy that the Russian state is facilitating. There is information showing an industrial withdrawal by Russian firms from the west to Russia in the annual reports examined for this chapter. This is matched by an odd paradox in terms of production as measured by capacity utilization. The capacity utilization ratio (CUR) measures the amount of used versus non used capital in an entity. A higher CUR will speed up the wear of capital stock\textsuperscript{191}. The paradox here is that in the broad Russian economy the CUR is 60\% which is quite low\textsuperscript{192}. The CUR for the large firms observed, rather for the four that released the rates, was much higher. Lukoil’s CUR is at 86.3\%. Mechel’s CUR is given as per its segments with rates varying from 70\% to 95\%. NLMK’s rates are at 96\%. UC Rusal is the only one of the four sitting at 60\%. This difference in the general rate and the rates observed in these four enterprises indicate a general economic stagnation across the producing economy with the exception of these firms producing at near maximum capacity to meet a higher loci of demand. The near maximum capacity production of these firms begets two dilemmas. The first being who is buying what they are making if US and EU markets are shunning the products. The second is, how are these firms going to procure capital goods to replace the rapidly diminishing capital stock in a spacio-temporal environment of hostility from states who have a general monopoly on this.

7.1 Export Breakdown


To facilitate a cohesive import substitution policy, there needs to be a stable underpinning of the resource based sectors to encourage some sense of macro-economic policy for shielded industry. The Russian economy will develop the industrial production of complex manufactured items for sale on the world market in more optimal circumstances if raw material and resource extractive industry is selling at high prices. The integrated workings of the primary and secondary sectors made this straightforward.

The rouble devaluation dropped the value of Russian steel exports making the product cheaper abroad. This is despite a 10% contraction in steel demand on domestic markets. This has, in turn, provided a large inset of liquidity into the privately owned steel sector, shielding it from both the internal market contractions in Russia and future cuts to demand. The oil and gas sector was buoyed over a 50% drop in oil prices by a lowering of export duties in early 2015. These policies have ensured firm survival and an export turn amidst a recessive 2015. The terms of trade are still maintaining and the way firms are ensuring revenues are taking a turn towards exports rather than market penetration. In fact, one Moody’s report compared the export gained revenues of Russia’s Evraz to Brazil’s Usimias, finding that the former gained 60% of revenues from export sales compared to the latter’s 15%. In absolute and relative values as well as within the primary and the secondary sector, the economy is turning outwards.

Immediately, this has produced year-on-year gap differences in terms of the Russian balance of trade. The first half of 2015, overall exports and imports decreased by 29% and 38% respectively. Here we see the rate at which imports declined 9% faster than exports declined; thereby, signaling a

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194 Ibid
stabilization of the balance of trade amidst a global commodity crisis. Part of these macro figures come at the expense of increased trade with China while tipping the balance of trade on the Russian end\textsuperscript{198}.

In conjunction stabilization through increased exporting and government investment in productive development, Russian business is targeting the ex-colonial world more aggressively. Trade is the medium by which the Russian economy is diplomatically maneuvering to distance itself from the west while completing an eastern and southern pivot. The economic pivots are particular to specific industry. For the financial, agricultural, gas and oil, and industrial sector different routes have been taken.

In the case of agriculture, the Russian food sanctions on the west created a vacuum for products which import substitution has been attempting to fill. To mitigate against problematic undersupply in the circumstance of complex and simple foodstuffs, Rosselkhoznadzor, the agricultural health agency, passed several South American plants for health satisfaction. This lead to tremendous import increases in agricultural products from South America. Argentine meat imports increased by 38% while dairy saw a 47% leap at the end of 2014\textsuperscript{199}. At the same time, a spike in meat imports increased the total Russian import volume from Brazil by 14%\textsuperscript{200}. Russian agrarian sanctions thus facilitate an import substitution policy in two senses. In terms of positioning firms from the global south to engage with the Russian market as a substitute for European goods. Depending on the length of contracts signed by South American producers and Russian retailers, the link here can last well after the sanctions end. The other sense these sanctions lend themselves into is in using the gap between the supply from these new partners and domestic demand to generate market space for local complex manufactured production.


\textsuperscript{200} (Dynkin, et al. 2014, 132)
The oil and gas sector is operating at productive capacity while international rates are experiencing a year on year decline of 50% value\textsuperscript{201}. The Russian state is attempting to re-route its pipeline strategy to shift and expand trade opportunities away from Europe. This is evident in the cancellation of Gazprom’s South Stream pipeline through the Balkans and into Italy in lieu of a new line to Turkey. In this instance, the costs associated with cutting South Stream, mid production and after Gazprom went through wave after wave of regulatory hearings, were massive. Part of the logic of this was to further integrate the Russian and Turkish states through trade while giving Turkey a second sell capacity on Russian gas to the EU. In this light, trade in oil and gas here is more geopolitical than economic. The re-orientation of the gas sector south to Turkey is not an isolated event either. In conjunction with expansive $400 billion USD pipeline deals with China\textsuperscript{202}, Russia is securing the continued sale of its staple export to non-western partners. This, theoretically, stabilizes the general foundations of the economy while the import substitution strategy is expanded.

Russian manufacturing, led by steel, has run into the problem of export dependency on the CIS states. In some sense parts of the CIS market, the Eurasian Economic Community, can be regarded as an extension of the Russian domestic market. Steel firms are keenly aware of this dependence and the need for expansion. Evraz notes a turn towards Asian markets as an objective for 2015\textsuperscript{203}. The NLMK reports note that the boost in bilateral pipeline deals signed by state owned gas corporations resurrects exports\textsuperscript{204}. Russian manufacturers appear to be stabilizing export sales while taking advantage of the sanctions to generate high-value added materials on the domestic market\textsuperscript{205}.

\textsuperscript{203} Evraz plc. 2015. Annual Report and Accounts, Evraz.
\textsuperscript{204} NLMK. 2014. Annual Review and Accounts, NLMK. 18.
Russian trade flows reflect, on a sectoral basis, the mechanisms of import substitution and export re-orientation of the economy. A centralization of production and finance in Russia under state control has been accelerated due to the worsening international and domestic economic environment that arose out of the sanctions. While this re-allocation of private sector capital into Russia has enabled it to increase output and has put Russian firms into healthy positions, the price has been heavy on the firms doing this. Trade policy adjustments have filled in the temporal gaps separate parts of the economic functioning of the totality of Russian political economy. We can thus claim that the trade policies outlined above in 2014 reflect short term goals of economic stabilization that accelerates a shift in the centre of gravity of Russian economic intercourse away from Europe.

8. Theorizing the Structure of Russian Development

From the perspective of political economy, the sanctions were not a breaking point that indicated a shift away from Europe. Rather, the pullout of capital from the west was an indication of this break in political terms. The sanctions and stabilization through a variety of means (trade, monetary policy, etc.) coats the surroundings of the import substitution policy. If anything these new trade movement signifies a separation from a Europe centred political economy and a return to the universal approach in international trade and finance. This universality is segregated and is coloured by two particularistic axes that speak to a reformed relationship to the south given a distancing from investment and an orientation towards exporting. These are the import substitution mechanisms and the multilateral financial architecture. While the nature of the latter will be discussed next chapter in further detail, the former, supposing it can be developed, represents a quantitative break with past export trends and will likely entail significant changes to future Russian economic and political engagement with the third world.

There are two courses of thought that capture the effects of import substitution. The way in which I read them both, is that they imply a re-engagement of trade relations with lesser developed sections of the global south. I also find myself sympathetic to the regime’s understanding of the structural deficits of
its economy versus skeptical positions on structural changes regarding production. Clifford Gaddy and Barry Ickles refer to Russia as “addicted to the resource rents”\(^{206}\). They explain that while these rents are allocated to the backwards production structure, its addiction on resource rents reinforces the backwards productive sector\(^{207}\). The logic of this argument posits an impossible solution to the Dutch disease faced by the economy. What the regime is doing by re-centralizing production and finance within the economy to launch an import substitution framework is saying that this addiction can be maintained while piggy backing on neo-protectionist policy to develop industry. It is a segmental form of dependentista thought that is heavily reflective on an adaptation of the Prebisch-Singer hypothesis.

This hypothesis states that due to inelasticity of price in primary commodities they, over time, exhibit a depreciating value versus manufactured goods\(^{208}\). An extension of this argument can be made when comparing simple versus complex manufactured goods\(^{209}\). In Russia juxtaposed with the US and EU we see the tensions of this asymmetry in the various industries discussed above. A lack of complex production in agriculture and industry in Russia along with the inelasticity of oil prices has created an asymmetrical relationship. Import substitution policies behind a sanction based trade barrier create the conditions for indigenous high value added products in Russia to alter this juxtaposed imbalance. The fact that this can be done, even on a micro-scale, runs counter to Gaddy’s argument.

Suppose the two points are polar opposites. One end applies the relative successes of the import substitution policies, and the other arguing for its failure due to structural/systemic flaws in its resource addiction. In the former, this case is playing out in actuality and high value added products are being made they will need to be sold on markets where they are competitive. Supposing that the logic of the regime as committed to an import substitution plays out long enough for Russian firms to develop complex

\(^{207}\) Ibid  
\(^{209}\) (Mulder 2009)
manufacturing, there will be an eventual need for these firms 1) to externalize their profits for structural reproduction through foreign investment and 2) to expand the profit base beyond the shrinking Russian domestic market. In this case of applied developmental policies we see the extra-territorial manifestation of it in how F.H. Cardoso characterizes as a contemporary form of imperialism. Here an externalization of capitalist form from Russia will take on the characteristics that will promulgate a dependent form of industrialization with its partners in Africa, Asia, and Latin America.

The logic of Gaddy’s resource rents argument unpacked into the realm of extra-localized engagement takes on an opposite pole. This manifests into the imperialist relations Cardoso explains in his reading of Lenin where capital flows go from overcapitalized areas in the core to undercapitalized ones in the periphery in exchange for natural resource rents extracted in opposing direction. The Russian resource based firms, which are already branching out into Africa and the Middle East, have a foot in the door of generating relations with the ex-colonial world in this pattern. In characterizing each pole to a logical conclusion of externalization, it leads to a form whereby Russian capital engages the ex-colonial world in a mode that entrenches dependency. If we are to accept that import substitution is a slow developing material process given the conditions at hand then the expression of the engagement of Russian capitalism abroad will take a mixed form. This expression as a union of both polar logics, however, concentrates its vectors of geographic engagement in the same areas.

Russian engagement in the non-CIS is diplomatically old and contains ample basis for economic networks to flourish. Particularly, in Africa, Latin America, and the Middle East, Russian commercial relations have structurally beneficial outlets in which to flourish. These geographic areas represent a synthesis space for Russian investment and trade relations given the counterposing dynamics of a resource based economy in the process of re-industrialization.

In Africa, Padraig Carmody as well as Alexandra Arkhangelskaya and Vladimir Shubin note, Russian diplomatic involvement has a long history and is on the path to increased political and economic
partnership\textsuperscript{210}. Additional channels that facilitate elite business networking are functioning through the auspices of the Russian–South African Business Council and the Co-ordination Committee on Economic Co-operation with sub-Saharan African countries (Afrocom)\textsuperscript{211}. Afrocom acts as a platform within the state apparatus that coordinates the interests of 90 member organizations in expanding relations with Africa. Some of these groups include Severstal, Norilsk Nickle, NordGold, Alrosa (diamonds), the VTB banking group, Lukoil, Inter Rao, and a whole host of Russian investment groups and corporations. The network platforms for economic engagement in Africa have crystalized under state auspices. In other regions, such as Latin America and the Middle East, Russia has used state-to-state, bilateral diplomacy to foster economic linkages.

Diplomacy meets economics only in the on-going path development of firm to host engagement. The chart below, stemming from the annual reports examined, demonstrates a snapshot of the scope of firm investment in the non-BRIC developing world.

\textit{Figure 9: Russian Corporate Penetration}

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Africa</th>
<th>Middle East</th>
<th>Americas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evraz</td>
<td>South Africa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lukoil</td>
<td>Cote d'Ivoire, Ghana</td>
<td>Iraq</td>
<td></td>
</tr>
<tr>
<td>Gazprom</td>
<td>South Africa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UC Rusal</td>
<td>Guinea, Nigeria</td>
<td></td>
<td>Guyana, Jamaica</td>
</tr>
<tr>
<td>TMK</td>
<td>Guinea, Burkina Faso</td>
<td></td>
<td>Oman, UAE</td>
</tr>
<tr>
<td>Norilsk Nickle</td>
<td>South Africa, Botswana</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NordGold</td>
<td>Guinea, Burkina Faso</td>
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<td></td>
</tr>
</tbody>
</table>

The kind of investment in each of these countries is concentrated in resource extraction and pipeline construction. Investment occurs here primarily in the extractive sector, indicating a shift to the


\textsuperscript{211} See (Arkhangelskya and Shubin 2013) for more on elite level economic associations. Afrocom is an organization whose network reach is quite large as it brings together 90 organizations from Russia and Africa. A list of them can be found here: \url{http://www.afrocom.ru/en/committee/members}. 

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extrapolated and externalized logic of Gaddy’s critique. However, export breakdowns speak to a possibly story of industrial output.

Given a proliferation in structural mediums for investment accompanied by a proliferation of large investors in Africa, the Middle East and the Americas the spread of exports to these regions adds another layer. In 2014, out of the three regions, Latin America receives the bulk of Russian exports which are concentrated, 64.09% of the total, in fuel and gas products. While this speaks to a general Russian oil export dependency, the second category of products encompassing 17.01% of total exports to the region are industrial products. This indicates a general foundation for Russian manufactured goods before a jump into complex manufacturing products have been developed at an accelerated pace.

The Middle East, which accounts for half the size of total Russian exports to Latin America saw 52.50% of total exports in industrial products. The second largest share in the export breakdown is in capital goods (18.49%). Presumably, this comes from oil companies starting up production in sites located in Iraq. Food exports, notably going to Egypt, also totalled 14.15% of the total. While the Middle East takes up a smaller share of total exports than Latin America, it encompasses mixed elements of diversity of Russian economic engagement. On one hand natural resource companies are reproducing their operations through Greenfield investments. On the other, Russian food and industrial manufacturers are competitively taking advantage of that market space. Thus, dependence is re-affirmed through the Cardosian auspices of the firm in the ways Lenin outlines (raw material gathering) along with the structural developments within the political economy of the Russian state-firm nexus to externalize profits through manufactured export sales. This double movement in what Russian economic actors are doing underscores the Middle East as both an outlet for their reproduction and expansion both as they are in actuality and as how they see themselves as potentially developing.

Sub-Saharan Africa, while receiving about a third of the total exports from Russia as the Middle East, represents an external space for the reproduction and systemic reconstruction of Russian capitalism
at a higher level. The type of products moving to Africa are industrial goods (42.88%) while the second largest group is consumer goods (18.74%). In a very direct respect, Africa is a site for extractive firms to re-situate to continue extraction. There is a link between industrial imports to the continent and the geography of extractive firms located in Africa. In another sense, the total figures for consumer goods making their way to Africa is worth $115,794,841 USD. This far outshines the $60,098,816 for Latin America and $80,800,100 for the Middle East, two regions which trade considerably more with Russia.

The global asymmetries in the development of markets and production have presented Russian economic actors with space to dump competitive manufactures which coincide with areas in which to reproduce systems of resource extraction that are still pivotal for these actors.

The forms of direct relationships between Russia and the ex-colonial world can be segregated into two geopolitical streams. One stream reflects the need to ensure a stable financial architecture, reflecting a bandwagoning of Russia with states that are moving away from a western-centred financial architecture. The other reflects a need for Russian capitalism to externalize, thus playing an imperialistic role in the world system. One reflects cooperation while the other reflects domination.

These streams become more pronounced discursively in setting of the souring of relations between Russia and a block of western states. A divestment of Russian firms from the west (Gazprom, Evraz, etc.) for autodevelopment and counter-sanctions rings out in the Russian official discourse as a distancing from the west through a policy focus of with a material investment to (re-)industrialization. The production of industrial goods at any point faces symptoms of crisis if contained to a “home” Russian market. Both the pressure of labour, asking for more, and the need to sell beyond a distinctly Russian consumer base will exert externalization pressures. While Brazilian firms actively set up affiliate plants in Angola, Russian engagement of industrial manufacturing sites is not pronounced outside of Russia. At present, manufacturing is restricted to filling gaps in the Russian market, as indicative of some of the logic behind the import substitution strategy. Thus far, Russian manufacturing firms have the stable infrastructure for economic development and exhibit a leaning to exporting. An eventual re-location of manufacturing
production is not out of the question. The extractive wing of Russian capitalism is, however, engaging in re-allocating production sites in resource rich states such as Iraq and Botswana. Part of this is the relatively timely depletion of Russian ore and oil reserves\textsuperscript{212}. In this respect, we see companies that own and operate substantial manufacturing facilities (Evraz, Norilsk Nickle, UC Rusal, and Severstal) are turning to natural resource extraction (green- and brownfield investments) in the south with a look to process these resources in Russia. It is evident that a natural firm level diversification of production in extraction and refinement processes overlaps the multifaceted exact formulation of imperial engagement in a more domineering form of economic engagement external to Russia. It should be noted that the continuation of resource extraction external to Russia to the point of “addiction” suited to Gaddy’s claim does not take away from the capacity of the import substitution program from developing, along Russian state derive positive externalities specifically from the manufacturing parts of these firms located in Russia. If anything this serves to segregate the business along an intra-firm yet inter-state axis that highlights trade asymmetries as the resource extracting part of these firms are going to be increasingly located in Africa and the Middle East while decision making and manufacturing parts of the firms will be situated in Russia.

Yet, if this industrialization underpinning this engagement is to work in the midst of a slacking relationship with western banking and financial infrastructure, this means another form of international financial security needs to develop. In this respect, Russia engages the other southern states (like Brazil, South Africa, India and China) in regards to forging this financial infrastructure. In the mechanisms of the BRICS we find not only coordinated diplomatic policy at forums like the G20, but coordinated diplomatic socialization and institutionalization. Financial tools like the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) provide certain economic fallbacks that offer development and emergency financial assistance between the members and other states. A magnetic pull for states in the first form to Russia through the NDB coincides with emergency mechanisms for its own

development through the CRA and the Memorandum of Understanding on Cooperation among BRICS Export Credit Insurance Agencies. We observe thus two different forms of ex-second world engagement with the traditional third world, both positions strive for the stability of Russian capitalism through this externalization. The first represents an imperialistic arrangement driven by competitive factors, while the second seeks financial stabilization through the generation of “multipolarity” or rather a construction of partnerships that provide financial stabilization and promulgate a certain access to space to reconstruct industrial output and maintain the profits of the extractive sector.

9. Conclusion

Irrespective of the crisis, the social basis of Russian-former colonial interplay emanates from a nationally driven formula for directed capital accumulation. Externalization occurs on the initiative of both state action and private firm movement. There is an inherent similarity with Brazil and Chinese engagement due to the similar mechanisms of engagement. Withholding state-supports (ECAs, tariff policies, contract spill-overs, etc.), the Russian state awkwardly erects a broad protected zone through security and economic mechanisms in the CIS, CSTO, SCO, and Eurasian Economic Union. An open and asymmetrical juridical legal market space for Russian firms to engage with is thus secured.

As discussed above, bilateral and mezzo-social mechanisms are an important feature of Russian policy in the non-CIS world. This gives an asymmetrical quality to the insertion of Russian capital abroad. The juridical context of the externalization of the political economic motions of Russian capitalism maintains within it a neocolonial element to the externalization itself.
Chapter 4: China and World Relations

1. Introduction

The last two chapters juxtaposed Russian and Brazilian corporate financing and demonstrated that these avenues express themselves upon international order. These two cases demonstrated the movement for capital reproduction occurred along a state-based support trajectory which worked to carve out investment space. Thus, it was observed that both Russia and Brazil fostered spaced of imperial neo-coloniality. This chapter explores China’s global engagement through extra-territorial state-backed industrial financing. The scale of the mechanisms used by the Chinese state in both bilateral and multilateral capacities far exceeds those used by the two other cases covered by this thesis. China represents a financial, productive, and commercial apex of a possibly changing international system. While examining China, this chapter narrows the scope of analysis to examining Chinese leadership and
momentum in creating a new architecture for the management of asymmetrical spaces of international political-economic governance.

Part of the Chinese architecture which propels externalization encompasses BRICS institutions like the New Development Bank (NDB) and the stabilization architecture of the Contingent Reserve Agreement (CRA), which have both been discussed in the Introduction. This first part of this chapter discusses the localized foundations of Chinese neodevelopmentalist policy. The second section observes the foundations for engagement derived from bilateral engagement while the third discusses multilateralism through the AIIB. As a note, only Eximbank lending will be observed as the other economic institutions have not began the process of lending rather they are nearing establishment. Also, the Silk Road initiative, while important will not be discussed, as the mechanism of the AIIB creates a certain sense of institutional overlap that exists on a higher medium of multilateral engagement.

The objective of this chapter is to demonstrate the trajectory of Chinese foreign relations. The transformation of investment and development aid mechanisms for engagement with the ex-colonial world will be examined. Efficient mechanisms of bilateral externalization have engendered a comprehensive reach of Chinese investment projects all over the world. The case is made that the state in China will use these mechanisms which engender deep investment and corresponding trade flows as a springboard to launch more ambitious multilateral ventures. The legal outcome for Chinese capitalism is a state based externalization framework that funds and coordinates contracts for firms abroad. This framework creates and recreates a scalar legal arrangement for markets which Chinese firms penetrate. The agglomerated effect of this externalization is the creation of a new form of juridical-legal coloniality.

This chapter will explore Chinese political economic engagement with the ex-colonial world that is reworking global governance by focusing on Chinese lead bilateral and multilateral governance structures. These economic governance organs listed above will be analyzed in light of Chinese capitalist development. In observing the above mentioned institutions, this chapter considers their structural
dispositions in light of new modalities with engaging with the ex-colonial world. As was discussed in the introduction, while these institutions represent an echo of largess on the part of China in the interstate political order, they also crystalize relationships between the states of, and capital from, China, Russia, and Brazil and ex-colonial partners into more of a static hierarchy that is apart from the pulls of the west. China externalizes an internal political economic movement where the basis of combatting economic contraction was epitomized in large scale infrastructure lending. In the internationalization of Chinese local capitalism, this financing maintains its economic characteristics while taking on particular legal-structural features suited to transnational penetration. Moreover, the establishment and evolution of these institutions is a capitalization of uneven special relations between the semi-developed and underdeveloped parts of the transnational capitalist political economy.

2. Chinese Neodevelopmentalism

The literature cites the Chinese neodevelopmentalist literature as containing similar properties to the Japanese and Korean models\textsuperscript{213}. Particularly relevant for the purpose of its bilateral engagement mechanisms is its export financing mechanisms. Financing for export bound products and projects happens through the Export Import Bank (Eximbank) and the China Development Bank (CDB). Estimates place the share of lending from these two institutions in outward FDI financing as a proportion of 87.98%. The size and volume of loans going out disproportionally target Chinese companies and the share of capital just moving through these organs make the Eximbank and CDB some of the largest lenders of their kind in the world. The approach of using state owned export financing mechanisms to project privately owned “national champion” firms across borders is thematically similar in the cases of Russia, Brazil and China as well as those of Korea, Japan, and Taiwan. The similarities in each case is that in the instance that export financing structures are used, they act as a coordinated net for the movement of closed circuit firms to reach beyond national boundaries. Each externalization structure or model exists to

facilitate firm-level expansion and self-preservation that could not be accomplished in a market within the confines of the national state in a way that the state acts as a direct mediator. Each mechanism develops, not only in conjunction with international norm or organizational schema, but from the specific material needs of the firms involved in externalization. It is on this basis that there is considerable variance in the mechanisms of Brazil, China, Russia as well as Korea and Japan in their own externalization which is in part reflective in the sectoral concentration of MNCs to state-to-private financing mechanisms and the types of state supports used in each case. The one constant in terms of the engagement is the utilization of bilateral development initiatives to funnel investment abroad.

The literature on these specific financial features of the Korean and Japanese developmental systems is expansive\textsuperscript{214}. There seems to be a consensus on these model taking space in different forms to suit different purposes. In Russia, there was an adjustment to this system to make way for industrial substitution policies. In Brazil, the outcome of export financing resulted in industrial transplantation in lusophone Africa. In China, lending is concentrated to the extractive sector while industrial relocation is an afterthought. In all three cases, this financing exists to externalize, reproduce, and partially maintain local and transnational class relationships.

There also seems to be a consensus of export financing ending for these east Asian countries through US pressures leading to OECD club regulation\textsuperscript{215}. The Chinese bilateral export financing model exists as the most robust in the BRICS grouping and as the only one of a large scale in Asia. Distance from OECD club regulation has given Chinese bilateral mechanisms for capital externalization and sublation a pressure free environment for programmatic development. The following two sections outline the impacts of bilateral Chinese investment through the Eximbank neodevelopmentalist framework within Africa and Latin America. These regions demonstrate scale and method of engagement of Chinese investment throughout the world. The basis of the state-to-firm financial cycle that is premised on

\textsuperscript{214} For an extensive review of the literature see (Gallagher 2014).
\textsuperscript{215} Ibid 12
infrastructure or industrial development abroad prefaces a framework for continued Chinese economic inter-course on a multilateral scale.

3. Chinese Bilateralism

3.1 Africa

A host of scholars exploring Afro-Chinese relations, including Deborah Brautigam and Padraig Carmody, have explored the political economy of Chinese foreign aid and investment in Africa. Brautigam explains that the state owned export bank, Eximbank, signs one of three types of agreements for credit lines per project to African countries. Loan money is then given to a contractor or exporter of Chinese origin to complete the project. The burden of repayment and any conditionality attached to the loan is thus on the African government. Brautigam goes on to elaborate that payment for Eximbank credit lines is given in cash transfers, concessional loans for production projects that pay themselves off through surplus extraction going to the loan, or payment can be guaranteed in resources.

Resource for infrastructure deals conjure an image of the economic patterns of colonial domination between metropole and periphery, the cash at competitive rates does not necessarily adapt itself better to unequal relations of capital accumulation. The imaginary here, other than the clear distinction Brautigam makes in regards to the deals being better, is a fiscal carbon copy of western development models. Aside from how these deals are financed, the type of project is embedded with its own relations of power. Numerous scholars have made the point that there is a lack of centralized control/oversight of the projects whether they are Chinese owned plants or infrastructure projects. This lack of oversight and control exists partially because some of the companies taking advantage of the Eximbank loans are private, operating in another jurisdiction. Often, a public company operating under

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216 (Brautigam 2009, 142-143)
217 Ibid, 278-279
a Ministry will lease out a plant to a private for profit Chinese company to run the site\textsuperscript{220}. This decentralization is due to simple and complex forms of privatization of foreign investment and off-shore production. In fact, decentralization in industrial projects has been replicated in non-Eximbank factory agriculture by middle class Chinese independently relocating to rural Africa\textsuperscript{221}. In this sense the state is facilitating the development of a private economy based on a domestic bourgeois accumulating capital abroad. Domestically, this opens exit valves of excess capital to the underdeveloped areas. This excess capital, being invested in broad industries in Africa facilitates a form of industrialization that creates dependent development.

The class position of this petty and big bourgeoisie movement from China to Africa should be studied further as they create complex networks of class and ethnic relationships. The question of imported workers, ill treatment of domestic staff, along with the closed circuit diffusion of surplus value from these industrial projects are pertinent to further discussions of the Sino-African investment relationships. These imported bourgeois and worker communities in Africa look similar to the relations exhibited by the ethnic Chinese communities in Malaysia and Indonesia\textsuperscript{222}.

3.2 Latin America

Latin American bilateral engagement is similar to African investment in both type of financing used and a slant towards extractive industries. A key difference is the dominance of Chinese finance in the region. One report highlights, that “Chinese loans to Latin America in 2010 were more than those of

\textsuperscript{220} (Carmody 2013)  
\textsuperscript{221} (Brautigam 2009, 232-247)  
the World Bank, Inter-American Development Bank, and U.S. Export-Import Bank combined”\(^{223}\). Most of these loans clustered into states that are not subject to high degrees of lending from these other aforementioned institutions. This results in a different geographic distribution of states that receive American and Bretton Woods lending and those that receive incredible amounts of Chinese lending\(^{224}\).

In states that retain a large degree of Chinese investment (like Peru, Venezuela, Argentina, and Ecuador) we see that an export financing system has acted to solidify Chinese firm penetration into the natural resource sector. Loans are dealt to Chinese extraction companies to initiate greenfield FDI projects. The resources then make their way to China. The existence of this thoroughly studied finance-for-resources schema in Chinese-Latin American relations, in some sense explains a lack of a resource bent in Sino-African investment relations.

Investment in extractive industries fuel the productive economy of China, to the detriment of Latin American industry. As Rebecca Ray and Kevin Gallagher note, in third party markets 94% of Latin American manufactured goods are “under threat” of loss of world market share to Chinese goods that are produced more cheaply\(^{225}\). The potentiality for Chinese made goods to outstrip and outpace Latin American industry is a valid market potentiality. One complication in the research Ray and Gallagher overlook is the malleability in firm level control over industry. For example, they cite Chinese cars competing with the Argentine car manufacturing industry. This specific market is controlled by American and Western European car makers. A key issue they face is that ownership is not accounted for while the export location obtained is driving their competition models. What we do not get here is the degree to which American firms operating in Latin America are under threat from Chinese firms in world markets. Nor do we have a sense of the degree of erosion of the market shares of Latin American nationally owned


companies vis-à-vis Chinese firms. What can be effectively deduced is that China remains problematic for Latin American industrialization while at the same time the financial linkages cement the regional economy closer to that of China.

Chinese bilateral investment mechanisms in Africa and Latin America cater to specific needs of Chinese capital. In one instance these mechanisms may aid a firm in establishing a captive market abroad while on another they may establish a Chinese owned mine or a Chinese built railway. This financing extends Chinese capital abroad, replicating it and re-formulating social relations from the project level to the level of inter-state exchange. This entails a scalar re-arrangement of the linkages of Chinese capitalism in an asymmetric way as this process moves it from one de-territorialized locality to another to fulfil both a function of crisis circumvention and a function of concentration and entity growth inherent to the modern market actors. The Eximbank framework has been very successful in coaxing friendliness from host regimes as well creating relations of power whose avenues direct to Beijing and Shanghai. The Eximbank externalization framework is also a precedent in Chinese externalization policy which sets the pace for the future development of the AIIB.

4. Multilateralism: The potentialities of the AIIB

The AIIB is an initiative launched by China to gather international support for a bank in Asia dedicated to infrastructure investment. This initiative is the first proposed, non-US lead, development institution in the post-war era. This multilateral endeavour under Chinese leadership builds atop a 50-year legacy of bilateral investment. The China scholarship in the west generally situates the AIIB as a logical externalization of Deng Xiaoping’s economic reforms, specifically those prefaced on market liberalization and infrastructure investment.²²⁶ Often, this view runs parallel to contemporary policy

analysis that situates the current administration of President Xi Jinping as one that “has become even more proactive, if not assertive, in international affairs than in the previous decades”\textsuperscript{227}.

Part of the uniqueness of the AIIB is its strictly Asian regional focus. In broader Asia, the AIIB is situated often with reference the two Silk Road initiatives that seek to expand Chinese trade in Central and Western Asia\textsuperscript{228}. One analyst perceives the foreign policy logic of this as, “to create a new kind of Asian regional economic and security architecture”\textsuperscript{229}. The carefully maintained and explicit focus of the Bank to maintain a 75% to 70% control of states from Asia is echoed both in the Articles of Agreement as well as in the Chief Negotiators’ report\textsuperscript{230}. In this grand strategic perspective the AIIB is regarded as an instrument of policy. It is interesting to see American policy thought situate economic regionalism in contemporary foreign affairs as an instrument to achieve a means to some result on a state’s “wish list”\textsuperscript{231}. The European literature, echoes the perspective in state-centric IR on the instrumentalization of trade space as homogenized space built to suit great power\textsuperscript{232}. This perspective is as accurate in its assumptions on these international regional/multilateral economic initiatives.

However, this state centric view regards the evolution of Chinese policy as shifts between administrative decisions that take on certain rhetorical features of previous administrations. The epistemological referent point as solely administrative preference for international organizational causation limits the discussion to degrees of recent assertiveness in contemporary international affairs. An inquiry into whether or not China is “biding its time”\textsuperscript{233} would be illuminated with an understanding

\textsuperscript{227} (J. Zhang 2015, 6)  
\textsuperscript{228} (Godbole 2015)  
\textsuperscript{229} Ibid  
\textsuperscript{231} (Godbole 2015)  
\textsuperscript{232} One such scholar notes: “the European Union stands out in the eyes of Chinese policymakers as potentially the world’s most effective counterpoint to US hegemonism (baquanzhuyi),” (Andornino 2015).  
\textsuperscript{233} (Godbole 2015)
of social factors that call for policy changes. This is especially pertinent given the mandate of the AIIB as the first international development institution since the Bretton Woods institutions were established.

The international crisis of overproduction that culminated in the 2008 crash has shaken Chinese policy to the core. Class struggle in China from then on took a more aggressive turn with some estimates of up to 1000 workers going on spontaneous strike action per day in the country\textsuperscript{234}. This culminated in the country’s first social security reforms in 2009, which did not buy class peace. Since then, the leadership of the Chinese Communist Party have deepened the infrastructure building policies in China with disastrous results. Nothing really encapsulates the crisis in overproduction in China with regard to infrastructure and construction as the images of empty cities, unused roads, alongside a population that is either fighting for social reform or simply leaving\textsuperscript{235}. This aggressive policy turn in China is an extension into the international arena of the state policy tools used by the Party to avoid deeper crisis at home. It is an attempt to mitigate and maneuver around domestic crisis through a re-orientation towards infrastructure development abroad. Through the AIIB, Chinese capital is using a similar mechanism to escape from the crisis by networking abroad as it has already attempted on a domestic front. The capacity for Chinese capitalism to lead the financing of the AIIB in an effective manner is questionable.

The bank went from the seed of an idea in 2013 through three rounds of negotiation to achieve fetal form through the Articles of Agreement in 2014. Speaking from six months after a wave of signings to the Articles, it does not appear that the AIIB has been birthed through substantive ratifications\textsuperscript{236}. To begin operations as an institution 10 member-states need to representing 50% of the proposed capital stock. It is odd to speak of an institution that does not presently exist, to deconstruct its impact with only its seminal idea and scope in mind. To be able to situate it in the constellation of international

\textsuperscript{236} At the time of writing Myanmar and Singapore have ratified while the Chinese legislature is still in deliberations.
organizations (specifically with the World Bank and Asian Development Bank) as well as its function in international political economy its mechanisms, instruments, and policies as a Bank will need to be examined in actuality.

One possible trajectory of reasoning exists in the imaginary that the AIIB may extend a similar loan structure as Eximbank loans to achieve infrastructure development projects in Asia. Thus we see the dynamics as a logical extension of this, we can speak of the way that China engages with Africa being the increasingly similar to the way in which China engages with Asia. Testing this hypothesis will, again, be based on a more institutional analysis of an operating bank. However, from the general principles of the bank we can see an artificial economic boundary created around Asia. It creates a sense of sovereign surrender in its focus on the removal of “the financing bottlenecks faced by the individual economies in Asia”\textsuperscript{237}. An artificial Pan-Asian boundary is constructed around a geographic area that experiences a thoroughly unevenly developed space.

The states encompassing this area have thoroughly different forms of governance within their polities. Within the boundary, this bank’s financing is based on varying capitalist political economies. It is a space where the surplus necessary for infrastructure projects depends on state to bank transfers of American dollars. This surplus in turn comes from state owned enterprise activity or taxation of private firms. In the bank’s capacity as a lender for infrastructure and industrial development we can expect some level of contracting out to private enterprises to facilitate the requirements of a loan. In this sense we can see Singaporean money finance a private Chinese company’s project to build bridges in Afghanistan using Indonesian labour. As a multilateral organization, the AIIB is still a nascent organization and can therefore lend itself to numerous hypotheses as to the impact of its financing and development arrangements. The multilateral nature of this bank’s proposed existence can lend itself to many hypothetical arrangements of financing and development. What is clear is that for Chinese capital, it cements the creation of carefully

defined Asian space, asymmetrically developed territories. Should this bank offer a hybrid system of lending, we could see a financial stream feeding from the more developed areas to firms who build projects in lesser developed areas. Thus, leading to profit for large MNCs based in China and the more developed parts of Asia while value and resources are extracted from lesser developed areas.

The conceptuality of “relative international prestige” has a material basis in aid and investment. These conceptions move from rhetoric to concretization through policies which echo the materiality of economic engagement to secure investment and aid. Bilateralism and multilateralism, as acts of policy, endeavour to facilitate direct capacities with regard to trade maximization, tariff reduction, non-tariff barrier reduction, and bilateral investment treaties. This is not to mention the business lobbying that takes place in cohesion with commercial-legal endeavours at embassy, multilateral, and bilateral levels. These systems seek to regulate interstate economic relations. These modalities of policy engagement in the international fora effectively regulate space in changing the ways rational economic actors in a capitalist market may seek to exercise options to generate greater profit and gain.

There are varying degrees of fluidity in treaty based systems of inter-state bilateralism and multilateralism. This fluidity is reflective of an elastic capacity of a commitment itself lasting based on the type of commitment created. Degrees of structural hardness and softness have their own functional material spillover which is embedded within the agency of rational actors operating within a created space. Here, the question of degree exists in terms of direct cooperation in the extraction and allocation of surplus under the umbrella of bilaterally and multilaterally birthed neo-sovereign space. This generally informs institutional resolve and adaptability, crystalizing relations of power yet opening space for fluid change. With an eye to these material relations of power, hardness and softness represents the uneasy space between the objective of the relationship, the capacity of the relationship, and the degree to which this relationship being carried out efficiently. Hardness and softness here is the relationship of forces crystalizing in spasmodic snapshots of institutional changes.
The bilateral tools of Chinese capital engagement sink deeply and profiteer in the third world for the benefit of Chinese state and private firms. The model of financing solidifying these bilateral engagements are broadly replicated multilaterally through the AIIB. With this institutional configuration of the international system that entrenches international inequality it becomes hard to speak of a bleeding heart third world outlook on the part of the Chinese state leadership. At the same time, these institutions function in a very different way, one which is suited to the needs of Chinese capitalism, then American imperialism.

5. Conclusion

The geography of Chinese expansion is characterized by a westward movement focused on loci of territorial space in developmental initiatives. These initiatives are spatially concentrated on zones of infrastructure and industrial projects which see Chinese financing and control. This expansion of Chinese capital is mediated by economic and security structures that range from bilateral to multilateral and regional in scope. These structures draw new borders by creating new forms of scalar regional governance. This has an impact on what associated states can do in their interactions with their neighbours, which also dictate interaction with outside forces.

Chinese diplomatic policy needs to be viewed in the light of political economic mechanisms for capital externalization. This is a comprehensive package of narrative diplomatic engagement, threat isolation and foreign securitization, and national firm financing that puts the advanced coordination of Chinese engagement on another plane when compared to the reactive mechanism of Russia and Brazil. Putin compromise on a deal with China for securing pipeline contracts. Brazilian external investment only started moving away from the informalities of deals made during foreign diplomatic visits and started formalizing through institutional means only a couple years ago. China has a multi-vector engagement policy that is not matched by top western aid donors.

This new actuality of political engagement with developing Asia, Latin America, and Africa occupies an interesting space in the Chinese, and Russian, foreign policy discourse. Concepts like Eurasianism, a
“Silk Road”, and Westward expansion speak to a nationalist and externalizing narrative. At times, this narrative takes on a colonist and racist character as exemplified by Russian attitudes to migrant Central Asian labour and popular conceptions of superiority in Chinese communities in Africa. Both the narrative shift and alterations in governance arrangement across a variety of regions, as a tail end to economic engagement, reinforce the parcelization of sovereign space. In the realms of security, developmental supra-state lending structures, Eximbank lending arrangements, and the international juridical changes begat by these changes sovereign space in the third world is opening for the extra-territorial reproduction of Chinese capitalism.

While the degradation of sovereign space is highly theorized238, it does not directly address the Chinese relationship with the ex-colonial world. Neoliberalism as a conceptual framework does not suit Keynesian infrastructure projects on a transnational scale. Nor is this necessarily a spatial-temporal fix to overcome the crisis of accumulation239. Chinese finance and industry is not penetrating non-capitalist areas to facilitate capitalist relations of labour, nor are these forces seeking a temporary repose from a crisis. Rather, in a general decline of capitalism and a period marred in crisis we see a morphing of Chinese policy to facilitate a mutually beneficial relationship with partner states. Chinese state policy has facilitated loan arrangements for private enterprise to develop a material basis of production abroad through competitive loans to under-capitalized parts of the world. Propagated by the necessity to relieve class struggle in China and to mitigate an increasingly clear crisis of over-production, capitalism emanating from China thrusts itself into a control position through the means of these structural arrangements to create longer term avenues for capital reallocation. The combination of Chinese capital with under-served areas of the ex-colonial world bilaterally as well as in the AIIB arrangement which are

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239 (Harvey 2005)
an expression of necessity for China and its partners in the global south. The signifier of control which feeds the structural power of Chinese capital and the Chinese state in these arrangements is what defines this relationship as one of domination within a capitalist framework.

The method of engagement as such should be appreciated as an undercutting of Western political economic arrangements for the reproduction of capitalism in the global south. The security and economic arrangements struck by China symbolize a highly successful and prosperous marriage between state coordination of and within the free-market. The pace of its engagement outpaces that of any other state in multiple regions and numerous states around the world. Strong bilateral trade and investment relationships with developing areas presents the design for China’s creation of architecture for the multilateral governance of investment. On an open and competitive application market these designs can threaten the long-term viability of western multilateral loan-based development platforms (and therefore nationally based firm foreign sublation mechanisms) the world over.
Chapter 5: The Implications on World Order of New Forms of Engagement

1. Introduction

The point of departure for this dissertation was to examine the engagement between Russia, Brazil, and China with the ex-colonial world. Two general outcomes are generally possible with engagement. One is an engagement that seeks to promote mutual cooperation and non-Western solidarity. The other is an engagement that resembles the nature of western involvement in the ex-colonial world. My hypothesis was that the political and economic engagement between these two groups resembles the latter and not the former.

From an analysis into the modalities of inter-south engagement I found that my hypothesis was partially correct. Russia, Brazil and China each have very particularistic modes of engagement at a state level, which loosely mirror each other. These state based accumulation and diplomatic mechanisms which have emanated from their unique developmental trajectories have been discussed at length above. These mechanisms are structured to expand abroad on the basis of fulfilling an internal-local need for market actors. This engagement entails similar patterns akin to the legacy of western intervention because of the asymmetrical power relations between the states involved. However, the mechanisms themselves are different in their particularity from their western counterparts so that it is difficult to typify the whole of each tool set within the same general category.

2. Analysis/Deconstruction

The analysis began by looking at the internal mechanics of the political economy within each state. Brazil and Russia were examined more deeply, while the chapter on China dealt more with international organizations and spatial governance. To explore the guiding research problem this thesis examined the relationships between three social specialities and a broader zone of shared colonial experience. In each domestic level context, the relationship between the state apparatus and local industrial as well as financial
capital were fleshed out. In the context of recurring post-2008 financing instability these relationships were instrumental in identifying the function of state-to-firm and inter-private externalization mechanisms.

Each case had a different kind and different degree of interaction between these three variables that have the most impact on the governance of the international system and the means of production. In Brazil, the government used the state, specifically state owned banks, to insulate the financial sector and propel industrial financing, in the process exporting national champion firms. In Russia the state was used again to forge a route out of the commodity and sanction crisis, which culminated in a planned route to local industrialization and external trade guarantees. In China, the entirety of the financial apparatus, which propels Chinese outward FDI, is in state hands and is used to externalize Chinese neodevelopmentalism on a world scale. In every case the state acts as a catalyst for the fiscal preservation of indigenous capitalism while seeking to expand its particular firm locally and extra-territorially.

The basic premise that firms as economic units are concerned with extra-localized expansion was maintained. This occurred for a variety of reasons specific to each firm and each case. There was evidence of a need for the firms discussed to expand to secure a controlling flow of primary industries all three cases. Each case also had firms that externalized to engage with non-local consumer markets. To a lesser degree firm level externalization, in the sense of off-shoring manufacturing facilities to secure cheaper labour markets was identifiable in the cases of Brazil and China. Extra-territorial spatial movement into lesser developed market space was a desirable and evident movement for the firms observed in the chapters of Brazil and Russia.

The media for the reproduction of capital across the boundaries of the three cases are subject to the scale and feature of state involvement. This encapsulates a certain degree of qualitative and quantitative variance, which is largely due to the long view of development in each case. Broadly speaking there exists a similar patchwork of tools used by the states of Russia, Brazil, and China. Export financing that filters
in state-to-firm (capital) subsidies to facilitate externalization was observed as the most direct engagement of the state to the bourgeoisie in each case. Direct policy levers which created an economic shielding and to direct economic activity was also observed (Russian cuts to ore export taxes and Brazilian domestic regulation that consolidated the banking sector are examples of this). These levers organized the home market for indigenous MNCs, giving them ample footing to engage abroad to circumvent localized market pressures emanating from the crises. Finally, there are a host of tools that engineer a social-juridical environment in a transnational environment for firms to engage with non-local territory. These include inter-elite organizations (i.e. BNDES regional offices and the Russia-South Africa Business Council) as well as inter-state agreements such as transnational development banks, BITs, FTAs, Customs Unions, etc.

The purpose of these state-generated tools is largely to ensure the reproduction of particular firms. In Brazil and Russia these policies act to ensure reproduction at a higher competitive level, with the addition and generation of high value-added manufacturing activity. In Brazil and China, lower labour costs and access to sites of primary good extraction are the outcome of these policies. The outcome of these policies also sees a semi-planned reallocation of excess capital. In some sense, these institutions that regulate and direct capital externalization lend to the fostering of geo-strategic implications as a spillover effect. The coordinated multi-sectoral penetration for commodity production and extraction of the three cases in the third world leads to an increase pace of exploitation relative to interactions of western states and firms.

Leon Trotsky’s theory of uneven and combined development postulates that latecomers to capitalism utilize the state as a force to overcome backwardness. This can be conceptualized as an administrative apparatus that legally governs over a territorial space being used to facilitate the protracted development of the means of production in its localise space. Within the space it governs, the state’s financial and industrial arms impose relations of production and facilitate the amelioration of the condition of private capital in general. In the cases of developed finance capital in Russia, Brazil and China the needs of capital manifest on a global scale. From a commercial standpoint, many of the firms discussed
in the Russian and Brazilian chapters run into barriers of expansion in terms of resource utilization, clientele, and efficient use of capacity solely in the domestic market. The two observable features of the state in those chapters were 1) the securing of industrial lending patterns during the recent crisis period (2007-15) and 2) the foreign engagement through the above discussed media for the reproduction of capital. The spatial effect is the artificial juridical-territorial annexation of market space where extra-territorialisation of market needs is possible.

These two mechanisms of the state apparatus thus present slight variance. Variance in these conjoined mechanisms exists for both between the cases examined and with western states, which begets a modification of the hypothesis. The broad variance between Russia, Brazil, and China vis-à-vis the west is clear and is observable in two instances. First, this is partially due to the organic and temporal pace of localized capitalist development in each context. The pathologies of engagement to facilitate a selective international loci of reproduction differ in each case and adapt to particularities within the national framework trajectory of development. Each case demonstrated the colossal scale of the state as a key economic driver behind externalization initiatives, even though these systems are not observable in the same degree of complexity as in the west. Second, the methods of ensuring domestic capital penetration into foreign legal space are also differential and asymmetrical reflecting the unevenness of capitalist development upon human and physical geography. In these two characteristics we see a negation of the premise of a western externalization processes and its sublation into a new modality of engagement. Certain forms of state engagement in the western paradigm are maintained and certain policy pulls are renovated and re-applied from what is observable in western economic engagement; however, the methods of externalization outlined in the antecedent chapters were qualitatively and quantitatively different from those observed in the western architecture.

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The literature on developing world capitalism makes note of “national champions”, or local capitalist enterprise that is owned by a resident bourgeois, as a stimulant for industrial and financial growth. A similarity in the Russian and Brazilian instances is the concentration of the share of outward FDI among a closed list of firms. It is the coveting of these national champion firms, which exist geographically beside American and European industry in their home countries, and their financing at a state level that ensures the transnational reproduction of capital originating from surplus acquired in their home territory to monopolistically extend abroad. What we see in the development of the case studies is the network paths of engagement that is the way forward for “national capitalists” to overcome productive contradictions through externalization. In some respects, the institutions of the state concerned with externalization act with a logic of their own propelling industry outward. The BNDS loans, for example, extensively project small and medium sized enterprises (SMEs) abroad by creating conditions that shift the scale of a given firm to externalize in a desired and mutually constructed path. The Chinese cycles of aid/investment have spilled over into large expatriate Chinese communities globally engaged in intermediary forms of capital accumulation independent of the state. The fast pace and pre-emptive systematic impulse for externalization accelerates the pace of a natural development beyond one locality linking non-monopolistic and non-concentrated firms and actors to other market space.

Between these cases there is a high degree of variance. This is particularly accentuated on the scale of state support for externalization. This rubs off the historical trajectories of development within each case. Within this historical movement, class struggle, the adaptation of that state to this struggle and the adaptation of the state and local capital to exogenous pressures shape the contours of the state-to-capital externalization. These relative relationships shape the variance in each case. Here is why in Brazil we see a resurrection of the previously sublated state development banking institution to stabilize crisis and facilitate inter-state reallocation of the non-human productive forces. External pressures pushed the regime in Russia to re-shape the domestic political equilibrium (through assassination and expropriation of opposition) and the political economic rearrangements resulting in an import substitution strategy. In
China state development banks were imported and hard Keynesianism was routed to domestic infrastructure policies. Between Deng and Xi there exists the micro-political changes that result in this model exporting itself and lashing out to secure the apogees of its own stabilization. Each process offers its own dialectic trajectory into a neodevelopmentalist direction.

3. Implications for World Order

Russia, Brazil, and China engage with the ex-colonial world differently because of their uneven productive situation within world capitalism. The engagement itself, especially given changes in FDI and trade flows and the establishment of long-term governance institutions, has an evolving impact on world order. While inter-state power competition falls outside of the boundaries of the scope of this thesis, the innovative transformation of conflict and order as we see it in the 21st century has faced increasing parcelization.

In attempting to explain the world of the 1970s and 1980s dependentistas looked at a devolution of authority vested in regional order preservation. Specifically, the case was made that the US, and its firms, delegating regional stability to regionally dominant states to produces a “global” hegemony. In Asia and Africa this formula is increasingly being adopted by the three cases discussed. Sub-dependent semi-bonapartist or full bonapartist regimes exist throughout Central Asia, Latin America and the Middle East. If the conflicts in Syria and Donbas are to be observed there is a sociological movement of power that transcends inter-state governance. Russian officers lead rag tag bands of troops while engaging in governance decision making that effects the lives of countless civilians. A devolution of power to dictators and guerillas is coupled with asymmetrical hyper-modern legal forms of governance to protect territory encompassing future or existing factors of production. The engagement of these states shows them to be increasingly effective actors in a broad strategy of securing sites and routes of production. This state

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240 (Boito and Berringer 2014); (F. H. Cardoso 1972); (Gunder Frank 1979)  
241 (Arrighi, The Long Twentieth Century 2010, 34-35)
sponsored capital has dug in to secure both flows and sites in a military fashion and within a capital spreading inter-state framework. The involvement of Russia, Brazil, and China in these mechanisms contributes to a re-working of sovereignty whereby world order is characterized by increasing propensity towards social conflict and friction at every level of transnational human society.

4. Conclusion

A Marxist perspective encompasses the expansionistic logic of capital accumulation with the asymmetric development of capital. It looks at firms as the vehicle for capital accumulation and bourgeois economic rule, while the state becomes the political expression that guarantees the life span of the particularism of the firm. The inter-relationships of these institutions in their joint development contributes to a better understanding of South-South relations.

In applying these insights into the engagement of three emerging economic powers this thesis examined the interaction between state and firm in Russia, Brazil, and China to trace processes of externalization. There is a close linkage between a select few national champion firms and the state in each case. The most transnationalized firms in Russia and Brazil are also the ones dependent on state support to transnationalize. The features and implications of this relationship are numerous. In relation to the question traced throughout, there is a continuation of exploitive patterns inherent in the capital accumulation process from the three cases sublated into the ex-colonial world. A particularly western phenomenon of inter-polity engagement is thus transcended. These forms of engagement re-create world order, increasing its complexity, and formulating a different imperial arrangements.


## Appendix A

<table>
<thead>
<tr>
<th>Company</th>
<th>Industries Involved</th>
<th>Total Assets (USD Millions)</th>
<th>Total Revenue of Group</th>
<th>Foreign Subsidiary Revenue (USD Millions)</th>
<th>Foreign Subsidiary Revenue (% of Total)</th>
<th>Total Revenue Generated From Group Exports (USD Million)</th>
<th>Export Revenue (% of Total Revenue)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LUKOIL (2014)</td>
<td>Oil and gas extraction and processing</td>
<td>$111,800.00</td>
<td>$40,255.00</td>
<td>-$1,522.00</td>
<td>-3.78%</td>
<td>$5,857.00</td>
<td>14.55%</td>
</tr>
<tr>
<td>Gazprom</td>
<td>Oil and gas extraction and processing</td>
<td>$268,342.82</td>
<td>$139,440.54</td>
<td>$7,874.88</td>
<td>5.65%</td>
<td>$46,606.35</td>
<td>33.42%</td>
</tr>
<tr>
<td>Evraz</td>
<td>Steel, iron, coal, vanadium</td>
<td>$17,704.00</td>
<td>$12,962.00</td>
<td>$6,856.00</td>
<td>52.89%</td>
<td>$3,422.00</td>
<td>26.40%</td>
</tr>
<tr>
<td>Mechel</td>
<td>Steel, rolled steel, iron, coal</td>
<td>$6,713.00</td>
<td>6405.767**</td>
<td>508.121**</td>
<td>7.93**</td>
<td>$2,172.08</td>
<td>33.91%</td>
</tr>
<tr>
<td>Sovcomflot (2012)</td>
<td>Shipping</td>
<td>$453.65</td>
<td>$35.43</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Sistema</td>
<td>Conglomerate</td>
<td>$20,670.00</td>
<td>$16,584.96</td>
<td>$474.00</td>
<td>2.85%</td>
<td>$8,955.88</td>
<td>54.00%</td>
</tr>
<tr>
<td>Severstal (2014)</td>
<td>Steel, pipes, metalware</td>
<td>$7,560.76</td>
<td>$8,296.00</td>
<td>n/a</td>
<td>n/a</td>
<td>$2,654.72</td>
<td>32.00%</td>
</tr>
<tr>
<td>UC RUSAL (Including Norilsk Nickle)</td>
<td>Aluminium, bauxite</td>
<td>$14,857.00</td>
<td>$9,357.00</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>--------------------------------------------------------</td>
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</tr>
<tr>
<td>MMK</td>
<td>Steel, iron, coal</td>
<td>$12,100.00</td>
<td>$8,357.00</td>
<td>$567.00</td>
<td>6.78%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norilsk Nickel (Subsidiary of UC Rusal) (2014)</td>
<td>Nickel, palladium, silver, copper, platinum, gold, cobalt, selenium, tellurium, rhodium, iridium, ruthenium, coal</td>
<td>$13,149.00</td>
<td>$11,869.00</td>
<td>n/a</td>
<td>n/a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zarubezhneft (2013)</td>
<td>Oil and gas extraction, processing, exploration</td>
<td>$2,091.18</td>
<td>$539.49</td>
<td>n/a</td>
<td>n/a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NordGold (subsidiary of Serverstal) (2014)</td>
<td>Gold</td>
<td>$2,245.75</td>
<td>$1,216.10</td>
<td>n/a</td>
<td>n/a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INTER RAO (2014)</td>
<td>Energy (electricity)</td>
<td>$2,873.16</td>
<td>$13,044.20</td>
<td>$1,359.48</td>
<td>10.42%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rosneft (2014)</td>
<td>Oil and gas extraction and processing</td>
<td>$137,073.00</td>
<td>$96,859.20</td>
<td>n/a</td>
<td>n/a</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Rosneft has majority state ownership, Rosneftegaz has minority state ownership.
provides capital if need be.

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry Type</th>
<th>Revenue 1</th>
<th>Revenue 2</th>
<th>Profit 1</th>
<th>Profit 2</th>
<th>Revenue Share</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>FESCO (2013)</td>
<td>Rail and sea transport</td>
<td>$2,098.00</td>
<td>$1,140.00</td>
<td>$1,362.00</td>
<td>119.47%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Acron</td>
<td>Conglomerate</td>
<td>$2,571.60</td>
<td>$1,195.19</td>
<td>$630.72</td>
<td>52.00%</td>
<td>$968.10</td>
<td>81.02%</td>
</tr>
</tbody>
</table>

**Totals** $669,077.74

*Atromredmetzoloto is a subsidiary of AtomEnergoProm which is in turn a subdivision of Rosatom, the state owned nuclear corporation, figures listed are from the AtomEnergoProm 2013 annual report which also include the data for Uranium One Ltd.

** these figures represent strictly the share of Mechel's subsidiary sales from the subsidiaries based abroad on
those markets in which they are based in, it does not take into account exports, which are grouped into a conglomerate figure of $2,172,079,000

*** Just from JSC and associate enterprises

NOTE: Severstal and Lukoil foreign assets from 2012