UNIVERSIDADE DE BRASÍLIA – UnB
INSTITUTO DE CIÊNCIAS SOCIAIS – ICS
DEPARTAMENTO DE ESTUDOS LATINO-AMERICANOS (ELA)
PROGRAMA DE PÓS-GRADUAÇÃO EM CIÊNCIAS SOCIAIS - ESTUDOS COMPARADOS SOBRE AS AMÉRICAS

Alena Profit Pachioni

DYNAMICS OF BUSINESS POLITICS:
EVIDENCE FROM CHINESE FIRM INTERNATIONALISATION TO BRAZIL

Brasília, março 2019

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Tese apresentada ao Centro de Pesquisa e Pós-Graduação sobre as Américas como parte dos requisitos para obtenção do título de Doutora.
Orientador: Prof. Dr. Moisés Villamil Balestro
Orientadora: Profa.Dra. Michèle Knodt

Brasília, março 2019

Profit Pachioni, Alena.
Dynamics of Business Politics: Evidence from Chinese Firm Internationalisation to Brazil / Profit Pachioni, Alena. Brasília, 2019.
194 f. : il.; tab.

Orientadores: Moisés Villamil Balestro e Michèle Knodt
Tese (Doutorado) – Universidade de Brasília. Departamento de Estudos Latino-Americanos (ELA), Programa de Pós-Graduação em Ciências Sociais - Estudos Comparados sobre as Américas.

1. Brazil. 2. China. 3. Multinational companies. I. Moisés Villamil Balestro II. Universidade de Brasília.

CDD

UNIVERSIDADE DE BRASÍLIA – UnB
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TERMO DE APROVAÇÃO

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Tese apresentada ao Centro de Pesquisa e Pós-Graduação sobre as Américas como parte dos requisitos para obtenção do título de Doutora, pela seguinte banca examinadora:

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Brasília, March 2019

ACKNOWLEDGEMENTS

I would like to sincerely thank my supervisors, Prof.Dr. Moisés Balestro and Prof. Dr. Michèle Knodt, for their guidance and support. Over the course of this dissertation, Professor Balestro provided me with numerous theoretical and methodological ideas, constant encouragement and enduring patience. Professor Knodt provided me with critical insights that have substantially improved the project.

I must also thank the other members of my committee, Prof. Dr. Jackson de Toni, Prof. Dr. Camilo Negri and Prof. Dr. Luiz Guilherme de Oliveira for providing valuable feedback and comments.

I would like to thank the many informants who kindly gave up their time to speak with me – a good number of whom were kind enough to speak to me on more than one occasion.

I have benefited from the support of many people since I started this project and I am grateful to all of them. I gratefully acknowledge the funding received from CAPES. I am also thankful to a number of friends from other parts of my life who have helped me through this process: Lucia and Alina, Terry, Nubia, Marek, Rachel, Ming, Yuxuan, Christine, Marcelle and Nicolas.

Most of all I am in debt to my family and Miguel for all the joy he has brought into my life.

ABSTRACT

This dissertation addresses the role of business politics in the context of Chinese state-owned multinationals by analyzing the emergence and consolidation of a state-owned energy company and its internationalisation to Brazil. The single case study traces the corporate evolution from its initial emergence in 2002 as a consequence of China's power sector reforms to its operations in Brazil in 2016. The findings build on more than three years of field research - including interviews in electricity supply sectors in Brazil and China - as well as extensive analysis of archival and government documents. Using an institutionalist approach, the dissertation identifies that business politics is an important resource to help the company gain competitive advantage.

In China, where the company's institutional embeddedness was strong, the company developed the ability to pursue its industrial and internationalisation agenda with relative autonomy, albeit confined to the state-business relations. In Brazil, where its institutional embeddedness was weak, it depended on comparative economic advantage, such as low-cost bidding, technology knowledge transfer, and comparative political advantage, such as diplomatic support. As a result, the case study shows that the firm is able to incrementally build on existing strengths and industrial capabilities to participate in the Brazilian energy sector, while simultaneously consolidating its domestic position in China. In addition to contributing to the literature on the relationship between state-owned enterprises and the state, the study contributes to broader debates about the differences in state-business relations, the political origins of corporate decisions, and industrial upgrading in emerging economies

Keywords: China. Brazil. Internationalisation. Business politics.

RESUMO

Esta tese aborda o papel da política empresarial no contexto de multinacionais estatais chinesas, analisando o surgimento e a consolidação de uma estatal do setor energético e a sua internacionalização para o Brasil. O estudo de caso traça a evolução corporativa de seu surgimento inicial em 2002, como consequência das reformas do setor elétrico na China, até suas operações no Brasil em 2016. Os resultados se baseiam em mais de três anos de pesquisa de campo - incluindo entrevistas nos setores eletricos no Brasil e na China - além de extensa análise de documentos de arquivo e do governo. Usando uma abordagem institucionalista, a tese identifica que a política empresarial é uma ferramenta vital para ajudar a empresa a obter vantagens competitivas no contexto da internacionalização pela sua superposição dos níveis nacionais e internacionais.

Na China, onde a *embeddedness* institucional da empresa era forte, a empresa desenvolveu a capacidade de perseguir sua agenda industrial e de internacionalização com relativa autonomia, embora confinada ao sistema estatal de negócios. No Brasil, onde sua *embeddedness* institucional era fraca, dependia de vantagem econômica comparativa, como por exemplo licitação de baixo custo, transferência de conhecimento tecnológico e apoio diplomático. Como resultado, o estudo mostra que a empresa é capaz de incrementar as suas capabilidades existentes e as capacidades industriais para participar do setor energético brasileiro, enquanto simultaneamente consolida sua posição doméstica na China. Além de contribuir para a literatura sobre a relação das empresas estatais com o Estado, o estudo colabora para debates mais amplos sobre as diferenças nas relações entre o Estado e os negócios, as origens políticas das decisões corporativas e a modernização industrial nas economias emergentes.

Palavras-chave: China. Brasil. Internacionalização. Política empresarial.

LIST OF ABBREVIATIONS

ABDIB	Association of Infrastructure and Base Industries (Associação Brasileira da Infraestrutura e Indústrias de Base – ABDIB
ABRATE	Associação Brasileira das Empresas de Transmissão de Energia Elétrica - Brazilian Association of Transmission Companies of Electric Energy
ACR	Ambiente de Contratação Regulada
ANEEL	Agência Nacional de Energia Elétrica
APEC	Asia-Pacific Economic Cooperation
AQSIQ	General Administration of Quality Supervision, Inspection and Quarantine
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa grouping countries
CBERS	China-Brazil Earth Resources Satellites
CCEE	Câmara de Comercialização de Energia Elétrica
CCP	Chinese Communist Party
CEBC	Conselho Empresarial Brasil-China - Brazil-China Business Council
CEO	Chief Executive Officer
CEPEL	Centro de Pesquisas de Energia Elétrica
CMC	Chair of the Central Military Commission
CME	Formalized Networks and Associations
CMSE	Committee for the Monitoring of the Electric Sector
CNI	National Confederation of Industry
COSBAN	High-level Sino-Brazilian Commission for Concertation and Cooperation
CELAC	China-Community of Latin American Countries
CME	Coordinated Market Economy
CPA	China Pacific Alliance
CPC	Chinese Communist Party
CPFL	Companhia Paulista de Força e Luz
CRA	Contingent Reserve Arrangement
GEIDCO	Global Energy Interconnection Development and Cooperation Organization
CSGC	China Southern Grid Corporation
EPE	Energy Research Company
EU	European Union
FALG	Foreign Affairs Leading Small Group
FDI	Foreign Direct Investment
FIESP	Federation of Industries of the State of São Paulo
FTAA	Free Trade Area of the Americas
G8	Group of Eight
G-20	Group of Twenty
GDP	Gross Domestic Product
GEI	Global Energy Interconnection
GEIDCO	Global Energy Interconnection Development and Cooperation Organization
IEEE-SA	Electrical and Electronics Engineers Standards Association
IMF	Internaitonal Monetary Fund
LAC	Latin American and the Caribbean
LME	Liberal Market Economies
M&A	Mergers & Acquisition
MAPA	Ministry of Agriculture, Livestock and Supply
MEP	Ministry of Electric Power (China)
MME	Ministry of Mines and Energy
MNC	Multinational Corporation
MoE	Ministry of Energy (China)
MoF	Ministry of Finance
MDIC	Ministry of Industry, Commerce
MOFCOM	Ministry of Commerce
MOST	Ministry of Science and Technology
MOU	Memorandum of Understanding
NDRC	National Development and Reform Commission
NEA	National Energy Administration

NPC	National People's Congress
OECD	Organisation for Economic Co-operation and Development
ONS	Operador Nacional do Sistema Elétrico
PAC	Programa de Aceleração de Cresci-mento
PBOC	People's Bank of China
PMDB	Partido do Movimento Democrático Brasileiro
PRC	People Republic of China
PSDB	Partido da Social Democracia Brasileira
PT	Partido dos Trabalhadores
RAP	Receita Anual Permitida
R&D	Research & Development
RMB	Renminbi
SAFE	State Administration of Foreign Exchange
SASAC	State-owned Assets Supervision and Administration Commission
SBR	State-Business Relations
SERC	State Electricity Regulatory Commission
SEZs	Special Economic Zones
SGBH	State Grid Holding Brazil
SGCC	State Grid Corporation of China
SME	State-permeated Market Economy
SPC	State Planning Commission
SPCC	State Power Corporation of China
SOE	State-owned Enterprise
T&D	Transmission and Distribution
UHV	Ultra-high voltage
UHV-AC	Alternating current ultra-high voltage
UHV-DC	Direct current ultra-high voltage
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USD	United States dollar
VoC	Varieties of Capitalism
WTO	World Trade Organization

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INTRODUCTION

> *Things economic and social move by their own momentum and the ensuing situations compel individuals and groups to behave in certain ways whatever they may wish to do—not indeed by destroying their freedom of choice but by shaping the choosing mentalities and by narrowing the list of possibilities from which to choose* (Joseph Schumpeter, 1962, p.139-130).

One of the most intriguing dimensions of firm activities abroad is how companies deal with challenges affecting their immediate business interests. Analysing all channels by which political activities unfold is difficult to achieve. In this dissertation, I examine the dynamics of this unique variant of non-market firm strategy: business politics, defined as a way of directly or indirectly leveraging corporate interests. Business politics are not confined to national environments, rather, firm internationalisation places business politics as a process of learning as companies become more and more part of the international community.

The viewpoint of companies as powerful actors has been adopted as a priori assumption in the analysis of policy processes and state-business relations or in the absence of empirical scrutiny. Unfortunately to date, systematic and qualitative data about the extent to which MNCs engage in corporate political actions in the context of their global market presence remains largely unavailable. In this study, I explore state-owned multinational companies by examining the emergence and consolidation of a Chinese energy sector company to Brazil from 2002-2016. Based on a single case study, the study is organized around three dimensions (firm-level, industry-level, and institutional-level), before then examining the case itself. Such a contribution is especially necessary considering the literature's clear orientation to the domestic context at the expense of scrutinizing corporate political strategies across different contexts, specifically emerging countries.

Over the last two decades, Chinese multinational companies have used their know-how and managerial resources to invest abroad. Understanding internationalisation as 'the crossing of national boundaries in the process of growth' (BUCKLEY AND GHAURI, 1999, p. ix), most of China's investment to advanced economies allowed firms to acquire knowledge, brands, technological capacity, and quick market access. In Latin America, Chinese companies have achieved significant foothold and this 'developing friendship' as described by Chinese President Xi Jinping during the opening ceremony of China-Latin America Media Leaders Summit at the headquarters of the UN Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago, will impact Latin American economies for at least the foreseeable future.

Focusing on the relations between Brazil and China offers several unique opportunities to study the phenomenon of business politics in the context of internationalisation. My case focuses on the internationalisation of State Grid Corporation of China (SGCC). In Brazil, the company's subsidiary State Grid Brazil Holding (SGBH) acquired a major stake in the Brazilian power distributor CPFL Energia and is a main operator of Brazil's power transmission lines. Such investment in critical infrastructure meets the urgent needs of Brazil whose electricity demand until 2024 will require an addition of 79 GW of installed total generation capacity with an estimated investment of US$ 101.3 billion, as well as an additional 70,000 km of transmission lines with an estimated investment of US$ 40.8 billion (MINISTRY OF MINES AND ENERGY, 2016).

Since the beginning of the 2000s, Brazil's electricity sector has undergone significant institutional restructuring, which has resulted in changes to the competitive environment and the entry of foreign investment, including Chinese. The consequent changes in the state-business relations provide not only material for this industry case, but no less important raises attention to the question on how states perceive and treat the presence of foreign MNCs. Even though companies may possess resources to participate in policy-making or political systems, it does not automatically mean their efforts will be successful.

REVIEW OF FOREIGN DIRECT INVESTMENT (FDI)

Empirical research on foreign direct investment (FDI) determinants has developed along both economic and political perspectives. The contribution FDI makes to development is pivotal to debates concerning socio-economic transformation in Latin America's development. The challenges it poses and opportunities it opens are debated in terms of the structure, extent and nature of the FDI activities associated with a given location, the economic structure of that location and the local economic development (NARULA AND DUNNING, 2010). When it comes to the role of multinational companies (MNCs) and FDI, literature (e.g. NARULA AND DRIEFFIELD, 2012) debates firm-specific assets (technology, economies of scale, capital intensity and R&D, management techniques, organizational skills and the knowledge of markets, and the expertise to exploit them efficiently) that provide MNCs with a domestic advantage over domestic firms in the recipient context. The Organisation for Economic Co-operation and Development (OECD) definition for FDI is as follows:

> *Direct investment enterprise is an incorporated or unincorporated enterprise in which a single foreign investor either owns 10 per cent or more of the ordinary shares or voting power of an enterprise or owns less than 10 per cent of the ordinary shares or voting power of an enterprise, yet still maintains an effective voice in management. An effective voice in management only implies that direct investors are able to influence the management of an enterprise and does not imply that they have absolute control. The most important characteristic of FDI, which distinguishes it from foreign portfolio investment, is that it is undertaken with the intention of exercising control over an enterprise.*

The role of FDI, motivated either by the search for natural resources, markets, efficiency and strategic assets (DUNNING AND LUNDAN, 2008), for developing and emerging countries have been contemplated in terms of their potential effect on economic development in the host-country context, ushering technological spillovers, formation of human capital and trade integration. Technology transfer and its diffusion might be achieved through vertical relations with the suppliers on the host country level; horizontal relations with complementary or competing enterprises; migration of skilled labor and the internationalisation of research and development (R&D) (NAVARETTI AND VENABLES, 2006). Emerging countries are at the heart of current debates, debating benefits and pitfalls of FDI in the national economies and increasingly the growing impact of South-South relations (RAY ET AL, 2015). Here, emerging market emerging multinational companies emerge as key FDI sources directed into other emerging economies, the developed world, and also the rest of the developing world (COLLINS, 2013).

A growing strand of literature focuses on how firms from emerging countries are operating in different industries and have built global presence (RAMAMURTI AND CUERVO-CAZURRA, 2014) their institutional characteristics and investment patterns (ANDREFF AND BALCET, 2013). What is emphasized in the case of the emerging countries, such as China for instance is the particular role of the state capacities mobilized over time in developing the Chinese activities abroad, as for example in the case MNC investment. Several studies debated the internationalisation efforts, including the impacts on global growth (LATTEMANN AND ALON, 2015); and the differences of Chinese companies to MNCs from industrialized countries (LI, XIA AND LIN, 2017)

With the 2015 FDI outflows from China having increased by 53% (to USD 188 billion) (OECD, 2016), China is the emerging country with the biggest FDI participation. This economic outlook rests on China economic transition and development trajectory and the foundation of this significant growth of Chinese FDI throughout the past decade lay in the economic reforms of the post-Mao era. Authors differ on the motivation of Chinese MNC expansions: Cai (1999) states the reason for Chinese outward FDI are generally similar to those for FDI from other developing and developed market economies', even if the links with the stat are more visible. In this sense, the author listed the following motives for outward FDI: (i) 'to seek, maintain or expand export markets', (ii) 'to acquire a stable supply of resources', (iii) 'to obtain foreign technology and management skills', (iv) 'to raise capital, primarily in Hong Kong, for domestic use', and (v) for 'political considerations' (p. 867-874). Wong and Chan (2003) further discuss the saturation in the home market, and (the) avoidance of non-tariff barriers. Buckley et al. (2007) found that, on the one hand, the determinants of these FDI are market size, natural resource endowments, institutional environment, policy liberalisation/home country institutions and cultural proximity.

Chinese FDI policies take their beginnings with economic liberalization. As Gransow (2015) analyses, the lack of foreign exchange in China during the 1980s implied that the foreign aid to the country featured predominantly preferential loans directed to communication, energy, transport and raw-material associated sector. In the 1990s, domestic development was strategically targeted, through setting up special economic zones (SEZs); attracting FDI and infrastructure. At the same time, while maintaining the previously established priority areas, investment was further directed to agriculture and poverty reduction to promote social development. It was only in the beginning of the 2000s, that outward FDI became a central aspect of the Chinese development agenda. It was in this period that Chinese FDI is embedded in the development strategy called `Going Out` Policy (走出去战略) and implemented a relatively sophisticated regulatory framework for outward FDI.

When it comes to the particular features of Chinese FDI, Nolan and Sauvant (2015) stress the role of the state in the outwards FDI flows and stocks. Alongside the SOEs, many non-SOEs are strongly linked to the Chinese government. Furthermore, the FDI regulate framework aimed at creating globally competitive companies whose FDI targeted the pivotal development targets of the Chinese economy, principally the technological development. Scholar debate emphasized the strong state promotion and backing of FDI, rooted in the domestic institutional structures of the country. Furthermore, the political backing the FDI makes these policies a prominent feature of Chinese foreign economic policy (MC NALLY, 2012; TEN BRINK, 2013).

THE ACADEMIC DEBATE ON STATE-BUSINESS RELATIONS

The study of contemporary business politics is an exercise in reconciling recent developments of institutional approaches, business studies, and other perspectives. The dynamic relation between the heterogeneous actors in state and business is the critical point that must be made to commence this discussion of state-business relations. This is an important point of departure because there is a need to cross the north-south divide of academic studies and integrate the economic structures, different levels of development, and institutional arrangements. According to Leftwich, (2009, p.8), state-business relations are 'political processes, where politics is understood as all the activities of conflict, cooperation and negotiation involved in taking decisions over the ownership, production, use and distribution of resources.' An examination of state-business relations from the perspective of the firm yields the conclusion that companies go into the political sphere for the benefits to business procedures (benefit from certain opportunities or leverage resources to their advantage) or as a reaction to governmental threats.

In the case of Brazil, the debate on the relations between the state and business remains very relevant. Approaches from authors such as Schneider (2004) and Power and Doctor (2002) has attributed the political debility of the Brazilian business community to the fragmented state corporatist system of interest representation, which prevents effective collective action. This perspective, however, is contrasted by studies on the mobilisation capacity of national business. Mancuso (2004) has used empirical data on the process of laws in the National Congress between 1996 and 2003 to demonstrate the efficiency of corporate collective action in the implementation of an agenda that focuses on reducing 'Brazil Cost', reducing high taxation, and making labour laws more flexible, all in a manner that closely aligns with industry interests.

In the same vein, Oliveira (2003) has highlighted the importance of business mobilisation for the negotiations of the Free Trade Area of the Americas (FTAA) in the 1990s. Most notably, these mobilisations took place under the leadership of the National Confederation of Industry (CNI), which indicates the strength of the system of collective representation of corporate interests vis-a-vis parliament and in international negotiations (MANCUSO AND OLIVEIRA 2006). In addition, works by Renato Boschi and Eli Diniz have reinforced the idea of political strength of the national business community, which continued to skilfully defend their interests during the liberal reforms in the 1990s and the Lula administration, which heralded the re-emergence of state participation in the economy. These studies highlight the diversity of representation channels that are cultivated by entrepreneurs, which indicates strong political activism in the segment (DINIZ AND BOSCHI 2004; DINIZ 2010).

As highlighted by Leftowich (2009), state-business relations are shaped by the way in which state and business organisations interact within institutional arrangements to create the institutions which dictate the form which state-business relations take. What exactly makes the ‘political’ in the state-business interactions is far subtler, as the same author has demonstrated (LEFTOWICH, 2009, p.8), since the institutions can be best assessed as outcomes of the political interaction between formal and informal organizations within formal or informal institutional arrangements. Institutionalism literature has long argued that firms are not neutral players (STREECK AND SCHMITTER, 1991). Studies on national systems of interest intermediations in the EU have identified the differences and similarities between different domestic settings (ROMMETVEDT ET AL, 2014). It is in this context that the institutional approach is based on the presumption that varying degrees of institutional (formal and informal) differences in state-business relations will result in different conditions.

Nölke et al. (2014) have argued from the perspective of the comparative capitalism literature and identified the state-permeated market economy (SME) concept in countries such as Brazil, China and India. The authors have argued that these countries share similar characteristics which make them distinct from liberal economies. The features of these economies can include cooperation between state and domestic business at different levels of the state (national and state-level). In the case of these economies, the state acts as coordinator seeking to build cooperation between the different stakeholders, rather than being top-down. Trust, loyalty and informal relations define these competition-driven state-business coalitions. Coalitions are based on informal personal relations, family ties, and shared elite social elite backgrounds. In this common feature, SMEs differ not only from older and bureaucratic state capitalisms but also from other economic models which are coordinated by the market and formal contracts, as in the liberal market economies (LMEs), and formalised networks and associations, as in the case of coordinated market economies (CMEs).[1]

We are concerned with narrowing down the specifics of state-business relations in countries that have some aspects of state-permeated market economies. Hence, this section further narrows down defining elements of state-business relations that are relevant to the empirical context. This research will consider the dimensions of the embeddedness of the relationship between the public and private sector. We will consider ideology, interests and formal and informal mechanisms for consultation, coordination and reciprocity between the state and business. This is particularly relevant because the comparative political economy literature indicates an emphasis on how the actors within and outside the state draw on institutional dimensions and use individual or collective action to pursue their preferences.

This case study adopts a Varieties of Capitalism (VoC) derived approach as a heuristic model to further operationalise the firm-level comparison between the different arrangements of the Brazilian and Chinese institutional contexts. This seeks to establish the conceptual discussion concerning the variations of the practices and institutional aspects impacting the firm. On the other hand, the firm may also seek to establish its comparative advantage. In this regard, the embeddedness of actors in the different economic and political institutions (CHEN AND DICKSON, 2010) is fundamental to understanding state-business relations.

That understanding of embeddedness differs fundamentally from the notion of embedded autonomy that has been employed by Evans (1995). Evans has referred to embeddedness because the state capacities are not only linked to the rational-legal bureaucracies but also to their ability to relate to the private sector to develop the right strategies for development. However, the relation to the private sector and social groups is only beneficial if political autonomy - the ability of the state to act according to its own preferences - is guaranteed (SKOPCOL, 1985). In China, embeddedness is tied to close social relations between political and economic elites. China's economic elites are closely linked to the party structures and reflect the interest of the party (Dickson, 2008). Hence, they are unlikely to demonstrate interest in opposing the

[1] In the empirical context of this study, the SME approach is applied between the period of 2009-2016.

system. It is in this regard that the rules of authority and hierarchy that result from the firm's embeddedness can exercise different effects on state-business relations.

Comparative political economy approaches to the variation of firm-level business politics across different national contexts are informed by institutions and the way interests are organised. These two factors impact the capabilities of the firms to translate preferences into outcomes. While the interests in the home and host contexts of China and Brazil may be similar, e.g. increasing the competitiveness of the energy sector, the outcomes were influenced by different ideas and ideologies of the diverging the political systems. In the context of state-business relations, studies such as McAdam et al. (2001) and Tarrow (2011) have emphasised the relation between framing processes and ideas. Other institutional approaches relate ideas and policy outcomes (RUESCHEMEYER AND EVANS, 1985).

Furthermore, the economic ideology of the political regime and the presence of incentives for political elites to foster a collaborative rather than collusive relationship with the private sector are important factors for the emergence of effective state-business relations (LEFTWICH 2009). In post-2012 China, the role of the national narrative has sought to unify and mobilise different tiers of society including economic elites. The narrative has done so by using terms such as 'China Path' and 'China Dream' to express a narrative that consolidates China's global aspirations and sells its economic model, thereby differing from liberal and market-led economic models (SHI-KUPFER ET AL, 2017). Other narratives include the 'going global narrative that mobilises internationalisation efforts. For state-business relations, this implies a tighter relationship to the state and incentives for the elite and businesses to maintain a close relationship with the state. In Brazil, links to political decision-makers such as the Brazilian Workers Party (PT)'s link with unions and social movements (HOCHSTETLER, 2008) further demonstrate the link between ideational framing and policy outcomes in the context of state-business relations.

Although interests may differ from sector to sector, the specific sector arrangements and needs are vital to understanding how a firm organises itself. While sectoral influence over policy is determined by state-business arrangements, the degree of interest and ability of actors to advocate for their preferences (GOUREVITCH, 1986) can equally impact the quality of sectorial policies and outcomes. Interest mobilisation can be achieved through various ways such as close links with the government, the appointment of business representatives to government positions or state representatives' migration into the business systems (FAIRFIELD, 2011). In the case of China, one example is the ties between private companies and the government throughout several industrial sectors. In the case of Brazil, the Lula administration appointed several people with close business ties to the administration.

In terms of formal and informal mechanisms for state-business relations' coordination, Brazil presents a fragmented and complex collective representation structure of corporate interests that is formed by pluralistic and corporatist entities that act in several areas of public policies (DINIZ, 2010). In China, the informality of the state-business relations is mediated through the state-party structure, which reflects state domination. Formal institutional linkages and visions such as guidelines and political macro orientations further shape coordination. Agendas can be set by agents of bureaucracy, parties, or individuals in different settings.

THE RESEARCH PUZZLE

On April 22 2016, the high-level signing ceremony of the United Nations' Paris Climate Agreement was held in New York. Heads of more than 60 states and governments attended the signing ceremony. The head of the Global Energy Inter-Connection Development and Cooperation Organisation (GEIDCO) made a lasting impression by advocating for building a 'Global Energy Interconnection' – a global grid spanning continents and oceans that would be 'jointly constructed and mutually beneficial to all'. This grid would draw on China's domestic experience with transmission technology. The words of the chairman of GEIDCO, an organisation founded by the State Grid Corporation of China (SGCC), a Chinese state-owned enterprise (SOE), were symbolic for the growing importance of the role of emerging countries in the global economy.

Firms have manifold choices for entering the political arena Large firms from emerging economies have taken their stake in global governance and established themselves as recognised actors across countries and in policy issues at the international scene. This poses a relatively new phenomenon and shows that these multinational corporations (MNCs) make their presence felt in more than just numbers. Schneider (2012) has assessed corporate political engagement options through the framework of a ‘political investment portfolio’, Companies select political engagement options and the prevalence of business politics in MNCs non-market engagement around the world begs the research question tackled by this dissertation: How do Chinese state-owned central SOEs rely on business politics at home and abroad in the context of internationalisation in countries of the global south? This question defines the direction and development of the structure of the dissertation.

The main objective of this dissertation is to analyse the role of business politics from State Grid Corporation of China (SGCC) in two different institutional settings in China and during its internationalisation to Brazil between 2010 and 2016. Further objectives are:

- Contribute to the study of emerging market multinationals in state-permeated market economies with the case analysis of a large central-level state firm and its business endeavours in Brazil;
- Contribute to understand the political agency power from large firms in the coordination between state and business;
- Explain the processes that link the Chinese MNC state support that is provided through the domestic institutional structures to the institutional realities of the Brazilian context;
- Analyse how the state-business relationships of the SGCC, a Chinese central SOE and an emerging market multinational in the electricity supply sector, externalises across the home and host country (China and Brazil).

METHOD

This dissertation is a comparative cross-case longitudinal study and analyses business politics in China and Brazil. Case-oriented research is a strategy that permits in-depth investigation of a small number of phenomena (RAGIN, 2000). This strategy thus enables understanding of how mechanisms link and operate, which leads to conceptual validity (GEORGE AND BENNET, 2005). The time period chosen for this study is from 2002 to 2016, which broadly coincides with liberalisation and unbundling in China's electricity sector; the 'going out' policy; and the restructuring efforts in Brazil's electricity sector, which includes opening up to foreign capital in the transmission and generation sectors.

Overall, the focus of this research are the distinct firm-specific and country-specific advantage configurations, internationalisation motives, and historical paths of firm-specific advantage development and international deployment (VERBEKE AND KANO, 2016). This dissertation will analyse SGCC`s embeddedness, its efforts to overcome political obstacles, and its engagement with the countries of its investment. The analysis will cover corporate emergence and consolidation, integration into the state industry structure, impact of home country characteristics on firm innovation, and internationalisation efforts. This will trace the embeddedness of the formal and informal relationships that underlie state-business relations between institutional actors and business.

The research also assesses how these relationships contribute to the organisational interplay of the internationalisation process across the home and the host context. According to Kennedy (2005, p.22), looking at firms' economic characteristics or their economic interaction does not determine the extent of their business influence. Rather, business influence can be assessed by tracing the connections between companies and their representatives and role in the policy process. Other sources of influence, such as governments and experts, should also be taken into account when determining the impact, a firm has. This study uses case research approaches to assesses one industry in the Brazilian and the Chinese institutional settings, thereby demonstrating how mechanisms operate over a defined timeframe and between relationship and outcomes.

Thus, process tracing is matched by contextual knowledge. This research focuses on the electricity sector and foreign economic policy in terms of investment attraction and promotion as the two arenas in which political resources are vital to corporate success. The analysis requires examination of the actors and arenas for which corporate decision-making requires political resources. According to Kennedy (2005, p.23), different factors such as the form firms draw on associations to deal with the bureaucracy, the depth and quality of contact to government, regularity of interaction, rank of state officials engaged with, range of policy issues dealt with and forums of interaction between the firm and bureaucracy and the state agencies.

Data collection

This dissertation is based on 30 months of fieldwork in mainland China and Brazil. The bulk of that time was divided between the cities of Beijing, Brasilia, Sao Paulo, and Rio de Janeiro. The majority of the material presented in this dissertation is based on fieldwork I conducted in Brazil and China between 2015 and 2018.This research conducted a qualitative analysis of the documents surrounding the case and focused on the policies proposed by the Brazilian state and sector. A range of documents was reviewed to assess the business politics. I collected published and unpublished materials. I also reviewed data from print and online media in Chinese, English, and Portuguese. Whenever necessary, aggregate data was drawn upon by OECD, and reports by state official departments such as MOFCOM. Chinese and Brazilian media publications were compiled and analysed. Government publications, notes, and policy recommendations were assessed to establish the temporal chronology of events. Chinese corporate documents, government reports, and policy documents were compiled. The dissertation also conducts a thorough literature review of relevant Chinese language publications on the subject.

This dissertation also analyses Brazil’s electricity transmission industry’s corporate characteristics, company’s global profiles, and level of concentration. It also assesses different aspects of the energy sector, including the macro-economic environment and its regulatory, competitive, and market characteristics, to further understand the political manoeuvring of the SGCC. The dissertation draws on publicly available information and reports, regulatory resolutions, reports of companies in the electricity sector that are relevant to the research questions, and reports and statistics released by institutions and agents in the Brazilian electricity sector.

Interviews

Over 30 interviews were conducted with energy sector experts, company employees, and government representatives to substantiate the process tracing. This involved expert interviews for tracing the developments over time, following literature such as Bogner et al. (2005). Interviews were explorative in terms of understanding the extent of the context and systematic in terms of capturing the exact chronological order of events and processes. In addition, contextual interviews were conducted for understanding certain elements that were relevant to the research question and the empirical reality, such as the formal policy and regulatory framework. These interviews were different from the expert interviews and focused on exploring the extent of certain elements of the research, such as organisational constellations, competences, and capturing the technical understanding of the electricity sector. The contextualising interviews were based on the sectorial composition of the energy sector including the macro-economic environment and regulatory, competitive and market characteristics; this choice sought to achieve greater understanding of the political manoeuvring of the company.

The choice of interview partners was iterative: a base set of key persons were first identified, and more were gathered through the snowball technique and other recommendations. Also, whenever missing information was identified, further clarifications were sought. The interviews were conducted in Chinese, English, or Portuguese, in accordance with the work of Ihetveen (2009) concerning multi-lingual empirical research. Moreover, interviewees were categorised according to specific issues (foreign policy, electricity sector, business etc.) but were not formally coded. Detailed and non-standard discussions with senior staff members at the ministerial and political level provided insight into procedural steps (political intentions and power constellations) or follow-up on public discourses published in the media and other forms of opinion dissemination.

The fieldwork in China took place between 2016 and 2017 and consisted of document analysis and informal interviews. Most of these interviews were with government officials and energy sector professionals, including SOE employees. There were also other informal and formal interviews with university professors and other energy experts. Technical experts were contacted to attain understanding of how the technological and administrative concerns impacted the capacities, preferences, and strategies of actors in the supply sector and UHV technology.

To further disentangle the complexities of this present case study, background knowledge on the state, policy making, and institutions was required. Strategies to obtain this knowledge included interviews with high-level officials in policy fields such as energy, technology, and foreign policy. For formal interviews with Chinese government officials, academics, and other professionals, I always arranged a meeting ahead of time and usually provided a list of questions. The interviews were conducted either at the interviewee’s workplace or at a tea or coffee shop.

In Brazil, interviews were undertaken in 2015 and between 2017-2018. Interviews were undertaken in the field of foreign economic policy of the wider Brazil-China cooperation and included civil society entities such as the Brazilian-Chinese Business Council, the Brazil-China Chamber of Commerce, and think tank members. Other Brazilian entities that were interviewed included the Ministry of Foreign Affairs; Ministry of the Environment; Ministry of Planning; Ministry of Mines and Energy; Ministry of Science, Technology, Innovation and Communication; and the National Bank of Development. Interviews in Brazil focused on the impact of Chinese investment in the national electricity sector and the role and impact of companies on technological development. Thus, regulatory, political, and institutional agents were interviewed. Interviews were also conducted with R&D managers and government relations officials to assess alignment of the R&D projects with the company strategic policy, the capacity to disseminate an innovation culture in the companies, and the way innovation has been anchored as a general business strategy.

Further formal and informal conversations with industry experts and academic centres enabled understanding of scientific production, investments in laboratory facilities, the acquisition of equipment, and training initiatives for the human resources of companies.

The Brazilian electricity transmission industry's characteristics, corporate characteristics, companies' global profile, and the level of concentration are analysed.

I drew on the field work to categorise the statements according to the extent to which they permitted contribution to the relevance of information and implications. This enabled me to reconstruct the sequencing of the strategy adopted, chronological interactions, and the relationships between the entities relevant to corporate engagement and advocacy. Finally, some parts of the dissertation such as Chapters 5 and 6 are based more on the interview data than other parts. Other parts of the dissertation that relied more on secondary data sources included the chapter on Brazil-China relations or the chapters on the electricity sector in China and Brazil. Primary and secondary documents were used to tailor these chapters to context.

Data analysis and operationalisation

The data analysis followed the steps described below:

1. Country-level process tracing is conducted to understand the national institutional contexts. This included the wider federal political and institutional landscape of both China and Brazil. The analysis also considered the sectorial and regulatory environments relevant to electricity transmission. Cross-sectorial links were verified, such as in the case of China's macro policy guidance concerning technology, regarding how they impacted the firm's internationalisation strategy.
2. The dissertation considers bilateral action and processes between the two countries in the wider context of economic foreign policy, diplomacy, and bilateral needs. Public and private actors are examined. It is also necessary to understand the wider regional anchoring of China's strategy in Latin America.
3. Identification of the action logics and process-tracing of the firm-related political actions.

This dissertation`s data analysis strategy used process tracing of events and sources, including country-level policy guidance (China), policy changes, and other external events. Process tracing is understood as the ‘the cause-effect link that connects independent variable and outcome is unwrapped and divided into smaller steps; then the investigator looks for observable evidence of each step.’ (VAN EVERA 1997, p.64). This study adopts a case-based approach to studying the underlying mechanisms and processes. The case study of the Chinese SOE in Brazil provides empirical evidence by focusing on its business politics and embeddedness in national state-business relations (Brazil and China). Thus, this dissertation draws on process tracing to focus on the causal mechanisms used by SGCC to consolidate and establish business politics. The following tools were applied in this dissertation:

1. Qualitative content analysis of official documents, media, and academic and specialist publications;
2. Analysis of the temporal sequencing of events and decisions;

The tools allowed the determination of different sources for any evidence and the piecing together of sequences of events, causal chains, decision-making processes, and their impact.

STRUCTURE

The remainder of this dissertation unfolds as follows: Chapter 1 seeks to present the bilateral cooperation structures between Brazil and China. The chapter analyses the specificity of China-Latin America relations and the bilateral relations between China and Brazil. Chapter 2 elaborates on the role of business politics and provides a frame of how business politics in the context of internationalisation can be used by firms to gain wider impact in terms of their corporate political strategy. The chapter demonstrates the direct and indirect ways in which preferences and firm political likings can be pursued. Chapter 3 explains how the sectorial characteristics impact on corporate agenda-setting. This chapter describes the energy sectors in Brazil and China and expands on the administration and regulatory structure as well as the mechanisms that firms can draw upon for influencing the implementation of sectoral policy in the electricity industry.

Chapter 4 explores the necessary conditions and mechanisms for SOE internationalisation. This chapter focuses on central SOE internationalisation in China under the State Council's 'going global'/'going out' engagement, which has the backing of ministries and agencies such as the NDRC, MOFCOM, and SASAC. Chapter 5 examines the relationship between internationalisation and business politics in the home context. It assesses SGCC's emergence, sectoral objectives, the logic of the SGCC's pursuits as an SOE, and their search for a monopolising position in the electricity supply sector. Chapter 6 examines the relationship between internationalisation and business politics in the host context. It analyses the SOE's internationalisation to Brazil by tracing the SOE's business strategy and ties. Chapter 7 concludes this dissertation by drawing together the findings of the empirical chapters into a comprehensive analysis within the context of this study's overarching framework.

1 THE TRAJECTORY OF BRAZIL - CHINA RELATIONS

> *The rapid, all-round growth of China-Latin America and the Caribbean relations is the result of our enhanced agreement in the perceptions of the global trend, our greater confidence in the prospects of our relations, our clearer consensus on viewing each other as a development opportunity, and our stronger aspiration for a China-Latin America and the Caribbean community of shared destinies. (Speech of Chinese President Xi Jinping at the Opening Ceremony of the First Ministerial Meeting of The China-CELAC Forum, 08.01.2015)*

This chapter foregrounds and contextualises China's political and economic presence on the continent, with a focus on relations between China and Brazil. Chinese investors have targeted Latin America due to market size, strategic assets, natural resources, while bilateral relations at the regional and national levels have experienced growth in relevance. This chapter provides a brief overview of Chinese state-driven foreign direct investment (FDI) and opening up of the country, followed by a portrayal of China's engagement with Latin American countries. Subsequently, the development of Brazil-China relations is addressed.

1.1 China's FDI development and foreign policy structures

Any attempt to trace China's relationship with Brazil by identifying and delineating a specific sphere of Sino-Brazilian development must be contextualised within the broader development of China's economy and its political transition since the late 1970s, which were exercising a strong effect on the global economy by the beginning of the 2000s. As many scholars have argued, the domestic motivations for China's international economic development efforts are at the core of understanding its outward development. Chinese FDI policies have their roots in economic liberalisation. As Gransow (2015) has illustrated, the lack of foreign exchange in China during the 1980s meant that foreign aid to the country predominantly featured preferential loans directed to communication, energy, transport, and raw-material associated sectors. In the 1990s, domestic development was strategically targeted through setting up special economic zones (SEZs), which attracted FDI and infrastructure.

At the same time, while maintaining the previously established priority areas, investment was further directed to agriculture and poverty reduction to promote social development. It was only in the beginning of the 2000s that outward FDI became a central aspect of the Chinese development agenda. It was in this period that Chinese FDI was embedded in a development strategy called the 'Going Out' policy and implemented a relatively sophisticated regulatory framework for outward FDI. China's increasing economic liberalisation has been portrayed by a series of studies taking stock of the characteristics of these changes and their impact on the development of Chinese political economy.

Broadly speaking, the phases of Chinese FDI development, both inward and outward, can be divided into the following stages: A re-orientation in the Chinese leadership surged with the end of the Cultural Revolution and after the Third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party in 1978, economic reforms were launched. In the 'Four modernizations' [2] centrepiece, agriculture, industry science and technology were mentioned main objectives of the party with the aim to elevate the gross national product, creating the narrative for spurring economic growth. Challenges were all-over, capital, expertise and technology were vital to opening up and tackling the socio-economic challenges the country faced. China sought to improve FDI inflows to bridge economic gaps, grow exports, income, skills and management.

The inward FDI played an important role in the initial stage of China's economic reform. Chinese firms successfully absorbed foreign capital, received advanced technology and learned management skills from their foreign counterparts. Following the stable economic development and the knowledge acquisition from MNCs, Chinese firms began to undertake overseas investment on a larger scale. At the same time, the Ministry of Foreign Economic Relations and Trade (MOFERT, later MOFCOM or the Ministry of Commerce) released the 'Provisional Regulations Governing the Control and the Approval Procedure for Opening Non-trade Enterprises Overseas'. The restrictive policies on OFDI eased and opened overseas production opportunities to SOEs in general rather than just to trading companies (Zhang, 2003). Though these

[2] The Four Modernization (四个现代化) set forth by Deng Xiaoping aimed to overhaul the Chinese economy and marked the beginning to China`s adherence to export-led growth.

SOEs and trading firms still had to go through the formal administrative approval process, there were signs that the government was increasingly open-minded about OFDI and recognized its potential benefits for China and Chinese firms. In 1989 the first regulation on the usage of foreign exchange earnings was issued. This increased the transparency of the OFDI approval procedures. In 1991, the National Development and Reform Commission (NDRC) issued a document concerning the strengthening of the administration of overseas investment projects (Voss et al., 2008). Taking advantage of its similarities in culture, Hong Kong was used by most Chinese MNCs as the first stop on their path to internationalisation.

In 1992, Deng Xiaoping's Southern tour and the 14th Party Congress gave new momentum to overseas investments. The Congress officially 'brought to an end the political and ideological controversies with regard to the direction of China's reform' (Hong and Sun, 2006). The official policy now explicitly encouraged Chinese firms to expand overseas. However, the 1997 Asian financial crisis changed the economic landscape and many Chinese firms faced substantial losses from their overseas investments. This could also have resulted from the lack of investment know-how, the ignorance of the rule of law in the overseas markets and the shortage of management expertise.

With the economic recovery in the region and worldwide, in 1999, the Chinese government issued a directive to encourage OFDI. OFDI in specific industries was encouraged in the form of export tax rebates, foreign exchange assistance and direct financial support. This was particularly noticeable in trade-related activities which aimed to promote exports. In 2001 the Tenth Five-Year Plan announced that the aim of the strategy of enterprises 'going out' to invest overseas was one of the means which would enable China to adjust itself to the trend of economic globalization (Xu, 2016).

A notable specificity of China's OFDI is the role of government in its implementation, from making the policy to assisting with the investments. The situational effect of the home country is largely omitted in the existing studies, host country instead, and hence in which address the institutional effect of the China's experience is thus an interesting case to study. Voss et al. (2008) illustrated the evolution of China's OFDI by focusing on the importance of institutional change and governmental participation. They pointed out that regulatory reform of China's OFDI policy was gradual and continuous, and this decentralised and liberalised decision-making regime accompanied the surge of China's OFDI.

As this analysis demonstrates, dating back to 2000, Chinese companies began to take a more systematic approach to internationalisation. Over the years, more and more businesses expanded their portfolios beyond Chinese borders. Over the past two decades, the People's Republic of China (PRC) has become an economic powerhouse, rising to the status of a major FDI net exporter and aid provider. Since the opening up, Chinas' economy has been one of the fastest growing, with a 9.5% real annual gross domestic product (GDP) growth average in 2017 and a diversified economic structure demonstrating high competitiveness across different sectors. While Chinese companies take a main role in rejuvenating the Chinese economy by expanding overseas, the way how states utilise the market forces of its domestic companies, specifically SOEs, and the way MNCs use the state to their competitive advantage requires further scrutiny, just as Stopford et al (1991,p.204) observe: `There are growing interactions between national strategies designed to achieve rising levels of social and economic aspiration and the global strategies of firms`.

Foreign policy actors relevant to Chinese companies

This unprecedented presence of Chinese business abroad requires understanding how the foreign policy and diplomacy approaches adopted by the country are established domestically and to what extend companies[3] interact with them.[4] The Politburo of the Central Committee 's Standing Committee is the body with the highest responsibility and decision-making power. The nine members are former representatives of governmental organs (State Council, National People's Congress and Chinese People's Political Consultative Conference). The centralization of functions comprising party, state and military leadership is expressed through

[3] It is important to note that the position of the company depends on its ownership structure and size; sector; region of operations; general bilateral relations between China and target country, amongst other factors.
[4] Policy actors involved in internationalisation and the related approval procedures will be analysed in later chapters. This chapter only considers the foreign policy dimension and the related actors.

simultaneous occupation of the General Secretary of the CPC position, State President and the Chair of the Central Military Commission (CMC), equivalent to the US Commander in Chief. Thus, the CPC General Secretary leads the Foreign Affairs Leading Small Group (FALG), in charge of foreign policy coordination within CCP. There is also the International Liaison Department, including an intelligence bureau which also establishes cooperation with foreign political parties.[5]

Another important actor is the Central Military Commission (CMC). There are the State and Party CMC as counterparts, which have different names to match state (People Republic of China - PRC) and party system (CCP) but have the same members. The PRC CMC is under the wider umbrella of the National People's Congress, without having to respond to it and can be formally understood as the military branch of the PRC, including military and defence policy-making.

As in other policy fields, the State Council has a central role in foreign policy-making. As the central executive body of the Chinese State, it is headed by the Premier, assisted by the Vice-Premiers and the State Councillors and has nearly all ministries and most state commissions under it. Here, different domains of foreign policy intersect:

1. **The Central (Committee) Foreign Affairs Leading Small Group** FALG– State Council Foreign Affairs Office with a coordination function.
2. In informal subordination to FALG and nominal State Council subordination, the prestigious **Ministry of Foreign Affairs** is in charge of bilateral affairs with a geographical division in departments. It is in charge of diplomacy and interaction with foreign governments. In terms of policy domain, it has limited resources and little jurisdiction.
3. **The Ministry of Commerce** is a powerful ministry and is in charge of domestic and international commerce supervision, investment and aid. It is necessary approval institutions for outbound investment and is present in foreign missions through seconded personnel working on overseas trade.

[5] In the case of Brazil, members of Brazilian parties are frequently invited to participate in exchange activities, such as in the case of other countries.

4. **The National Development and Reform Commission** defines the positioning of the economy and has a strong domain over energy and resources, including FDI approval procedures.
5. **The State Assets Administration Commission** (SASAC) holds 'ownership rights' over central SOES belonging to State Council. As explained in Chapter 4 of this dissertation, it has decision-making power over several SOE-related activities, including internationalisation.
6. **The Ministry of Education** is a cultural diplomacy actor in terms of expanding cultural and educational cooperation abroad.
7. Line Ministries and Commissions, e.g. the Ministry of Culture has a Foreign Affairs Office for international relations, linked to liaison with FALG.

Apart from the central level, provinces and municipalities are actors on their own behalf, without having any formal domain on foreign policy, but can be strong actors in investment attraction. Studies such as Zweig (2002) showed early on the decentralization of promotion policies of personal of both state and CCP tied to forging local economic growth. This increased local policy entrepreneurism in attracting foreign firms. Variance in local government performance can be understood through this angle of establishment key areas of economic interest, e.g. export manufacturing. Special economic zones (SEZ) in the coastal regions are one of these examples, where free-market principle integration was used for foreign investment attraction. Local experimentation demonstrates the domestic variance of economic growth and the importance of business-government alliances on provincial and local (municipal) level.

Lastly, the National People`s Congress (NPC) is the highest entity of China's state power, which meets yearly for a week to witness State Council reporting and approve legislation. The NPC has held different forms of international exchange in the past, as for example exchanges to parliaments. In the case of Brazil, for example, the Parliamentary Exchange Mechanism between China and Brazil has been in place since 2012[6]. At the same time, the Brazilian congress installed a China Working Group,

[6] While the exchange mechanism aims to accelerate the implementation of agreements between the two countries, to facilitate debates, to improve the functioning of the Legislative and to adjust convergent legislations, another explicit component is to facilitate investments by Chinese companies in sectors such as infrastructure and technology (Chamber of Deputies, 2012).

composed of both House of Deputy and Senate members. The Chinese NPC equally established a working group on the matter.

From the outset, foreign policy is a field representing broad interests. While firms can benefit from or influence the actors[7] mentioned above, they may benefit from policy instruments and engagement mechanisms, including:

- Strategic partnerships. China has strategic partnerships with the European Union (EU) and with Brazil, amongst others;
- Economic cooperation (infrastructure cooperation);
- Foreign aid;
- Diplomacy in soft-power domains (sports, culture, language, media);
- Resource-related loan provision. For example, credit lines for infrastructure have been integrated into the larger portfolio of Chinese economic cooperation, enabling long-term supply contracts and favoured access to resources assets. Such loans emerge in close cooperation with central government, policy banks, and state-owned enterprises (SOEs), particularly national oil companies.

Overall, the purpose of this section was to account for the historical and contextual setting of Chinese foreign policy to set the stage for the assessment of relations between China and Brazil. For the firms, there are various forms of participation in the foreign and commercial foreign policy, as for example in ministerial delegations, overseas missions, support of local embassies, in the context of parliamentary exchange or financial cooperation. At the same time, however, companies may internationalize independently and draw on the state-structures according to their needs. [8]

[7] Other actors, for example, include a wide array of think tanks that develop policy documents and recommendations concerning issues such as economic policy, business behavior of state firms, social and environmental responsibility, etc. The existence of varying policy actors generates a very complex stakeholder panorama that includes rivalries. For example, ministries are known for their turf wars (Breslin, 2009). Interplay of bureaucratic domains and overlapping of responsibilities implies that no single domestic foreign policy actor can dictate the outcome of policy issues and the related decision-making processes. At the same time, ministries must maintain good relations with line bureaus of the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) bureaus, on whom they depend for activities in other areas.

[8] This case study shows that the interaction between state and business is not uni-lateral but is a reciprocal process. The case of state-owned multinational companies (CUERVO CAZURRA, 2014) offers insight into the logics of the ambivalent relations between state and companies.

1.2 China's engagement with Latin America

Amongst the breadth of studies covering the People's Republic of China's engagement with Latin American and the Caribbean (LAC), many of them portray the ambiguities, pitfalls, and potentials of growing ties with region. Between 2015 and 2019, China's government projected far-reaching ambitions for the region: $500 billion in trade and $250 billion in direct investment (DOLLAR, 2017). The economic cooperation at the state level is to be set within the wider framework of warming political relations since the establishment of diplomatic ties. While until the 1970s Cuba was the only LAC to formally recognise the PRC, it was in the following decade that most countries formally recognised the PRC. Since then, and with China's gradual rise, the role of China for the countries in the region has changed substantially.

According to the 2008 White Paper on Latin America issued by the Chinese government, a political condition for the establishment of bilateral relations between China and LAC is the recognition of the One-China Policy, which consolidates the PRC as the sole legitimate government of China. The table below lists the countries that have recognised the PRC (2018 Status):

Table 1.1 - Countries' recognition of the PRC - 2018

	Recognition of PRC	Recognition of Taiwan
Caribbean	Antigua and Barbuda, the Bahamas, Barbados, Cuba, Dominica, Grenada, Guyana, Jamaica, Suriname, Trinidad and Tobago	Belize, the Dominican Republic, Haiti, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
Central America	Mexico, Costa Rica, Panama	El Salvador, Guatemala, Honduras, Nicaragua
South America	Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, Venezuela	Paraguay

Source: Own elaboration

The following section provides an overview of the regional engagement China maintains with LAC through the available regional cooperation instruments. Without being exhaustive, this shows the increasing outreach of the overall public diplomacy efforts.

In the early 2000s, intensifying political interactions between political leaders of the Latin American continent and Chinese leadership resulted in official visits from the Chinese side, with former President Hu Jintao visiting in 2004, 2005, and 2008, and visits from President Xi Jinping in the following decade. When Xi visited Argentina, Brazil, Cuba, and Venezuela in 2014, the number of agreements and Memoranda of Understandings signed expressed the political willingness of both sides to engage in cooperation. In this regard, it is worth mentioning that China has signed free trade agreements with Chile (2006), Peru (2009), and Costa Rica (2011) and has established strategic partnerships with Brazil (1993), Venezuela (2001), Mexico (2003), Argentina (2004), Peru (2008), Chile (2012), Costa Rica (2015), Ecuador (2015), Uruguay (2016), and Bolivia (2018).

Apart from bilateral relations, China has pursued relations with regional groupings: China-Mercosur, China-Community of Latin American Countries (CELAC) and China-Pacific Alliance (CPA) cooperation. China's hosting of the China-CELAC forum in 2015 resulted in the 2015–2019 China-LAC cooperation plan.

Table 1.2 - Summary of China's national and regional engagement with LAC

Mechanism	Summary
CELAC	In 2014, China approached Latin America as a region and launched the '1+3+6 Cooperation Framework' which embraces the China-CELAC Cooperation Plan (2015-2019). The plan identifies trade, investment and financial cooperation in six different fields of priority, namely energy and resources, infrastructure, agriculture, manufacturing, scientific and technological cooperation and information technologies. The First China-Celac Forum held in January 2015 in Beijing was endorsed with China's pledge of a $ 250 billion. The Second China-Celac Forum was held in January 2018 was held in Chile and included the announcement of Chinese Foreign Minister Wang Yi on the China-proposed Belt and Road Initiative and making links between Latin American countries and the initiative, as it will 'inject new energy into the China-CELAC comprehensive cooperative partnership and open up new prospects' (Xinhua, 2018).
UNASUR	Meeting with Chinese President Xi Jinping in Brasilia in 2014/

Source: Own elaboration.

Despite the fact that the term 'region' may be difficult to define, in terms of political interest formation, geographical area, etc., China widely prefers this form of engagement. Other engagement may run through other groupings or mechanisms such as G20, BRICS, or trans-regional assemblies of countries.

In terms of strategic framing, China’s Ministry of Foreign Affairs published white papers on LAC in both 2007/2008 and 2016, providing a non-binding macro outline of the country’s approach to the continent. Therefore, rather than a coherent overall strategy for the continent, such an overall approach may be understood as an expression of increased relevance of LAC, but mostly within the context of China’s efforts to assert its own standing globally with a diversified and prepared foreign economic policy. The 2016 policy paper meant a highly coordinated policy statement providing a window into the Chinese ambition and vision of becoming a global player, which was also confirmed by Xi Jinping in his role as CCP Secretary and President of State during the 19th Party Congress in October 2017, where he reiterated his effort to transform China into a global power ‘moving closer to center stage’.

In terms of cooperation fields, the 2016 policy paper remained general and flexible with a strong networking component based on China’s key interests. It must be said that China published white papers on other regions, such as the first white paper on Africa published in 2006 and a second one in 2015, and one on the EU released in 2014. In terms of framing, it is necessary to highlight the narrative of Chinese policy documents. For example, in the context of China’s cultural diplomacy (e.g. ZHANG, 2017), studies have emphasised that these etymological differences are related to the different traditions of diplomatic thought and history in the country, which have been shaped by blending the country’s vision of development, opening up, and modernisation with the revival of more traditional Confucian and Daoist values and references (ZHANG, 2015).

Table 1.3 - China's policy paper on LAC

Year	Main content
2007/ 2008	The paper branded the Sino-Latin American and Caribbean relations as a historical beginning in the regional ties, with different cooperation areas (cultural, economic, political, security and social). The paper also featured the 'One China Policy' as the political basis of cooperation: 'The overwhelming majority of countries in the region are committed to the one China policy and the position of supporting China's reunification and not having official ties or contacts with Taiwan. The Chinese Government appreciates such a stance. China is ready to establish and develop state-to-state relations with all Latin American and Caribbean countries based on the one China principle'.
2016	Seeking mutually beneficial cooperation and common development is the endogenous driving force for the development of the relations. China is ready to work with Latin American and Caribbean countries to build the new '1+3+6' framework for pragmatic cooperation (i.e. guided by the China-Latin American and Caribbean Countries Cooperation Plan (2015-2019), utilizing trade, investment and financial cooperation as driving forces, and identifying energy and resources, infrastructure construction, agriculture, manufacturing, scientific and technological innovation and information technology as cooperation priorities), actively explore the new '3x3' model for capacity cooperation (which refers to jointly building the three major passages of logistics, electricity and information in Latin America, enabling healthy interactions among the enterprise, society and government, and expanding the three financing channels of funds, credit loans and insurance), and speed up quality improvement and upgrading of the cooperation between China and Latin America and the Caribbean.

Retrieved from: China's Policy Paper on Latin America and the Caribbean 2008 and 2016

That said, scholars have highlighted the role of ideational leadership as an orienting factor of international politics, which has been the case in China.[9] Overall, China's cultural diplomacy is driven by a long-term and overarching system of values combining ideal and strategic orientations. In assessing the structures of China's diplomacy and foreign policy efforts towards Latin America, it is necessary to locate the analysis in the wider historical context of China's development and foreign policy. While in the past foreign policy was pursued rather moderately, recent years have demonstrated how the country has stepped up its international initiatives and the greater inclination towards grand narratives. Ultimately, the diversity of the Latin American countries that engage with China on a regional level themselves maintain different levels of quality where their relationships with China are concerned. The following table extracts the policy commitments made in the 2016 policy paper on Latin America:

[9] The historical precedents and Chinese leaders exercising intellectual leadership further shaped the country's diplomatic thought, such as through the revolutionary culture and art by Mao Tze Tung (1942), material and spiritual civilisation by Deng Xiaoping (1980s), advanced culture and the Three Represents by Jiang Zemin (1989–2002), and cultural construction and soft power by Hu Jintao (2002–2012).

Table 1.4 - Summary of policy commitments of China's 2016 LAC paper

Political Field	Economic field	Social	Cultural and People-to-people Fields	International Collaboration	Peace, Security and Judicial Affairs	Collective Cooperation	Trilateral Cooperation
• High-Level Exchanges • Exchanges of Experience on Governance • Inter-governmental Dialogue and Consultation Mechanisms • Exchanges Between Legislatures • Exchanges Between Political Parties • Local Exchanges	• Trade • Industrial Investment and Capacity Cooperation • Financial Cooperation • Energy and Resources Cooperation • Manufacturing Cooperation • Agricultural Cooperation • Scientific and Technological Innovation • Space Cooperation • Maritime Cooperation • Cooperation on Customs and Quality Inspection • Infrastructure Cooperation • Cooperation Between Trade and Investment Promotion Institutions and Business Associations of the Two Sides • Economic and Technical Assistance	• Social Governance and Social Development • Cooperation on Environmental Protection, Climate Change and Disaster Reduction • Poverty Reduction Cooperation • Health Cooperation	• Cultural and Sports Exchanges and Cooperation • Education and Human Resources Training • Exchanges and Cooperation in Press, Publication, Radio, Film and Television • Tourism Cooperation • Academic and Think Tank Exchanges • Non-governmental Exchanges • Consular Cooperation	• International Political Affairs • Global Economic Governance • Implementation of the 2030 Agenda for Sustainable Development • Response to Climate Change • Cyber Security	• Military Exchanges and Cooperation • Cooperation in Judicial and Police Affairs		

Retrieved from: China's LAC White Paper, 2016

It is in this wider field of opportunities of cooperation that regional and bilateral engagement is anchored. Overall, and as outlined before, Chinese diplomacy towards to LAC expressed through an array of information activities, cultural exchanges, local government initiatives, and civil society initiatives. Overall, the nature of cultural diplomacy features two central elements. First, diplomacy is tied to the greater narratives, principles-based logic, and policy guidance of central government actors. The combination of a long-term national agenda for economic development as well as ideational/ideological underpinnings with diverse players creates a flexible platform and strong adaptive capabilities. Second, diplomacy is less coordinated and reflects the complexity of the country's national administrative and political systems with their different layers and institutional cultures. This emphasises the key role of leveraging the collective weight and efforts to promote the desired outcomes. Thus, diplomacy may occur at different levels, such as high levels or working levels, and may target different sets of audiences, such as scholars, decision-makers in politics or public policy, the business sector, or the general public.

1.3 Infrastructure cooperation between China and Latin America

Based on the abovementioned modalities and the overall framing of China's foreign policy and diplomacy interaction positioning, this section examines infrastructure cooperation between China and Latin America as one of the main fields of interaction that drives Chinese engagement efforts on the continent.

According to Naughton (2007), Chinese FDI development in China has been characterised by the fact that across the past decade it has provided a major gate to global capital (and not bank loans or portfolio capital) and substantial Chinese FDI inflows aimed at manufacturing; China's FDI inflows have their origins in other East Asian economies, (e.g., Hong Kong, Taiwan, and Macao). Infrastructure and other significant business-related projects are areas of industrial operation key to Chinese foreign investment. They reflect the advanced stage of Chinese company internationalisation and experience gained by Chinese companies (Naughton, 2007).

Despite China’s infrastructure development, it is necessary to understand the actual outcomes of specific investment projects. In the case of Latin America, traditional challenges concerning infrastructure investment – mainly commitment of massive resources, long-term planning, and capital allocation, or the need for a clear regulatory framework – are subject to a multiplier effect in Latin America (VALDERREY AND MONTOYA, 2015). The Chinese government has been featuring infrastructure financing and development in its economic and diplomatic relations, such as Central, South, and Southeast Asia and Latin America. In terms of its recent development framework, the Belt and Road Initiative (BRI), which was launched in 2014, China has featured infrastructure investment as one of the framework’s central pillars (ZHANG, 2015).

Several studies have provided descriptions of the types of loans and grants provided by China (WOLF ET AL, 2013). When it comes to non-foreign aid-associated activities, various authors (GALLAGHER AND MYERS, 2015; SANDERSON AND FORSYTHE, 2013; GRANSOW, 2015) have emphasised the growing importance of financial institutions such as Chinese commercial banks as well as Chinese policy banks (e.g., the China Development Bank (CDB) and the Export-Import Bank of China (China Exim Bank).

Myers, Gallagher, and Fei (2015) have highlighted the fact that in 2015, Chinese policy bank financing of governments and companies in LAC increased to $29 billion, surpassing 2014 lending by $19 billion. In particular, the fact that Chinese policy banks can draw on direct government recapitalisation means low-cost funding for lenders. With slowing economic growth, these authors have argued, investment in Latin America could be understood as a strategic region for low-cost acquisition of assets in key sectors (GALLAGHER, MYERS AND FEI, 2015). With the growing tendency towards a regional cooperation between Latin American countries and China, China has increased development finance. Since 2015, regional financial platforms have increasingly shaped the interaction between China and the Latin American continent. The following financial platforms have been established:

Table 1.5 - Regional financial platforms between China and Latin America

Special Loan Program for China Lac Infrastructure Projects	$20 billion. Comes from China's State Administration of Foreign Exchange (SAFE) and is administered by CDB
China Lac Industrial Cooperation Investment Fund	The fund aims at the industrial cooperation with Latin America. Initiated by the People's Bank of China (PBOC), the central bank, the State Administration of Foreign Exchange, and the China Development Bank (CDB), the fund aims to deliver medium and long-term financing to major projects
China Lac Cooperation Fund	The fund is initiated by the Chinese Government with an investment of 5 billion USD by Chinese institutions and consists out of two parts: 1. Part one is the China Co-financing Fund for Latin America and Caribbean Region, which has an initial input of 2 billion USD by China and is executed by the IDB in financing projects in LAC region in areas including education, water conservancy and energy, etc. The Co-financing Fund is already up and running. 2. Part two is a private equity fund. The Fund will be administered by The Export-Import Bank of China (China EXIM Bank) with a commitment of 3 billion USD from Chinese institutions. The PE Fund will focus on a diversified range of sectors including but not limited to energy and natural resources, infrastructure, agriculture, manufacturing, high-tech and information technology.

Retrieved from: Myers et al 2015; China CELAC Forum, 2016

Gransow (2015) has highlighted infrastructure development as a core reform strategy for China that was accompanied by a clear development agenda and public support system. In this regard, it is also important to understand that there is a difference between Chinese FDI in Latin America and development aid, which can take the form of preferential infrastructure. In her review, Gransow (2015) differentiates between four different forms of Chinese infrastructure investment in Latin America:

Table 1.6 - Infrastructure cooperation in LAC

Projects associated with 'gifts' from the PRC to local governments; projects paid for by Chinese investors	The earliest form of Chinese infrastructure projects in LAC in the late 1990s and early 2000s were infrastructure 'gifts' such as sport stadiums, roads, and government buildings, which were primarily undertaken to convince those LAC governments that recognised Taiwan to change their position and acknowledge the One China policy. Examples of this kind of 'checkbook diplomacy' include an international convention centre for the government of Guyana and venues for the 2007 Cricket World Cup in the Caribbean. Such projects were paid for by the PRC national government and carried out by Chinese companies and labourers. Under these circumstances, the recipients had little leeway to demand that local contractors or labourers be employed in the project. These infrastructure gifts helped to facilitate other, larger projects paid for by some LAC governments via loans from Chinese banks.
Construction projects paid for by Chinese investors	A new trend is underway, primarily in the Caribbean, of construction projects being funded by Chinese investors in cooperation with local counterparts. The funds come from Chinese banks or other sources of capital available through Chinese partners. These projects represent a new form of partnership between businesspeople and government officials from the two regions. Funded by Chinese investors, these projects have been carried out nearly exclusively by Chinese companies and with Chinese workers. They are often hotel and resort complexes, with infrastructure projects being the exception. One such exception was a Jamaican north-south toll road built by China Harbour Engineering Company (with a contract for $600 million USD in 2012) for which the investor should get its money back via a 50-year concession to operate the highway as a toll road.
Projects paid for by Latin American governments	While infrastructure gifts and initiatives by private Chinese investors have played an important role in opening up the region to construction work, the most rapidly growing group of Chinese infrastructure projects in the region consists of projects paid for by Latin American governments and financed by loans from Chinese banks. Thus far, loan-financed projects have focused on roads, bridges, port infrastructure, and hydroelectric and thermoelectric facilities. The governments of countries such as Venezuela, Ecuador, Argentina, and Bolivia, which lack access to capital because of investor concerns and capital flight, are in urgent need of financing for infrastructure. Even if they can find the capital, it is difficult for them to obtain the loans. 'For the Chinese government, and Chinese construction firms, foreign project work is particularly attractive because it is typically paid for by an entity other than the Chinese state, while providing opportunities for Chinese workers and firms to diversify their skills and experiences by working in new contexts with new partners.
Infrastructure-for-resources loans should be added as a further category	These loan arrangements bring together the Chinese government, national oil corporations, and state policy banks, especially the CDB and the China Exim Bank. Both banks support China's policies at home and abroad. They offer loans to fund infrastructure, energy, and mining. Despite their similarities as policy banks, they appear to play different roles.

Entirely retrieved from Gransow (2015, p. 24).

Overall, with the loans described above, are salient element of the Brazil-China relations and could provide an important opportunity to bring long-needed infrastructure financing to the region.

1.4 Trajectory of bilateral relations

In order to understand the period under analysis it is important to introduce the broader historical elements marking Brazil-China relations. The establishment of diplomatic relations between China and Brazil in 1974 happened in the wider historical context of slowly warming US-Sino relations, such as Secretary of State Henry Kissinger's visit to China in 1971, and President Nixon's meeting with Mao Zedong the following year in Beijing. The warming ties between the USA and China led to the PRC obtaining the seat in the UN Security Council previously occupied by Taiwan. By the mid-1980s, with the beginning of reforms in China it was already clear that China was about to take the necessary steps for its post-communism economic survival.

China-Brazil relations stemmed from these developments, and the initial period of bilateral relations (1974 –1985) between Brazil and China was mostly commercial with Brazilian companies engaging in the opportunities brought forward by the reforms introduced by Deng Xiaoping. That period included an agreement on maritime transport in 1979; the Commission, Scientific and Technical Cooperation Agreement, and the 1982 visit of Brazilian president Figueiredo to China, where cooperation agreements for collaboration on commercial, scientific, technological, and nuclear issues were signed. In Brazil, after the 21-year rule of the military regime, a transition to democracy began with the election of Tancredo Neves of the Partido do Movimento Democrático Brasileiro (PMDB) by Congress, Jose Sarney assuming presidency in 1985, and the election of Fernando Collor in 1989, who was impeached in 1992 (VIGEVANI ET AL, 2003)

During Jose Sarney's presidency, his state trip to China resulted in a boost in collaboration between the two countries. After two years of negotiation in 1988, China and Brazil signed a protocol establishing the joint research and production of the China-Brazil Earth Resources Satellites (CBERS). This was mutually beneficial because both countries were looking to develop international partnerships, and they have succeeded in providing continuity to the programme with the release of five satellites since the beginning of the cooperation (in 1999, 2003, 2007, 2013 and 2014) and the signature of a 10-year space cooperation plan in 2013 to expand the cooperation (ITAMARATY, 2018). In November 1993, President Jiang Zemin paid a visit to Brazil, resulting in the launch of a strategic partnership between the two countries with a focus on technological issues. This provided a further step towards the institutionalisation of the bilateral relations between the two countries.

The 1990s had initiated with competitive shocks over Brazilian companies, the privatization of state-owned enterprises (SOEs), large amounts of inward foreign direct investment, the valorisation of the Brazilian currency and the accelerated industrialization of export-led emerging economies in Asia. In 1995, the government of Fernando Henrique Cardoso began under the impact of the economic stability provided by the Real Plan. The Cardoso government sought to establish and intensify the international positioning of Brazil, so Cardoso travelled to China in 1995 and endorsed the inclusion of China in the World Trade Organization (WTO) in the same year. Domestically, Brazilian economy had been target to opening measures both under the administration of Fernando Collor and Fernando Henrique Cardoso, with the aim to increase the competitive outlook of the rather protected national economy.

Table 1.7 - Chronology of bilateral relations (1974–2017)

Year	Event
1974	Establishment of diplomatic relations
1984	President João Batista Figueiredo visits China (May)
1984	Foreign Minister Wu Xueqian visits Brazil (August)
1985	Prime Minister Zhao Ziyang visits Brazil
1988	Beginning of CBERS Program (China-Brazil Earth Resources Satellite) (July)
1990	President Yang Shangkun visits Brazil (May)
1992	Prime Minister Li Peng visits Brazil (June)
1993	Prime Minister Zhou Rongji visits Brazil. Establishment of the Brazil-China Strategic Partnership (May/June)
1993	President Jiang Zemin visits Brazil (November)
1995	President Fernando Henrique Cardoso visits China (December)
1995	Brazil endorses the inclusion of the RPC in the World Trade Organization (WTO)
1996	Prime Minister Li Peng visits Brazil (November)
1999	Launching of the CBERS-1 satellite (October)
2001	President Jiang Zemin visits Brazil (April)
2003	Launching of the CBERS-2 satellite (October)
2004	Minister Celso Amorim visits China (February)
2004	President Luiz Inácio Lula da Silva visits the PRC (May)
2004	Creation of the Brazil-China High-Level Commission for Coordination and Cooperation - COSBAN (May)
2004	President Hu Jintao visits Brazil. Signature of Memorandum of Understanding on Cooperation in Trade and Investment, in which Brazil recognizes the status of China as a market economy
2006	1st COSBAN meeting in Beijing, chaired by the Vice-President José Alencar on the Brazilian side and by the Deputy Prime-Minister Mme Wu Yi (March)
2007	Establishment of the Strategic Dialogue between the Foreign Ministries (April)
2007	Launching of the CBERS-2B satellite (September)
2007	1st Brazil-China Strategic Dialogue Meeting, Beijing (November) 1st Brazil-China Strategic Dialogue Meeting, Beijing (November)
2008	Visit to Brazil of Member of the Politburo Standing Committee of the Communist Party of China, He Guoqiang (July)
2008	Visit of President Lula da Silva to China, to attend the opening ceremony of the Beijing Olympics (August)
2009	Visit of Foreign Minister Yang Jiechi to Brazil (January)
2009	Visit to Brazil of the Vice-President of the PRC, Xi Jinping, (February)
2009	Visit to Brazil of the Vice-President of the PRC, Xi Jinping, (February)
2010	State visit to Brazil of President Hu Jintao, parallel to the 2nd BRICS Summit in Brasília, and signature of the Brazil-China Joint Action Plan 2010-2014 (April)
2010	2010 Minister of Defense of China, General Liang Guanglie, visits Brazil (September)
2011	Visit of the Minister of Foreign Affairs, Ambassador Antonio Patriota, to China (March 3-4)
2011	State visit of President Dilma Rousseff to China. Participation in the Brazil-China Business Seminar, the Brazil-China High Level Dialogue on Science, Technology and Innovation, and the 3rd BRICS Summit, in Sanya (April 12-16)
2011	Brazil, South Africa, India and China (BASIC) Ministerial Meeting on Climate Change (Inhotim - MG, August 26-27)
2011	Signature of the Joint Action Plan in Health Brazil-China 2011-2014 (October)
2011	6th G-20 Summit, in Cannes, France. Meeting of President Dilma Rousseff and President Hu Jintao parallel to the Summit (December)
2012	2nd Meeting of the Brazil-China High-Level Commission for Coordination and Cooperation (COSBAN), chaired on the Brazilian side by Vice-President Michel Temer and on the Chinese side by the Deputy Prime-Minister Wang Qishan (Brasília, February 13)
2012	Visit of the Vice-Chairman of the National People's Congress Standing Committee, Wang Zhaoguo, to Brazil (March)
2012	4th BRICS Summit, in New Delhi, India. Meeting of President Dilma Rousseff and President Hu Jintao parallel to the Summit (March)

2012	Premier Wen Jiabao visits Brazil, parallel to the Rio+20 Earth Summit, in Rio de Janeiro. Signature of the 10-Year Cooperation Plan, elevation of the bilateral relationship to 'Global Strategic Partnership' and establishment of the Foreign Ministers Global Strategic Dialogue (Rio de Janeiro, June 21)
2012	7th G20 Summit, in Los Cabos, Mexico. Meeting of President Dilma Rousseff and President Hu Jintao parallel to the Summit (June)
2013	Meeting of President Dilma Rousseff with the Chinese President Xi Jinping, parallel to the 5th BRICS Summit in Durban, South Africa (March)
2013	Mission of the Minister Chief of the Civil Staff of the Presidency of Brazil, Gleisi Hoffmann, and of the Minister of Development, Industry, and Foreign Trade, Fernando Pimentel, to China
2013	Meeting of President Dilma Rousseff with the President Xi Jinping, parallel to the 8th G-20 Summit in Saint Petersburg (September)
2013	Meeting of President Dilma Rousseff with the President Xi Jinping, parallel to the 8th G-20 Summit in Saint Petersburg (September)
2013	Official visit of Vice-President Michel Temer to China: participation in the opening ceremony of the 4th Ministerial Conference of the Macau Forum, in the 3rd COSBAN, and meetings with President Xi Jinping and Vice President Li Yuanchao (November 4-9)
2013	Launching of the CBERS-3 satellite (December)
2014	Official visit of the Minister of Foreign Affairs Wang Yi to Brasilia. First Meeting of the Global Strategic Dialogue (April 25)
2014	Official visit of the President of the House of Representatives, Henrique Alves, to China (April)
2014	State Visit of President Xi Jinping to Brazil. Participation in the 6th BRICS Summit (Fortaleza and Brasilia, July 15-16
2014	Meeting of President Dilma Rousseff and the President Xi Jinping, parallel to the 9th G-20 Summit in Brisbane, Australia (November)
2014	Launching of the CBERS-4 satellite (December)
2015	Visit of Vice President Mr. Li Yuanchao to Brazil to take part in the inauguration ceremony of President Dilma Rousseff (January 2)
2015	Visit of Foreign Minister Mauro Vieira to China, to take part in the First Ministerial Meeting of the CELAC-China Forum, in Beijing (January 8-9)
2015	Visit of Prime Minister Li Keqiang to Brazil (Brasilia and Rio de Janeiro, May 18-21)
2015	Second Brazil-China High-Level Dialogue on Science, Technology and Innovation
2015	Visit of Deputy Prime Minister Wang Yang to Brazil. Fourth Plenary Session of the High-level Coordination and Cooperation Committee - COSBAN (June 26)
2015	Meeting of the BRICS Leaders in Antalya, Turkey, parallel to the G20 Summit
2015	Meeting between President Dilma Rousseff and President Xi Jinping parallel to COP 21
2016	The President of the Republic, Michel Temer, visits Shanghai to take part in the Brazil-China High-Level Business Seminar
2017	Visit of the Minister of Foreign Affairs, Aloysio Nunes Ferreira, to China
2017	State Visit to China (August 31 - September 3)
2017	4th Meeting of the Science, Technology & Innovation Subcommittee of the China-Brazil High-Level Coordination and Cooperation Committee (COSBAN) (Brasilia, September 5)

Retrieved from: Itamaraty

All in all, the late 1990s and early 2000s initiated and strengthened Brazil's international positioning. While the Brazilian government under Lula significantly expanded its relations with countries from the Global South, the foreign policy relations under Dilma Rousseff significantly declined as domestic factors gained increased relevance. During the Lula government, the state – business relations changed in the way the state related to firms, when the government increased the finance availability of funds available to companies aimed at forging business growth. [10] Conversely, China had initiated its going global policy and was looking to further diversify and consolidate its partnerships, particularly with countries in the Global South. The following section sets the stage to assess the complexity of bilateral interactions between Brazil and China (bilateral needs, motivation of investment, bargaining process between countries, host countries' location advantage differences, etc.) between 2003 and 2016.

2003–2011: The Brazilian government under the Lula presidency

When it became clear that the global economic panorama was slowly changing at the beginning of the early 2000s, countries of the Global South, including Brazil and China, were getting ready to take their places in the global economic system. The first term of the Lula government emerged as a critical juncture because a favourable economic outlook implied that competing interests between diverse domestic actors could be more easily accommodated. In the first year of the Lula government, the president paid a state visit to China and was joined by high-level business and state representatives. The visit coincided with the occasion of the 30th anniversary of the establishment of diplomatic ties between the two countries. A Memorandum of Understanding (MoU) created a framework of the relations under which cooperation between Chinese and Brazilian firms could be extended.

During the visit, important projects were announced: Vale joined three Chinese companies, namely the Shanghai Baosteel Group Corporation, Chalco and Yankuang Group Co., and Yongcheng Coal and Electricity Group Co.; Petrobras established an alliance with the China Petroleum & Chemical Corporation - SINOPEC; China National Machinery and Equipment Import and Export Co. signed a contract with the Southern Thermal Power Plant for the construction of a coal-fired power plant in Cachoeira do

[10] From 2002, with the increase in loans and the strategic reorientation of the Brazilian Development Bank (BNDES), Brazilian MNCs were entitled to BNDES support in its internationalisation efforts, through the subscription of shares on the stock exchange and expansion of loans targeting the export of engineering goods and services. These ties were particularly developed by the Policy for Industrial, Technological and Foreign Trade Policy (PITCE) and the Productive Development Policy (PDP) ,as well as the strategic orientation of actors such as Petrobras, APEX and the Brazilian Ministry of Development (MDIC) (ARBIX AND CASEIRO, 2012).

Sul in the South of Brazil; Varig's offices announced a joint venture with Air China to establish regular flights between Brazil and China; and Petrobras and one of the São Paulo governments together with BM&F were inaugurated in the presence of high authorities (MARTINS, 2004).

The overall results of this visit were evaluated positively since it was the first visit of a Brazilian president to China since 1995. President Lula da Silva stated that the visit confirmed 'the great expectations and possibilities that we have identified in Beijing' and hoped that 'China would help Brazil regain competitiveness in the strategic sectors of rail, port, energy, steel and telecommunications infrastructure' (VALOR, 2005). The MoU signed between the countries emphasises the facilitation of investment in the areas of energy, natural gas, environmental protection, transportation, biotechnology, and mining.

In this overall effort, not only was the beginning of a newly warm China-Brazil relationship born, but President Lula also sought to emphasise the attractiveness of Brazil to encourage Chinese capital. One of the hallmarks of Lula's state visit was ultimately the creation of the China-Brazil High-Level Coordination and Cooperation Committee (COSBAN), the highest permanent dialogue and bilateral cooperation forum, which was co-chaired by the Brazilian vice president and the Chinese vice premier. The COSBAN is divided into 11 subcommittees and seven working groups (ITAMARATY, 2006). This resumption and slow intensification of the bilateral relationship was later returned by Chinese President Hu Jintao in November 2004 on his Latin America trip when he toured Brazil, Chile, Cuba, and Argentina. During this trip, rhetoric appealing to a particular Sino-Latin American connection was particularly noticeable, drawing on common interests as developing countries in the Global South. When addressing the Brazilian Parliament, the Chinese president stressed the overall principles guiding the bilateral relations:

> *Based on reality and looking into the future, we have jointly defined the four principles guiding the development of bilateral relations: (I) adhering to consultation on an equal footing and increasing political mutual trust; (II) insisting on mutual reciprocity and mutual benefit and expanding economic and trade contacts; (III) maintaining consultations and coordination and strengthening international cooperation; (IV) promoting non-governmental exchanges and increasing mutual understanding* (ITAMARATY, 2004)

As Hu Jintao prescribed, to establish a fortified bilateral relationship it would be necessary to build grounded institutions and mechanisms for dialogue and further ensure the channelling of common interests at both bilateral and multilateral levels. In 2005, relations between Brazil and China at the multilateral level were hampered internationally by China's opposition to the proposed expansion of the UN Security Council by the so-called G4 including Brazil, Germany, India, and Japan. Brazil hoped to gain China's support and endorsement of the draft. At the bilateral level, in 2006 the Agreement on Strengthening Cooperation in the Area of the Implementation of Construction Infrastructure (2006) was agreed upon, including projects in the area of energy, such as a cooperation between Eletrobrás and the CITIC Group on the modernisation of the thermal parks of the Manaus and Macapá transmission systems and other systems in isolated cities in the north of Brazil.

In 2006, the multilateral level impacted bilateral relations when, at the margins of the 61st session of the United Nations General Assembly, the meeting between the representatives of Brazil, Russia, India, and China (BRIC) further fuelled a common rhetoric of the Global South. There were several interests to be accomplished through this alliance. While until this point these countries had shared common interests in terms of international financial cooperation, this was the first step towards building up the BRIC as a specific group. Although this had no immediate effect on bilateral relations, it contributed to further maturing a relationship of mutual self-interest and political willingness.

In this context, it should be noted that the decade also meant a change in overall Brazilian foreign policy with implications for China's importance to Brazil. Zilla (2017, p.8) has noted the following causes leading to the overall changes in Brazil's foreign policy since the beginning of the Lula administration:

- The erosion of the Ministry of Foreign Affairs' monopoly over foreign policy;
- A South-South orientation;
- An anti-status quo and pro-justice foreign policy discourse; and
- The international profiling of Brazil as a trading power.

It is in this regard that the Lula administration understood the pivotal role China had in terms of trade balance and investment as well as the diversification of bilateral partnerships, reduction of vulnerability, and increase in autonomy in relation to established players in the global economy such as the US or central European countries. Additionally, 2007 marked changing power relations in the multilateral system with the 33rd G8 summit in Heiligendamm in 2007 announcing the full institutionalisation of the permanent dialogue between the G8 countries and five emerging economies.

In 2007, the agreements and cooperation goals signed in the previous years were put into practice. In Brazil, a conjoined effort between the state and the private sector happened in the context of the China Agenda, where coordinated actions to enhance trade balance and investment flows included action strategies focusing on previously identified sectors with potential and interest to invest in the Brazilin market. The China Agenda was promoted by the Brazilian Ministry of Development, Industry and Foreign Trade; the Ministry of Foreign Affairs; and the Ministry of Agriculture, Livestock and Supply, and the Brazil-China Business Council was set up with the goal of linking government agencies connected to the country's foreign trade with the effective presence of the Brazilian business sector, especially those businesses active in export activity.

The strategic dialogue between the chancelleries of the countries was initiated in April 2007, and the first meeting was held in Beijing in November 2007. Challenges were found in different sectors; for instance, at the first meeting of the COSBAN Inspection and Quarantine Subcommittee in the second semester of 2017 between China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) – a ministerial-level department under the State Council in charge of inspection and quarantine – and the Brazilian Ministry of Agriculture, Livestock and Supply (MAPA), no final agreement could be reached, and the Brazilian side remained unsatisfied with the result concerning meat trade (DIARIO DO COMERCIO, 2007).

The gradual development of multilateral ties between Brazil and China led to a new chapter of Sino-Brazilian relations in 2008. At this time, a meeting between the BRIC foreign ministers was held in Russia in May 2008. What had begun as a political dialogue on asymmetries in the international system developed into a grouping with an informal summit of BRIC leaders in Japan in 2008 at the sidelines of the G8 Outreach Summit and the first full-scale meeting in Russia in 2009, followed by a second summit in Brasilia in April 2010. Still, in 2008, the Chinese government launched its first white paper on Latin America, setting the broad cooperation framework, and in 2009, state visits of Chinese Vice President Xi Jinping to Brazil and President Lula to China led to further close cooperation in the interest of mutual benefits. In the context of Xi's state visit to Brazil, a protocol on energy and mining cooperation (2009) aimed at intensifying 'bilateral cooperation in the areas of oil, natural gas, renewable fuels, electricity, mining and ore processing', demonstrating the political will of the countries that joint investments of Chinese and Brazilian companies in these areas would be operationalised, and for Brazilian interest in particular, the agreement affirmed that the countries would make efforts to transform ethanol into an energy commodity and promote its use in the international arena.

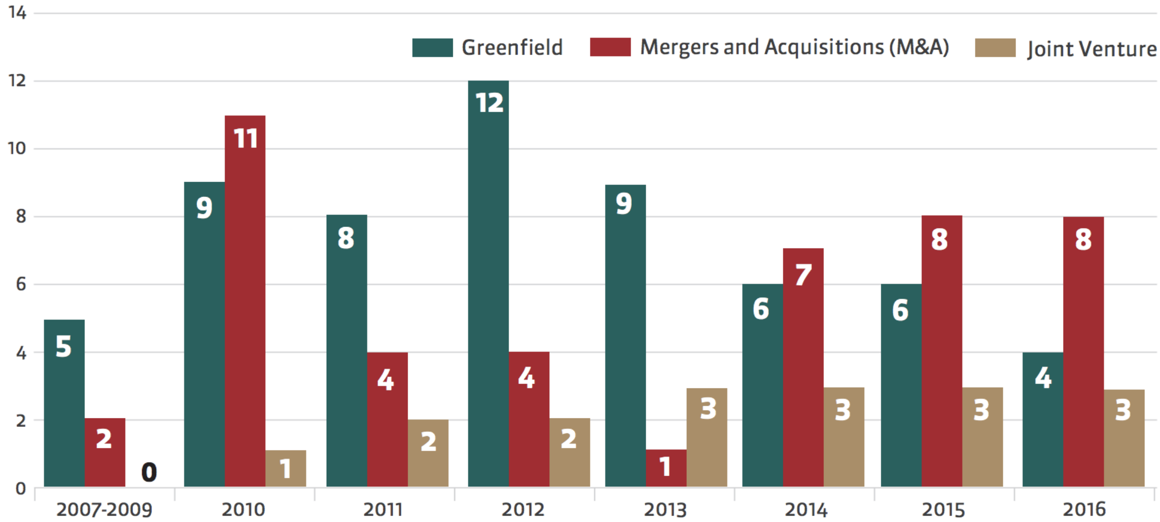
The document therefore mentions the Joint Action Plan (2010–2014) suggested during President Lula's visit to Beijing in 2009 putting the COSBAN in charge of implementing the proposed actions. The Communiqué further anchored multilateral issues into the bilateral relationship, vowing to intensify cooperation. This became evident in 2010 when Hu Jintao visited Brazil during the II BRICS Summit and paid a state visit to Brazil with a group of business representatives, resulting in MoUs and investment promises in diverse sectors. Simultaneously, the Joint Action Plan (2010–2014) was signed, highlighting the need for precise and objective goals for each of the cooperation areas based on specific initiatives, as well as their monitoring and evaluation, the promotion of exchanges of national experiences in mutual interest areas, and a strategic approach to bilateral relations vis-à-vis developments in the international arena. In this context, it was also declared that the COSBAN would meet biannually, whereas the subcommittees should reunite annually. For the months preceding and following the meeting, the increasing engagement of the Chinese side was conceivable. This presented a fundamentally different picture than in the years before.[11]

[11] Interview with former Brazilian Minister of Foreign Affairs, 2018.

Marking the end of Lula's second term, his administration had successfully managed to scale up engagement with countries of the Global South, consolidating its role as a regional power and increasing its engagement with other geographical regions. The end of the Lula administration also marked an important development when it comes to the volume of Chinese FDI in Brazil. In 2010, Brazil grew to be an important destination of Chinese investments, with the industry sector attracting most of the investment. Between 2010 and 2016, 94% of the value China invested in Brazil went to the secondary sector, while the rest went to the tertiary sector. Sixty-four per cent of investments were devoted to industry, and 36% to the service sector. In 2010–2016, 90% of the total flow of Chinese investment in Brazil went to these two sectors KUPFER ET AL, 2016).

Between 2010 and 2016, 79 Chinese companies came to Brazil or showed interest in establishing themselves in the country. At least 53 actually entered Brazil, while 12 had their plans modified and did not settle in the country. Although these numbers suggest a massive inflow of Chinese business into the Brazilian economy during the years 2010–2016, Chinese direct investments were very concentrated in terms of the method of entry, value, sector, and investing companies.

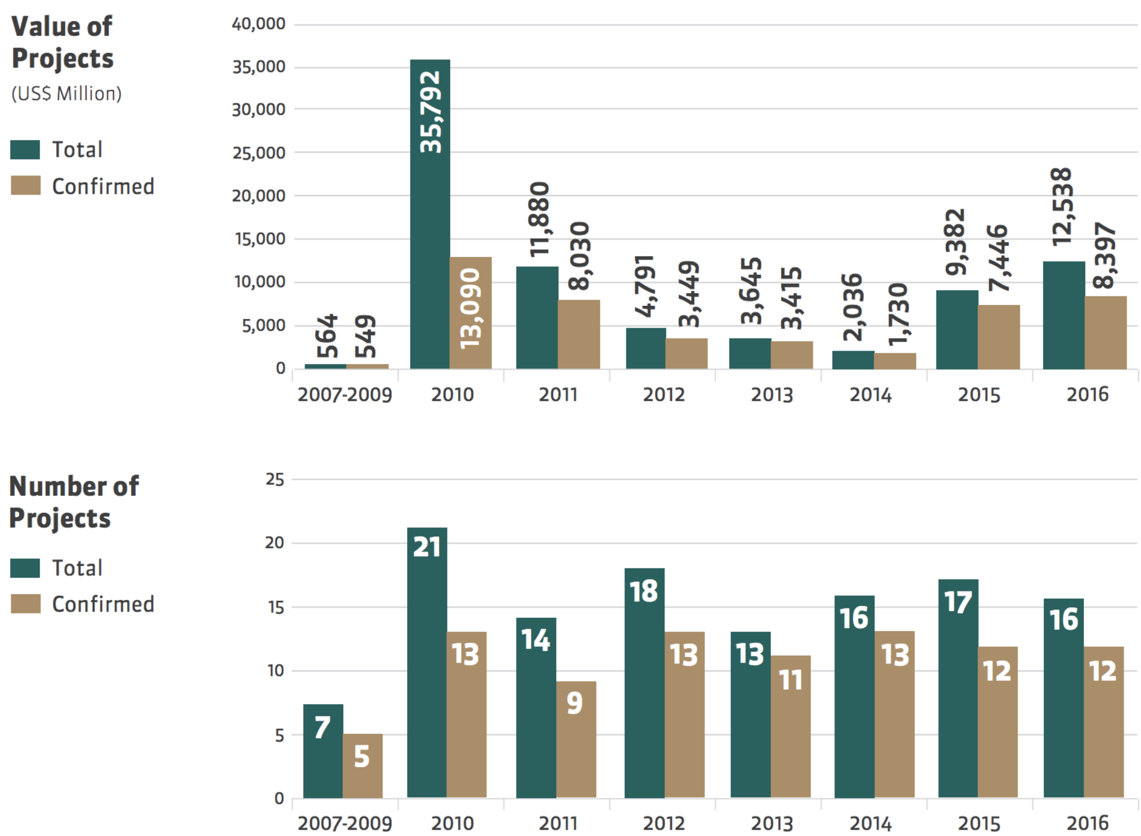
Figure 1.1 - Entry mode of Chinese companies in Brazil (2007-2016)



Retrieved from: CEBC, 2016

According to the CEBC data (2016), the entry mode of Chinese companies in Brazil from 2007–2016 shows little variation. M&A has increased significantly in 2014, reflecting the modus operandi of Chinese enterprises in other countries because it enables them to access mature assets (CEBC, 2016). Chinese investment projects in Brazil between 2007–2016 showed little variation in terms of confirmed investments, meaning investments directed to projects/projects in Brazil whose information can be confirmed by more than one data source, including institutional pages of companies or institutions directly involved.

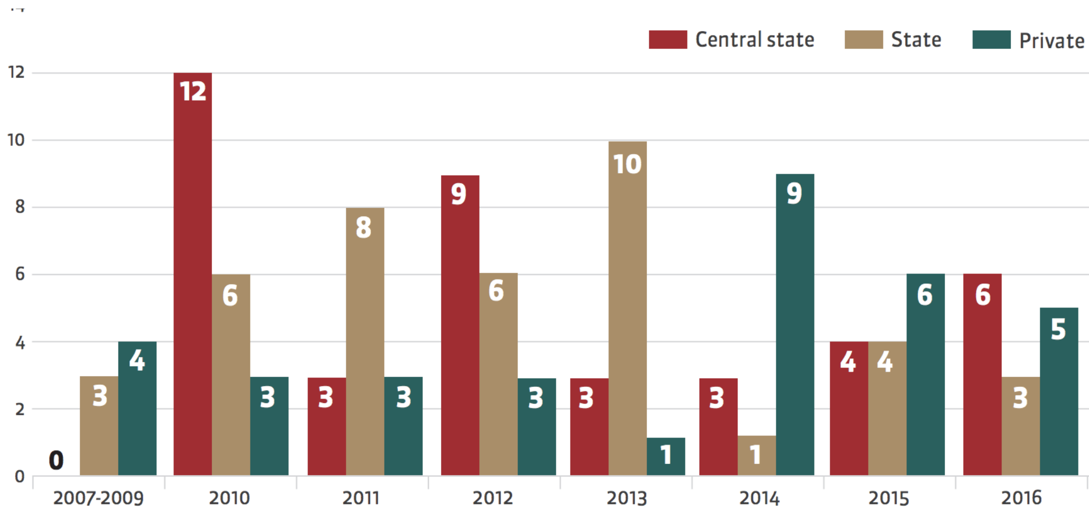
Figure 1.2 - Evolution of Chinese investment projects in Brazil (2007- 2016)



Retrieved from: CEBC, 2016

Figure 1.3 on Chinese investment in Brazil by type of company between 2007–2015 provided by the China-Brazil Business Council makes the distinction between central state [12], state, and private companies. This distinction is useful because firm categories are not straightforward in China, because many 'private' companies maintain close relationships with the governments. However, recent years have shown a greater trend of separation between private and state companies in various sectors and industries.

Figure 1.3 - Chinese investment in Brazil by type of company (2007 - 2015)



Retrieved from: CEBC, 2016

Figure 2.3 shows the share of state enterprises in the total number of enterprises in Brazil. SOEs play a pivotal role, especially in strategic sectors of the economy (e.g., power generation and distribution, defence, civil aviation, waterway transport, petroleum and petro-chemicals, telecommunication, and coal). Other industrial sectors, such as automobiles, equipment manufacturing, information technology, construction, iron and steel, and nonferrous metals sectors – pillar sectors of the Chinese economy – are also in the hand of the state.

[12] Chinese SOES operate at either at central, provincial, and local levels. Central government holds ownership of SOEs operating in strategic industries (e.g. energy and defense). Management of these central SOEs is undertaken by the by the State Owned Assets Supervision and Administration Commission (SASAC). The company of our case study, SGCC operates at central-level.

2011–2016: The Brazilian administration under Dilma Rousseff

When she assumed office in 2011, Dilma Rousseff had a more or less well-articulated foreign policy to draw upon. Overall, the Rousseff administration took a more realist approach to bilateral relations with China, while mostly maintaining the foreign policy initiatives pursued during Lula’s two terms. The visit of the new Minister of Foreign Affairs Antonio Patriota to China was followed by President Rousseff’s visit to China to participate in the BRICS Summit, which South Africa joined in late 2010. While in China, President Rousseff also participated in the Brazil-China High Level Dialogue on Science, Technology and Innovation. At the time of her visit, it was readily observed that there had been asymmetries in the Sino-Brazilian relationship, and the state visit had been targeted by a climate of domestic criticism by national industry, including the Federation of Industries of the State of São Paulo (FIESP), which is affiliated with the National Industry Confederation (CNI) and which was pressuring the government for not granting China market economy status, diversifying China’s investments in the country, and strengthening emphasis on higher value-added products. The Joint Communiqué resulting from the occasion of the visit emphasised cooperation across areas, especially infrastructure investments and the installation of Chinese industries in Brazil (FUNAG, 2016).

2012 began with the second meeting of the COSBAN in Brasília, with the Brazilian delegation headed by Vice President Michel Temer and the Chinese delegation by Deputy Prime Minister Wang Qishan. The meeting featured a broad range of topics including multilateralism, priority areas for cooperation, and trade-related issues, as particularly Brazil sought to leverage commercial asymmetries. Another matter on the agenda was a 10-year plan as a broad roadmap of Brazil-China relations. In March 2012, President Dilma met Hu Jintao at the BRICs Summit in India, where the recreation of the BRICS Development Bank would exercise impact on the global international system. During the Rio+20 Conference in Rio de Janeiro, Chinese Premier Wen Jiabao paid a visit, and amongst the documents signed was the Decennial Cooperation Plan between Brazil and China (2012–2021), elevating the strategic partnership to a global one. This plan further reiterated the common strengths of both countries and their mutual interests across a variety of priority sectors.

In 2013, President Dilma met with President Xi Jinping parallel to the 5th BRICS Summit in Durban, South Africa (March), as well as during a parallel meeting during the 8th G-20 Summit in Saint Petersburg (September). During the BRICS finance ministers' meeting in March 2013, Brazil's Finance Minister Guido Mantega welcomed Chinese capital in energy, especially oil and gas sectors. In the same year, a mission by then-Minister Chief of the Civil Staff of the Presidency Gleisi Hoffmann and Minister of Development, Industry, and Foreign Trade Fernando Pimentel travelled to China with the mission to attract investment in the railroad concessions program. Later that year, during Vice President Michel Temer's visit to China, Brazil and China signed the Ten-Year Cooperation Plan for the period from 2013 to 2022 at the third meeting of the COSBAN in Guangzhou, China. As previously described, the plan was agreed upon in 2012 during the visit of Chinese Premier Wen Jiabao to Brazil in 2012.

By 2014, Sino-Brazilian relations had laid the foundations to see the inherent value come into reality. In April, the official visit of Minister of Foreign Affairs Wang Yi to Brasilia marked the first meeting of the Global Strategic Dialogue, serving to prepare for the state visit of President Xi Jinping to Brasilia and the sixth BRICS Summit in Fortaleza in the same year. These important events coincided with the 2014 commemoration of the 40 years of diplomatic relations between the two countries. The document produced at the end of the third meeting of the COSBAN[13] held in China in November 2013 was, in fact, the guiding element in the negotiations conducted between Brazil and China in July 2014 (MRE, 2013) during the state visit of President Xi Jinping to Brazil. On that occasion, bilateral agreements were signed featuring the bilateral demands across a range of industrial areas, including renewable energy and other resource-related issues. Concerning the field of energy and mining, the meeting reiterated the interests in the electricity grids, and in this context, agreements were signed between Eletrobras, Furnas and CWE and China's Three Gorges Corporation, as well as agreements between the State Grid Corporation of China (SGCC) and Eletrobras.

[13] The efficiency of COSBAN to articulate state-level bilateral demands between countries has been under scrutiny. From the Brazilian perspective, several interviewees remarked the insufficient coordination between Brazilian ministries and the lack of a follow-up process of the negotiations (Interview with representative of Brazilian Ministry of Foreign Affairs, 2018)

In the same period, the Sixth Leaders' Meeting of the BRICS group in Fortaleza, was concluded with two important results: the establishment of the BRICS Development Bank and the BRICS Contingent Reserve Arrangement (CRA) to support member countries with short-term liquidity pressures similar to the proceedings of the International Monetary Fund (IMF). In addition to the state visit and the BRICS summit, the CELAC-China Forum was symbolically launched at the Brasilia Summit of Leaders of China and Countries of Latin America and the Caribbean held on July 17, 2014, which was the first external dialogue mechanism formalised by CELAC with a developing country. The beginning of 2015 marked the beginning of Rousseff's second term, and Vice President Mr Li Yuanchao took part in the inauguration ceremony of President Dilma Rousseff on January 2nd. This set the tone for further opportunities to strengthen the ties at the bilateral and regional cooperation levels.[14] In the same month, Brazil's Minister of Foreign Affairs Mauro Vieira took part in the first ministerial meeting of the CELAC-China Forum in Beijing. During his visit, the minister stated the opportunities given the overall cooperation frame:

> *With the CELAC-China Forum, we now also have another mechanism to promote reciprocal trade and investment. Over the past five years China has substantially increased its direct investment in Latin America and the Caribbean. Companies from Brazil and other countries in the region have also increased their presence in the Chinese market. It is our expectation that the CELAC-China Forum should promote new investment from our region in China, as well as Chinese investment in Latin America and the Caribbean. (ITAMARATY, 2015)*

Giving the continuity of the COSBAN mechanism, the second Brazil-China High-Level Dialogue on Science, Technology and Innovation was held in June and co-chaired by Vice President Michel Temer and Vice Premier Wang Yang of the State Council. The meeting featured innovation as the key theme, and the signing of the 'Memorandum of Understanding on Bilateral Cooperation in Science, Technology and Innovation in the area of Scientific and Technological Parks' marked the event. On that same day, Vice Premier Wang Yang met President Dilma Rousseff and emphasised the need to stabilise the bilateral trade scale and promote areas such as production capacity, infrastructure construction, finance, and agriculture. The following year was a meagre year for Sino-Brazilian bilateral relations. Under the surface, Brazil's political economy had been caught up in the country's largest corruption scandal in the history. More

[14] Interview with representative of Brazilian Ministry of Foreign Affairs, 2018.

than 12 months into her second four-year term, Rousseff bowed to the inevitabilities of the senate's vote and was ousted from the presidency in 2016. She underwent an impeachment process resulting in her suspension from office and leaving Interim President Michel Temer as the country's leader. With the senate's approval of the removal of President Rousseff, the Chinese government used its state-sponsored newspapers to urge Brazil to guarantee 'political stability'.

2 INSTITUTIONAL DETERMINANTS OF BUSINESS POLITICS

In the context of internationalisation, business politics are most valuable to companies because they are intangible assets in securing opportunities and managing risks across different country contexts. Following the broader notion of ‘portfolio analysis of business investment in politics’ (Schneider, 2009), this chapter situates the role of business politics in the context of emerging countries’ SOE internationalisation. With the increasing internationalisation of SOEs, global economic dynamics, home and host country and government relations, and foreign policy strategies play fundamental roles and call for an in-depth understanding of the political behaviour of companies, their decision-making processes, and the structures and articulations of their relationships. This chapter features the determinants and ways political influence exercised by emerging multinational companies (MNCs) takes place across their internationalisation activities to best conceptualise the prevailing institutional conditions as well as the firms’ entrepreneurial capabilities.

2.1 State-owned enterprises as actors in state-business relations

In the case of SOEs, it is a common misinterpretation that SOEs are passive agents receiving ‘government orders’ (KENNEDY, 2009) and represent homogeneous state interests. On the contrary, the ways SOEs aggregate interests are varied, as are their motivations and methods of impacting political agenda setting and exercising policy impact. That said, SOEs do not act in a vacuum but exercise a certain extent of autonomy. Studies on state-business relations in the energy sector demonstrate the complex environment that links the way SOEs interact with market and state institutions. The political process concerning the deregulation of the Swedish electricity industry started with discussions on deregulations in the late 1980s, which led to the corporatisation of the Swedish state-owned utility Vattenfall in 1992 and introducing the new Electricity Law, which came into force in 1996. Andersson et al (2011) anayse the relevant actors who contributed to shaping both the new institutional environment and the political discourse by analysing the formal political decision-making process and the activities of a variety of ministries, boards, and agencies, as well as the processes by which energy companies and other relevant industrial actors influenced the outcome of the regulatory reforms. The study confirmed that firm actors were particularly skilful at influencing the policy process by drawing on business and political arenas, but it also demonstrated the need to understand that the boundaries of firm autonomy and overall embeddedness differs from case to case and are utterly tied to the conditions of the institutional environment.

Vattenfall actively mobilised its political support during the different phases of internationalisation; for example, when it initiated its expansion and acquired a Finnish electricity distribution company in 1996, expanded its business activities into Germany and Poland in 1999 and 2000, respectively (HÖGSELIUS, 2009). During internationalisation, the company associated its image to Sweden's reputation as environmentally friendly country to keep a credible political stance, when it invested in coal or nuclear energy assets.

While studies on SOEs have associated reform and restructuring endeavours and corporate governance emphasising CCP and government-level intervention, a series of recent studies have attributed the relevance of considering the endeavours and business scope of state-owned companies as active participants with their own business tactics to advance their objectives. For example, Heilmann and Shih (2013) have referred to the political impact of SOEs and the national industrialization approaches formulated on a supra-ministerial level and aim at cross-sectorally coordinated development. Leutert (2016) refers to the administrative ranks occupied by firms and their leaders as critical assets for influence-taking. Pei (2006) has referred to the resistance and difficulties of reform in China's state industry, largely because state industry opposed action and therefore prevented various reform attempts. In the case of the state industry, the work of Naughton (2005 and 2006) on the ties between government and state industrial actors has particularly focused on SOEs and the State-owned Assets Supervision and Administration Commission (SASAC). This foundational work points to the increasing role and close ties between government agencies and the corporate interests of the state industrial actors, resulting in a complex dynamic between them.

Political entrepreneurship of firms allows to understand their ability to lead with risk and their capacity to engage on policy matters and create alliances for the sake of business interest. Overall, understanding firms as political entrepreneurs means conceiving them as rational actors in that they make decisions based on the costs and benefits of proposed activity. This all demonstrates why business politics are most valuable to firms: the political capital of multinational corporations (MNCs) is different from other forms of MNC assets. While many studies have focused on economic transformation processes at the intersection of economic regulation and competition, there is a broader dimension to the role of business politics. Simply put, the degree and size of formal and informal networks and connections are fundamental tools for companies' political leverage. Many studies have confirmed that the larger the firm, the greater the chance to informally influence government through personal connections and positively benefit from administrative, legislative, or other regulatory changes.

While it is commonly assumed that private companies, particularly large enterprises, have a strong interest in influencing matters in their favour, in the case of SOEs, it is a common misinterpretation that SOEs are passive agents receiving 'government orders'. On the contrary, the ways SOEs aggregate interest are varied, as are their motivations and forms of influencing political agenda setting and exercising policy impact. That said, SOEs do not act in a vacuum but exercise a certain extent of autonomy. Such 'relative autonomy' is therefore connected to the foundational micro and macro-economic structures of the institutional environment.

In the case of China, this is also substantially held by Xu (2017) who has argued that (a) central SOEs are not mere passive receivers of policy directives from the party-state; (b) those with long-term strategic vision, human and financial resources, and institutional capacity can shape government policies to their liking as policy advocates; and yet (c) no one, including central SOEs, monopolises this process in any given policy area; thus, policy outcomes reflect competition among players and their constant interaction with government policymakers.

The continuous building of political leverage thus reveals business politics as a dynamic process that remains flexible and bound to the immediate political and regulatory environment it interacts with, specifically the government and the state. For example, since the 1990s, the role of firm embeddedness has been impacted by the change in the nature of firm's political relations when official political goals were featured under the national development discourse and became a necessary condition for the career advancement of the country's bureaucrats (ZHOU, 2010).

At the same time, however, Chinese companies became more dependent on the bureaucrats for market development; they put people in administration leadership positions in the companies so that they could smoothly steer the company through the bureaucratic and administrative web of China's political economy. While this made state-business relations in the country more informal and rooted in shared interest between state and government (TSAI, 2007), the highly decentralised government further added to the complexity by introducing diverse negotiation levels and bargaining needs. These political connections also demonstrate the value of top managers and the way their personal political values and connections can flow into corporate decision-making processes (LI AND LIANG, 2015; STEINBERG AND SHIH, 2012) and the nourishment of relations of trust in order to facilitate business. This is particularly relevant, for example, in concentrated industry sectors where firms face high levels of uncertainty and constantly require competitive advantages.

Dynamics of state-owned enterprise internationalisation are tied to the interplay between business politics and state oversight in both recipient and home countries, pointing to the need for SOEs to best exploit and build their institutional comparative and competitive advantages. State-owned enterprises may be entangled in the complex structure of state ownership administration, incentive structures, sectorial policy regulations, and internationalisation procedures, while simultaneously pursuing their own agendas and policy preferences. In the end, the strategic embeddedness of firms and the resulting relative autonomy remains crucial for influencing processes and thus impacting either policy processes or SOE business interests. An enterprise's political role and relative autonomy become more prominent when it is pursuing its strategic interests.

2.2 Dynamics of business politics: interests and state-industry aspects

If internationalisation theories are concerned with non-tangible issues including political values and firm embeddedness in broader political settings, the notion of business politics refers the entrepreneurial capabilities firms develop to facilitate and conduct a favourable business environment at a political level through different channels, actions, and mechanisms. Variation in capitalist economies is an outcome of different national institutional configurations impacting firm behaviour. In these different contexts, the dimension of power may affect the institutional structures of national systems stemming from the role of political institutions (IVERSEN AND SOSKICE, 2009). While collective action and coordination between competing and economic actors increases the complexity, political institutions also show differences in promoting cooperation or competition (MARTIN AND SWANK, 2008). Firms must therefore understand how best to navigate in an environment where difficult political institutions generate different needs and outcomes. Basically, business politics implies the idea of firms as established political and policy actors. Thriving specifically based on institutional approaches, the political behaviour of firms has long been examined in the political sciences.

Evidently, business politics and firm participation in policymaking varies over time, across policy areas, and between countries (SCHNEIDER, 2012, P. 300). Firms' interactions occur within different arenas, specifically industrial relations, vocational training and education, corporate governance, inter-firm relations, and labour relations (HALL AND SOSKICE, 2001), throughout which they interact with the most different actors, including other firms, banks, customers, stakeholders, shareholders, and labour. Consequently, the approach hypothesises that institutions shape and constrain firm behaviour to a lesser or greater extend, providing firms with opportunities of which they take advantage (HALL AND SOSKICE, 2001; CROUCH, 2005). Overall, it is presumed that there is complementarity between corporate strategies and institutions.

Up until this point, this dissertation has mainly traced the debates between political economy scholars and International Business debate. However, it is important to set a wider stage of the dimensions of the business politics by offering how to best assess the business politics in the internationalisation process to make sense of certain understudied and overlooked aspects of state economy in the context of the internationalisation of emerging SOEs. With that in mind, a conceptual approach is therefore described below, explaining the need for business politics to:

- Incorporate sectorial arrangements, including the institutional, regulatory, and political arrangements departing from studies on business interest organisation and how relations between the state and business affect business behaviour in relation to policy (DURAND AND SILVA, 1997; MAXFIELD AND SCHNEIDER, 1997);
- Incorporate characteristics of business association and collective actions departing from approaches of political mobilisation relying on Olson's approach to collective action, whereby political mobilisation is more viable when there is concentration and a greater homogeneity of interests, organisation, and coordination, thereby resulting in and qualifying corporate actors to engage in political action (MCADAM ET AL., 2001; TARROW, 2011);
- Possess the capacity to influence the agenda from studies on the organisation of business interests (MCADAM ET AL., 2001; TARROW, 2011); and
- Make use of mechanisms of influence.

Table 2.1 - Business politics

Sectorial features, institutional and regulatory arrangements	Features of business associations and business politics of the sector	Capacity of effectively influencing the agenda	Use of mechanisms of influence
Particular institutional features which facilitate the influencing activity of firms	Transparency and access of business participation (formal and open/ informal and opaque) (SCHNEIDER, 2012)	Bargaining, negotiation	Channels of influence mediating the participation (SCHNEIDER, 2012)
Particular characteristics of companies and the competitive relationships with in the sector	Organization of business participation	Information	Deliberative or consultative councils
Structures and mechanism of regulatory competencies which may result in 'political intervention' in the economy	Participation is collective and organized	Intimidation	Corporate tripartite bargaining
Power of intervention in the economic environment of firms, the nature of the policies which government pursue and the regulatory and resource allocation activities of government	Participation is dispersed and individual	Favours granted as part of special networks of relationships	Lobbying
Intra-agency coordination and cooperation (business interests and preferences)			Campaign and party finance
Direction of governing party in the administration, state structure of the relations to society, types of discourse in government and the impact on exogenous events.			Networks and appoints to government positions
Coordination of interests between actors as reflections of the effectiveness of the decision-making process			

Retrieved from: Own elaboration

This provides the basis for the overall approach to the dissertation by identifying the importance of the opportunity for influence in a political context, the potential advantages of exploiting these opportunities from a competitive point of view, and the importance of industry structure and competitive environment for influence strategies. In the context of emerging economies, the institutional conditions may impact a company's ability to build up firm-specific advantages to drive FDI and make it profitable. Local governments tend to engage in and even coordinate regulatory and financing activities in order to compensate for the late mover position of MNCs (RASIAH ET AL., 2010). Moreover, the fragmented and weak nature of formal institutions implies that informality prevails, for example, in the establishment of firm relationships (LUO AND ZHAO, 2011) and the driving of political support. Below, the different forms of mechanism (formal/open vs. informal/opaque) are put in context with the forms of action taken (collective/organised/network-based vs. individual and dispersed vs. direct and indirect). Depending on the firm's embeddedness, the choice of political strategy can be either punctual or channelled to build up long-term relations.

Table 2.2 - Embeddedness in China and Brazil

	Mechanisms	Formal/Open	Informal/Opaque
CHINA	Collective/organised (network-based)	Business associations, information, and formal institutions for private sector dialogue	Bargaining, negotiation, and information
	Individual/dispersed	Traditional mechanisms of governmental influence and political relations with formal government agencies and institutions are of high relevance for private actors	Nomenklatura: relationship between government and business organisations; political connections (executive and legislative connections); networks and appointments to government positions, parties, and regulatory agencies; and participation in policymaking due to governments' strong reliance on firm expertise in a specific area
	Direct	Information, agenda-setting, and grassroots lobbying	
	Indirect	Grassroots lobbying	Favours granted as part of special networks of relationships; networks and appointments to government positions, parties, and, regulatory agencies; participation in policymaking due to governments' strong reliance on firm expertise in a specific area; and intimidation
BRAZIL	Collective/organised	Business associations, information, and formal institutions for private sector dialogue	Bargaining and negotiation
	Individual/dispersed (network-based)	Traditional mechanisms of governmental influence and formal political relations with formal government agencies and institutions are of high relevance for private actors	Political connections (executive and legislative connections)
	Direct	Information, lobbying, and grassroots lobbying	Media
	Indirect	Grassroots lobbying	Favours granted as part of special networks of relationships, campaign and party finance, grassroots lobbying, and intimidation

Retrieved from: Own elaboration

What has emerged is an array of perspectives about how best to understand not only the nature of the relationship between the firms and economy but also its general direction. This distinction between the different forms of firm influencing may be key, because even though there are serious disagreements about how to best capture business politics, most would agree that firms possess strong dispositions for developing business politics.

2.3 Embeddedness: The organization and influence of business participation

A remaining dimension concerns the organisation of business participation. Formal and informal channels of business are tied to the structure logics of the specific industry. Kennedy has also evidenced this, arguing that variations in the manner and the outcomes of government-business interactions in China ‘are related to the varying economic circumstances of individual firms and the sectors of which they are a part’ (p. 56). This characterises how the political activities and interest representation and mobilisation occur.

In a very recent empirical study exploring how advocacy and outcomes in the electricity industry are procedurally related to each other, Sampson (2016, p.256) has discovered state firms’ ‘indirect’ approaches towards generating proactive sectoral policy impact. In this regard, the central government’s policy preferences were relevant for policy output and outcomes, but it was the state industrial actors who influenced how central policy was applied and who were relying on the macro-level orientations provided by central government to steer the issues in the direction of its own interests, thereby impacting the functional logic of the industry. Thus, Sampson has highlighted the fact that ‘to change sectoral policy so as to follow its own preferences, central SOEs needed to tactically manoeuvre very real structural limitations set by existing policy and formal bureaucratic processes’ (SAMPSON, 2016, p.253), as well as ‘find ways to combine their own ambitions with government’s macro priorities and to argumentatively persuade top leaders that they are contributing to the solution of urgent cross-sectoral policy challenges’ (SAMPSON, 2016, p. 254). Within these institutional limitations and constraints, the rather indirect bargaining style of Chinese state actors relies strongly on political opportunity to advance their corporate agendas.

Whereas individual participation of companies in political influence has been related to company size, business associations and groups can be a powerful means of impacting the business environment. A vast amount of literature has explored the importance of diversification in the development and growth of entrepreneurial groups (KHANNA AND PALPEU, 1997; SCHNEIDER, 2015). The explanation of the importance of diversification can be described in four main points: (i) the fact that the group has firms in several sectors increases its leverage power in the market, meaning that groups that interact in different markets prefer to support multiple interactions in order to reduce rivalry with competitors; (ii) the diversified structure allows the exchange of resources between firms and makes them closer, meaning that it is possible to contract different resources such as technology, brands, and people that act in the different firms of the sector and thereby create an internal market; (iii) using information asymmetry, diversified groups create value by operating in the domestic capital market, which circumvents problems associated with obtaining external financing; and finally, (iv) the diversification of the groups can be a response to political distortions (GHEMAWAT AND KHANNA, 1998).

In the same way, organised interest groups have demands for policy and government benefits they must make to please the members and funders who support their organisations. Business associations can engage in organised political action through actions and incentives with the goal of influencing political decisions, sectorial action, and political discourse (KENNEDY, 2009).

The cases of emergence and business associations in China provide a number of useful insights into the complex embeddedness a firm has to uphold when engaging in collective and formal interest representation. Associations in China can be divided between chambers of commerce in which the members originally shared a common ownership form (private, state-owned, or foreign), and industry-specific associations. In China, most industry associations have limited independence because they were initiated by government agencies that act as their sponsors, supervisors, and leaders (KENNEDY, 2009). Kennedy has pointed out that many Chinese business associations are decentralised like their government counterparts. This is why they have non-hierarchical, ‘flat’ organisational structures that are not subject to control by trans-sectoral associations. It is also possible to encounter overlap, competition, and horizontal division between many of these associations. On the other hand, Brazil presents a fragmented and complex collective representation structure of corporate interests formed by pluralistic and corporatist entities that act in several areas of public policies (DINIZ, 2010). They can engage in consensus building between members and channel interests and needs. While associations and their structures can differ, they provide platforms of agenda building and access to information (SCHNEIDER, 2004).

When it comes to the transparency and access of business participation, the access of business participation in decision-making is largely dependent on political momentum related to the macro-level policy agenda and involved actor coalition.

One of the most important dimensions for business access is the role of political connections. Within the Chinese state bureaucracy, social relations have long been pivotal for conducting business activities, but also for personal career advancement (ZHOU, 2010), limiting uncertainty, providing access to information, mobilising resources, and counteracting unexpected problems. For example, in the case of the role of formal government agencies, Wang (2014) has compared the political relations of both private and state-owned firms listed on China's stock markets. Across all ownership types, 90% of listed companies have ties to the national government, local government, the National People's Congress or political consultative committee (described as a national parliament), a local people's congress or consultative committee (described as a local parliament), a national Chinese Communist Party Congress, a local Communist Party congress, or the People's Liberation Army.

In China, relations are often opaque and guanxi [15]-based, involving regular and sporadic forms of formal and informal contact. In the case of SOEs, this can, for example, involve connections and access to government and bureaucracy due to high administrative rank: administrative ranks in central SEOs are still under the logic of the formal ministerial status (i.e., that of the planning ministry) the SOEs formerly held (LEUTERT, 2016). This results in SOE management having the same level of hierarchical status as several of the government bodies responsible for their management or the supervision of their activities. This can provide important access to information, help SOEs advocate for or against policies for their industries, and provide access to documents relevant to business endeavours, meetings exclusively open to certain rank categories, CCP training courses, etc. Both formal and informal

[15] Guanxi, according to Park and Luo (2001, p.455) , refers to the concept of drawing on a web of connections to secure favors in personal and organizational relations.

connections to top officials can be established through committees, enabling, for example, opportunities to circumvent authorities of sectorial relevance. Here, proactive measures to influence policy-related decision-making can be reached.

Macher and Mayo (2015) have stated, ‘We understand that different types of firms pursue different public policy strategies that depend in part on their market and nonmarket positions, as well as their own political resources and capabilities’. The interaction between SOE management and state structures evolved alongside the reform and economic development of the sector. Meidan (2016, p.40) demonstrates this in the context of the Chinese oil SOEs:

> *Indeed, throughout the various stages of reform, the NOCs managed to maintain their power. Originally, their political clout stemmed from their bureaucratic ranking and their ties to the top leadership but over time, as they became increasingly profitable, their leverage over the government was strengthened by their financial clout. The NOCs could argue in favour of retaining a greater percentage of profits to further invest in their development programmes, which then granted them greater autonomy in financing overseas transactions.*

The form in which policymaking is organised by the state and its institutional structures will contribute to the businesses’ ability to influence (HALL, 1997), whereas the way business actors engage within the institutional structures can further advance or constrain their endeavours (FAIRFIELD, 2011). Furthermore, the diverging interests of actors further increases their need to strengthen strategic capabilities and ensure that their preferences are being considered in the policymaking process. Similarly, Gourevitch (1986) and Hall (1997) have pointed out the different than diverging interests impact on the capacities of actors to ensure that their preferences are being considered in the policymaking process and have emphasised the issue of the ability to mobilise support and pressure different government agencies.

The different contexts to which firms are exposed make them adaptable to learning, strategic differentiation of opportunities, and cultural conditions of political actions. Just as important as the organisation of business participation and its access are the channels through which business participation is structured and legitimised. Corporate decisions on how to relate to other social actors including formal institutions are inherently political, because they may have political effects to a higher or lower degree. The same can be said of the channels, because different channels entail consequences to the extent that one choice of channel may be connected to the others and justify the use of others.

The strategic embeddedness of firms and their resulting relative autonomy remains crucial for influencing processes; thus, impacting either policy processes or interests related to SOEs business endeavours allocates a political role to the enterprise and its relative autonomy when pursuing its strategic interests. For this purpose, however, the use of channels is complex and multidimensional, may be punctual or over a certain amount of time, and demands more or less discretion. For example, the use of channels can have the following objectives: firms may hire consultancies for lobbying purposes, but mostly hire local managers to work with the mobilisation of political support in favour of the firm's needs.

The information channels are vital due to the information asymmetries between policymakers and interest groups, the existence of multiple groups simultaneously pressuring the government, and the different challenges associated with political firm activities, including the ability of some groups to disrupt the flow of information from others to the government, thereby indirectly changing the equilibrium of policy efforts. This is why the channels of business participation can help firms to enhance the coordination of institutional capacities related to policy guidance and policy demands, support the pursuit of preferences of internationalisation with cross-sectorial agendas, and support the interplay and coordination between institutional actors relevant to oversight in the home and host contexts.

Blumentritt and Nigh (2002) have examined the different factors that make MNC subsidiaries coordinate political activities with affiliated units. These authors have sought to understand how MNCs are confronted by diverse political issues, which range from a unified corporate posture to different competitive activities, and from subsidiaries' answers to local political matters. The interactions between MNCs and governments vary in their degrees of internationalisation, coordination, and knowledge sharing. Consequently, the ways firms engage in business politics and make use of participation channels may demonstrate differences when it comes to the ownership and origin of the firm.

In the case of the US, Hansen and Mitchel (2000) have conducted a study on corporate political activities that permits direct comparison between domestic and foreign-owned corporations and allows for firmer conclusions about the dimensions, particular motivations, and relative significance of foreign-based political activity within the US. Their evidence suggests that foreign firms are less likely to contribute to candidates and are less likely to engage in public lobbying by appearing at congressional hearings, but they are about as likely as domestic firms to have a lobbying presence in Washington (HANSEN AND MITCHEL, 2000). More than that, evidence on charitable contributions provides some support for a lower propensity towards donations by foreign-owned firms and indicates that the political contributions by U.S. affiliates of foreign corporations are consistent with foreign firms in Britain, who are less likely to make political contributions (HANSEN AND MITCHEL, 2000). This study demonstrates that firms adapt to the political scene but seek to maintain a low profile in terms of visibility. In this regard, Hansen and Mitchell (2000, p.899) write:

> *We found evidence that foreign firms adapt to local behaviour but at the same time try to avoid the appearance of influencing the politics of another country. The data set that we used is more extensive than in earlier studies, but further measurement refinements are needed. In terms of the independent variables, we improve on the earlier, cruder, industry-level measures of regulation, and we incorporate an ownership measure, a countervailing power measure, and press measures of visibility.*

This shows that MNCs' experiences in emerging markets, including central and eastern Europe, have highlighted the importance of institutions, not only exogenously in terms of how they produce specific constraints for firms, but also how they lead to different firm behaviours across institutional settings (JACKSON AND DEEG, 2008). That said, external institutional pressures mostly originate from nonmarket actors in the subsidiary's surroundings, such as the host country government or regional governments as well as non-governmental interest groups (NELL ET AL., 2015). When it comes to developing or emerging economies, internationalisation processes may be characterised by the strong government support provided to firms (SARGENT AND GHADDAR, 2001). Similarly, Gammeltoft, Pradhan, and Goldstein (2010) have acknowledged that in the case of emerging economies, government support may take the form of support in terms of financing and inputs.

Thus, this dissertation is based on the premise that the 'politics' dimension of business politics implies the mobilisation of firms' political capacities. Business political participation does not necessary have to occur in parliaments. Culpepper (2011) argues that when an issue is less politically salient, business interests have great power to achieve exactly what they want. More than that, as opposed to traditional approaches in political science literature, this author emphasises that informal institutions have a primary business role in issues of low salience. Keller (2016) has built on this study to distinguish between 'noisy' and 'quiet' politics as strategies targeting the impact on the political process by different processes. The contrast and differences between quiet and noisy politics are further visualised in Table 2.3 in terms of their content, dimensions of conflict, targets, and influence mechanisms.

Table 2.3 - Quiet and noisy business politics

	Content	**Conflict Dimension**	**Target**	**Mecanism of influence**
Quiet Politics	Provision of empirical evidence and expert knowledge	Evidence vs. counter-evidence, argument vs. counter-argument	Policy-seeking decision-makers	Persuasion
Noisy Politics	Mobilisation on demands and implications deemed legitimate, (un)fair, or (un)desirable	Competing legitimate and potentially salient claims	Support-seeking decision-makers	Mainly pressuring through conflict expansion and increasing the salience

Retrieved from: Keller, 2018

While the two approaches do contrast, there is overlap, and there are multiple reasons for companies to choose one strategy or another. Keller (2016) has highlighted the roles of the targeted venue, initial and potential levels of media attention, and availability of a framing strategy.

Relationship with key figures (contact with political parties and parliamentarians through visits and informal meetings) and the influencing of governmental representatives in Brazil, for example, include relations with the actors of the government executive, congress (senate and deputy chamber), the judicial system, and regulatory agencies; the identification of strategic actors in the legislative process (e.g., members, presidents, leaders of different parliament interest groups); the establishment and maintenance of relations to parliamentarians; participation in commissions meetings and public audiences; relationships with parliamentary and commission advisors; and finally meetings with individual parliamentarians and contact with other stakeholders. These relationships can be practiced at both national (including local and state) and international levels. For example, with respect to MNCs investing in China, the political system makes it advantageous for MNCs to uphold dense government relations to strategically manage risks.

This can be achieved through hiring local managers (LUO AND ZHAO, 2013) or enacting safeguarding strategies if political contacts and relationships with key figures could be damaging for business (e.g., due to the change in political leadership) (BODDEWYN AND DIELEMAN, 2012). Use of these mechanisms can include both individual firms and groups with homogenous interests, which influence in some way can or want to take on the decisionmaker. The goal is to find a voice in those government agencies that is relevant to the relevant facts. Access to policymaking, and decision-makers in particular, is therefore paramount, regardless of whether opinions are drafted, or bilateral discussions held.

2.4 Framing ideas and ideology: Expertise and agenda setting

When it comes to determining the entry point of companies as actors with matured strategic skills and environments, Crouch (2005, p.153) has argued that firms are not to be seen as actors independent from the market, because many display capacities to influence and take proactive steps in shaping market responses, thereby increasing their autonomy and entrepreneurship skills. On the other hand, politicians and policymakers themselves may engage with business to forge political support (SCHNEIDER, 2004), influence behaviour (HAGGARD ET AL., 1997; SCHNEIDER, 1997), and access information for policymaking purposes (SCHNEIDER AND MAXFIELD, 1997). Policymakers usually have a basic understanding of the impact of legislation on economic realities, possible user reactions to changes in framework conditions and expected economic development in general. However, in order to be able to draft comprehensive changes in the legal framework and then be able to adopt them, information deficits must be remedied. As a result, decision-makers need to incorporate detailed expert knowledge into their own decision-making processes, because they will not be able to acquire the necessary specialist knowledge within the time available.

There is an asymmetry of information between the decision-makers and the actors acting as experts. The providers of the required information can only be the users themselves, their representatives, or scientists. Early input of expertise (e.g., through offering legislative recommendations) will result in more effective and efficient regulations in favour of the firm. This can also occur through the elaboration of technical studies and expertise (reports, events, informative materials, and working missions). It is possible for stakeholders to influence decision-makers at every level, and it is also conceivable that the process will be disrupted at every level. Studies have also highlighted the fact that policy-makers also draw on cooperation with the business sector to positively influence policy outcomes or implementation when state resources are limited or constrained (FUCHS, 2007; MAXFIELD AND SCHNEIDER, 1997; SCHNEIDER, 2004).

While it is widely presumed that firms uphold a ‘strategy’ in terms of guaranteeing political leverage, this is not always the case. Firms do have to have the ability and the opportunity to engage in business politics effectively, and even if they have the chance, they do not always do so. Studies on business politics in the EU have explored the complexity of business politics, as demonstrated, for example, by the Ydersbond (2014) on the lobbying strategies of interest organisations in Germany’s energy industries to influence the formulation of the EU renewables directive:

> *enquiring into multi-level lobbying strategies where it is reasonable to expect interest organizations to lobby at multiple levels, rather than focusing solely on the national or the international level. With the EU steadily increasing in depth and scope, research attention should focus on coordinated lobbying, as interest organizations appear to lobby across political levels to an increasing extent. Finally, we note that lobbying by complex multi-level advocacy coalitions may be decisive for political outcomes in the EU, which testifies to the substantial importance of coordinated lobbying behaviour and coalition formation across levels* (YDERSBOND, 2014, p. 35-36).

The understanding of multi-level engagement brings us closer to the essence of understanding firm strategies, which can punctually include forms of media coverage or wider Public Relations campaigns and can be determined through the existence of a government or regulatory affairs department, as well as the corporate network and ability to access information of strategic value and open opportunities to exert influence. It is in this regard that the political arena in which firms operate does not necessarily occur in parliaments or at informal lunch tables; it can be also built through joining opportunities and building up a public discourse.

Bringing together the role business politics play in state-business relations is therefore at the forefront of all market relations. While in the case of China state-business relations are largely informal and linked to party relationships, in Brazil there are more formal institutionalised links between states and businesses with public-private interaction. While in China it is the state that usually sets the agendas, in Brazil this vision is more distributed.

2.5 Business politics abroad: The role of MNCs

Going back to the beginning of the chapter, it is worth noting that, according to Leftwich (2009, p.12),

> *the processes which fashion, maintain or change state-business relations are political processes, and the ideas, interests, ideologies, forms and degrees of power and/or influence which organisations or organised interests – on the state or business side, or externally – bring to the practice will determine the evolving shape of state-business relations and whether positive or negative synergy for growth occurs.*

In the context of state-business relations, business politics refer to a way of directly or indirectly leveraging corporate interests, and it seems self-explanatory that firms would like policies and political environments set in a manner that suits them.

Embeddedness as a concept has been used to trace the relationships between institutional actors and businesses in contributing to organisational success (PARK AND LUO, 2001, UZZI 1997). Embeddedness looks at different levels of abstraction spanning from the home to the host context. For example, home country conditions, such as the support given to innovation and FDI policies, can have a significant impact on MNC strategies abroad (CUERVO CAZURRA, 2012). Apart from the gains for countries showing elevated levels of FDI, there has been recognition that MNCs abroad were increasingly understood to include concerns of political involvement, as Zhu (2016, p.1) has demonstrated:

> *It seems that the existing literature has overlooked the strategic interactions between foreign firms and host governments. Foreign direct investment (FDI) untaken by MNCs is different from other forms of capital flows, such as remittances and portfolio investment, in the sense that it involves the transfers of physical assets, human resources and technology, while demanding deep engagement and long-term commitment from parent companies. In this regard, MNCs – the vehicles for FDI – are sensitive to the political and economic conditions in host countries.*

Returning to the initial part of this chapter, companies may have a strong interest in influencing matters in their favour, depending on the overall context they are immersed in. Companies adjust their strategies and adopt their modus operandi – an issue is not always worth engaging. Multinational corporations may react to legislative and regulatory activity by explaining the company's position, providing seminars or other presentations, or otherwise responding to legislators' requests for information. If MNCs also engage in the legislative process in a proactive way, they may do so indirectly by mobilising interest groups, or directly by lobbying legislators. The choice to behave proactively may be an independent one, or it may be a response to the encouragement of headquarters, etc. Conversely, working towards the goal of passing particular statutory language or budget allocations can provide MNCs with the resources or knowledge they need to win auctions or obtain other advantages, supply technical information, or rely on their presumably greater political and technical expertise in order to decide how to use that information most effectively and what decisions would be favourable for the energy sector.

There is a growing body of literature on government-business relations in China, but much of it is oriented in a way that does not fully address issues of lobbying behaviour. These studies have examined the actors who are most likely to be vehicles of political change: private entrepreneurs. State-owned enterprises and MNCs are usually disregarded because they are not expected to be in the political vanguard.

It is widely presumed that companies go into the political sphere because this could benefit business procedures (i.e., they could benefit from certain opportunities or leverage resources to their advantage), or as a reaction to government-related threats. There are normative presumptions that business interests may or not be in the direct public interest, businesses dedicate vast resources to gaining political leverage, and this political leverage is turning out in their direct favour. However, these observations do not amount to a theory of business politics. Existing work has established the plausibility of the argument that companies use politics strategically, and while the process may involve many actors, the company's ability to modify ongoing processes in its favour occurs within the limits and constraints of state-society relations. When and how companies engage in business politics is an open question and, overall, of a discretionary nature. Existing work on business politics does assign companies an active role in the policy process (e.g., interest concentration in legislative processes). Additionally, different studies have analysed the role of companies in campaign financing across different national contexts (e.g. Powell, 2012).

3 INDUSTRY-LEVEL DETERMINANTS: ELECTRICITY SECTORS IN BRAZIL AND CHINA

This chapter helps to establish the background for the analysis of SGCC business in Brazil that is discussed in Chapter 6 through a brief examination of the development of electricity policy in Brazil and China since the beginning of this century. The main goal of this chapter is to explain how the electricity policy grew from uncertain beginnings in the early 2000s to shaping state-business relations in both countries. The origins of the formal or informal institutional pattern of state-business relations in the electricity sector varies between the countries and may even differ compared to other sectors.

3.1 State-business relations in the energy sector

The history of electricity policy in Brazil and China have some interesting parallels. Policymakers in the power sector faced structural challenges and increasing energy consumption. Making the sectors competitive involved a number of serious hurdles: most scholars would agree that energy policy is a 'contested field'. Energy policy is not a neutral subject; rather, it is subject to various competing interests, actors, and institutions since, for example, the electricity sector is a vital input to goods and services of national economies, as well as an important fraction of national GDP itself. With economic growth, electricity demand increases. Emerging economies are predicted to have to significantly scale up their investments in electricity from the $240 billion they spend each year to $495 billion annually between 2015 and 2040 for a total of $13 trillion. This raises different issues central to the ownership, financing, and delivery of energy infrastructure. In China, an annual growth rate of around 10% meant an electricity demand increase of approximately 12% annually from 2002 to 2012, and almost triple the per capita consumption of electricity over this period (WEF, 2016). For the same period, the economic growth and electricity demand for Brazil increased by approximately 4% annually (WEF, 2016).

Comparative studies on specific fields of the energy sector can further distil the elements shaping the national contexts. In the 1990s, debates on the role of public development finance in the energy sector focused on low-performing public utilities, resulting in the decline of World Bank funding in the field of electricity sector investment. By 1993, the World Bank issued a policy paper analysing poor performance, deteriorating finance, and the wider macro-economic impacts, leading to the proposal of private-sector participation: in other words, reform implementation became a prerequisite for lending (WORLD BANK, 1993). The foundations of the reforms of the power sector were laid in the US in the 1970s when new competition laws targeting unbundling were introduced through which independent power producers were able to sell electricity to investor-owned utilities. While the role of the state and market coordination in the context of this economic liberalisation in the US, followed by other countries with advanced economies such as the UK, has generated substantial debate, what is relevant here is that the trust in the market as a platform for economic coordination introduced changes in the electricity markets across a number of countries, renegotiating the role of the state in coordinating economic activities, even with a considerable degree of variation across countries (ERDOGDU, 2013).

In the beginning of the 2000s, debates on power sector reforms exposed the energy sector as a contested industrial segment. Even though it happened at different moments in time, sectorial stakeholders in both Brazil and China issued their concerns when it came to decide on the different degrees of liberalisation, deregulation, unbundling, and privatisation of SOEs, altering structures and functions of the industrial sector (VICTOR AND HELLER, 2007), and deciding how the energy market should be structured. As described in the subsequent parts of this chapter, these structural changes laid the foundations on which the companies would operate and concerning whom they would relate to, including principles, norms, rules, and decision-making procedures.

The reform of the energy sector was implemented in Brazil and China in very different ways. For example, Hsueh (2011) has analysed how macro-level liberalisation in China was cyclical and accompanied by ‘sectoral reregulation’ of strategic industries considered vital to national security or holding a strategic value due to technology intensity, etc. On the other hand, in Brazil, privatisation has been handled at a different speed across several administrations through different measures, either by selling public companies or through the transference of the share control of mixed companies to MNCs and investors.

The following table describes the basic features of recent reform efforts in the Chinese and Brazilian electricity industry.

Table 3.1 - Electricity industry structures and forms of ownership, regulation, and competition

	Brazil	**China**
Industry Model	Corporatised	Corporatised
Ownership of generation	Mixed private and state	State
Ownership of transmission	Mixed	State
Ownership of distribution	Mixed	State
Key legislation	Federal	State and federal
Form of regulator	Competitive market oversight	Price regulation
Regulators	MME, ANEEL, CNPE, CMSE	NDRC, State Electricity Regulatory Commission
Extent of competition	Limited, periodic auctions	Competition to build new power plants, but not for dispatch

Retrieved from: Wilson et al, 2015

To understand the differences, we examined studies on renewable energy policy studies, a comparative field of China-Brazil relations which has been relatively well explored. In her comparative study on the drivers and barriers of solar energy development in Brazil and China, Gilmanova (2018) has confirmed that Brazil adopted market-led development with solar energy auctions and net-metering systems as a policy driver, while China followed a state development path with a feed-in tariff system for large-scale and distributed generation, as well as the PV Top Runner Program, a state-driven programme designed to encourage developers to invest in innovative technologies.

A similar approach has also been taken in the recent paper ‘Wind and Solar Power in Brazil and China: Interests, State–Business Relations, and Policy Outcomes’, in which Hochstetler and Kostka (2015) have assessed the business relations in Brazil and China in the context of the two countries’ respective renewable sectors. Institutional differences were responsible for generating differing outcomes: in China, corporatist state-business relations implied that state interventions were deeper. In the case of China, the authors have drawn attention to the corporatist state-business relations with the domain of the state and the proximity to the state-driven business (SOES or mixed ownership forms), an authoritarian decentralised governance structure between local and central governments, market control, and businesses' need to main intimate relationships with the state. In contrast, these authors have portrayed Brazilian state-business relations in the renewables sector as a hybrid 'between national public planning, procurement, and financing agencies and an increasingly private sector' (HOCHSTETLER AND KOSTKA, 2015, p. X).

With the state-business relations at the centre of attention for analysis, the pre-conditions for firms in both contexts raise interesting questions about the changes and challenges for firms to operate in different market and policy environments. While this dissertation does not focus on an energy source, but rather on a segment in the electrical power industry, the way market and state actors interact reflects the general choices made by the energy system. As a result, corporate relations move within the possibilities and constraints of the macro and sectorial conditions and arrangements to which they are bound.

3.2 China's electric power sector

This section proceeds with a review of China's energy sector, its evolution, and its actors, and then discusses how the global rise of the sector's SOEs has impacted business-state relations. The section ends with an assessment of the relation between the public sector and firm internationalisation under the conditions of the party-state relations. To begin with, China's 13th Five-Year Plan for Electric Power Development/ 电力发展'十三五'规划 (2016–2020) called for stronger participation of Chinese companies in electrical sectors overseas. In a context where the country has already become a major investor and provider of energy goods and services abroad, its energy sector and the way industry and state-owned business in the party state structures function and develop reveal the foundations of the functioning of the sector and the ambition for its internationalisation.

These guidelines also reveal that China's energy sector is constantly on the move. To begin with, China's power sector experienced major reform efforts in the early 2000s.

Horizontal or vertical unbundling in the energy sector follows split core business units of distribution, generation, and transmission into entities differing in terms of legal and operational aspects. Electricity sector reforms are nothing new, and the discussion of energy sector reform in China can be put in context with reforms of other economies at the beginning of the early 2000s (LEI, 2018). There is an abundance of literature on the energy sector in China covering different aspects of reforms (CUNNINGHAM, 2015; YAO, 2015), energy sectors such as oil, renewables (HOCHSTETLER AND KOSTKA, 2015), and the electricity market. This section focuses on the electric power sector.

In China, continuous reforms of the electricity sector created a playing field of gradual reform efforts with many institutional struggles between the institutional actors (Cunningham, 2015). In 2002, the State Council issued the 'State Council notification on the electrical power system reform plan' (国务院关于印发电力体制改革方案的通知) – Document No. 5. This document significantly impacted state enterprises, implying that companies had to unbundle their traditional monopolistic asset arrangements and move towards upstream and downstream market competition between various state-owned actors (SAMPSON, 2016; CUNNINGHAM, 2015). The corporatisation of the state industry further implied the drive for the SOEs to deliver higher economic profit, while corporate management and career progress of senior staff would be based on increased performance. Resulting from the reform process, too, was the institutional structure of the state industry, where mandates often overlapped and crossed specific sector and cross-sector issues.[16] Further steps towards reform were undertaken in 2008 when energy administration bodies were overhauled.

Overview of industrial policy in China's electricity industry

In the decades preceding economic reform, ownership, control, and management in the electricity industry were operated by government and followed political goals negotiated at the central level (SAMPSON, 2016; XU, 2016). Electricity production and distribution were organised within the state-operated plants and transmission system, which operated according to projections of demand and political estimation esteems.

[16] Interview with former employee, NDRC Department of Foreign Investment, 2017.

In the following two decades, restructuring in the power sector was part of an effort to alleviate ongoing problems with power shortages and inefficient power distribution, which were generally believed to result from a faulty arrangement of the government institutions responsible for devising and implementing economic policies (SAMPSON, 2016).

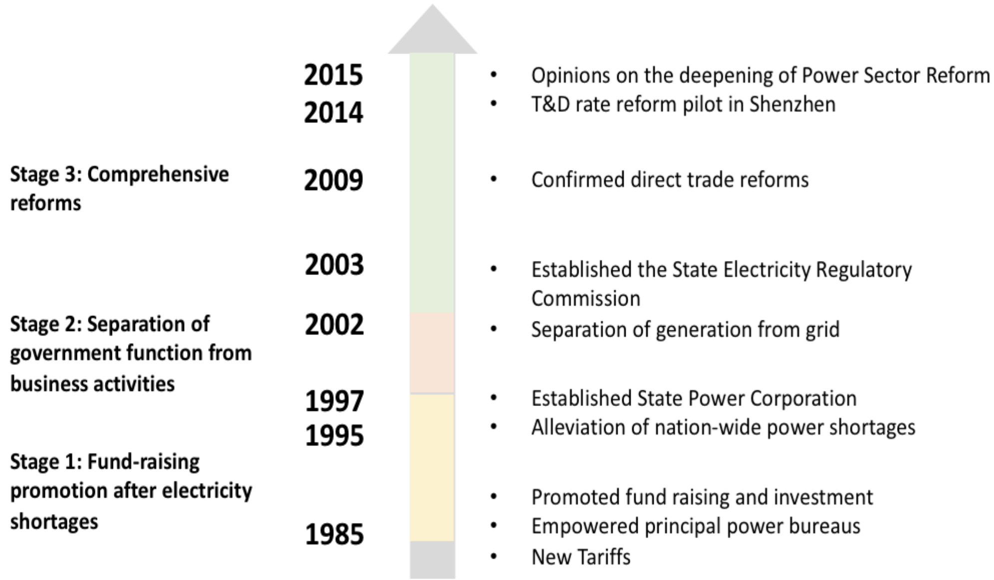
Andrews-Speed (2013) has added that during these different phases, administration over the electricity industry shifted between different ministries with varying scopes of authority, including the Ministry of Fossil Fuels (until 1955) and the Ministry of Water Ressources and Electric Power (MWREP), which was repeatedly dissolved and reinstated throughout the 1960s and 1970s, interrupted by brief periods in which the separate Ministry of Electric Power existed. The Ministry of Energy (MoE) was created in 1988 and disintegrated in 1993 due to administrative and operational overlapping with the State Planning Commission (SPC), leading to bureaucratic stalemate and inefficiency. Later, the re-emergence of a separate Ministry of Electric Power (MEP) subordinate to the State Council-reporting SPC once again changed the administration and operation of the electricity sector by diving its government and commercial functions, implying that micro-economic energy planning, policymaking and supervision were all exercised by the entity, leaving macro-level decisions to the SPC (SAMPSON, 2016; XU, 2016).

The next round of reforms in China in the 1990s focused on efficiency in terms of both bureaucracy and industry towards the greater separation between administration and enterprises whereby property rights were tackled and efforts towards commercialising SOEs were further advanced by transforming parts of former ministries into companies, specifically SOEs. In 1997, the Electric Power Ministry was corporatised into the State Power Corporation of China (SPCC), and the electric power bureaus at lower administrative levels were corporatised as subsidiaries (CUNNINGHAM, 2015; SAMPSON, 2016).

With these profound changes in the industrial structure, the electric power department of the State Economic and Trade Commission (SETC) replaced the regulatory and policymaking functions. Despite these changes, however, various authors have emphasised that the relationship between the SETC and the SPCC remained very tight, resulting in SETC's difficulties in maintaining authority (SAMPSON, 2016, CUNNINGHAM, 2015).

The following table describes the basic features of recent reform efforts in the Chinese and Brazilian electricity industry.

Figure 3.1 - Timeline stages of electricity sector restructuring



Retrieved from: An et a, 2015, p.6

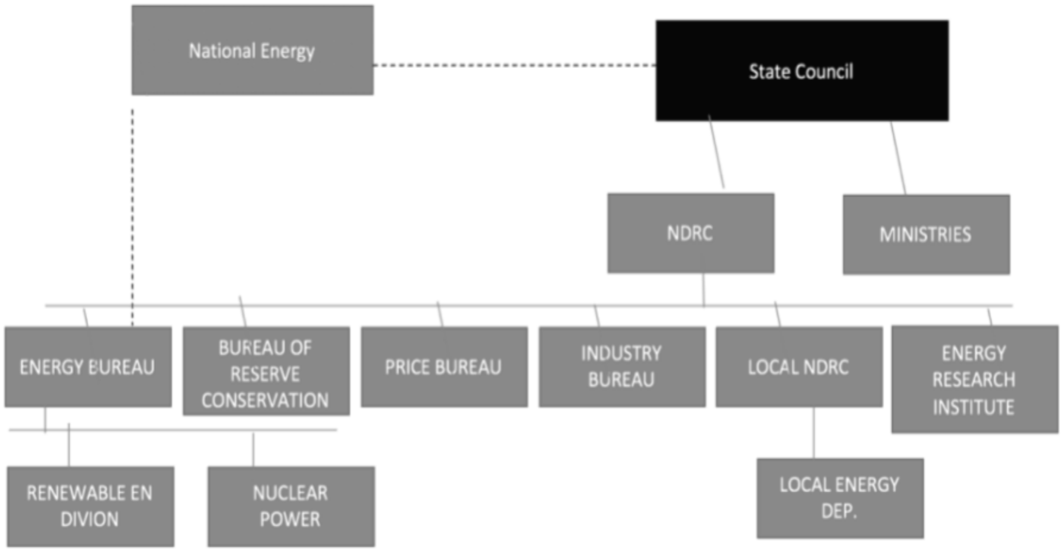
In 2002, the Power System Reform Plan (国务院关于印发电力体制改革方案的通), issued by the State Council introduced a marketisation agenda and was received as a breakthrough step towards reorganising the industry. According to Lei et al. (2018, p.3), the reform divided the power generation and grid elements. Five SOEs – China Guodian Corporation, China Huaneng Group, China Datang Corporation, China Huadian Corporation, and State Power Investment Corporation – were given domain over the generation segment, while the grid was split between SGCC and China Southern Power Grid Company Limited (CSG). While SGCC takes care of the majority of China's territory, CSG operates the grid in the provinces of Guangdong, Guangxi, Yunnan, Guizhou, and Hainan. The reform efforts created the possibility of competition of SOEs, targeting both the quality of service and industrial development (SAMPSON, 2016).

The mandate to supervise the marketisation agenda was given to the 2002 Electricity System Reform Working Group (国家电力体制改革工作小组) and then transferred to the State Electricity Regulatory Commission (SERC), also under the overall oversight of the State Council. In 2003, the SERC was mandated to formulate proposals for market regulation. In the context of the restructuring, the adjustment of the government functions exercised a strong influence on the sector and on firm behaviour, because the decision-making environment had become more diversified. The National Development and Reform Commission (NDRC) took the place of the State Development Planning Commission in 2003 and has since become one of the most important line ministries. The NDRC is in charge of macro-economic planning and several other functions related to energy policymaking, including price-setting authority (wholesale retail) and investment approval.

Apart from various specific stakeholders – including MOFCOM, MOF, MOST, Environmental Protection, the Ministry of Land and Resources, etc. – having specific roles in the energy industry, the reform continued to drive changes. Since the scope of the reform was wide and required stronger coordination, the high-level staffed National Energy Leading Group (NELG, 国家能 源领导小组) was inaugurated to coordinate the energy efforts and further formulate recommendations for the energy policy; in 2008, the NELG was replaced by the State Energy Commission (SEC, 国家能源委员会). With the administrative reforms advancing, the energy bureau of the NDRC was institutionalised into the National Energy Administration (NEA, 国家能 源局), holding vice-ministerial rank and being responsible to coordinate the efforts of the energy sector management. With a broad ranging mandate, the NEA remains one of the most powerful energy sector regulators in China, with duties including management of the energy industry, planning and promotion of research and development, FDI approval, and negotiation with international energy agencies.

Following the post-2008 reforms, the following administrative structure emerged:

Figure 3.2 - Administrative structures of the Chinese electricity sector



Retrieved from: Xu, 2016

Apart from the regulatory bodies, the administration of the state-owned assets requires further attention. State-owned assets are managed by the SASAC, and in this regard, the role of the SASC is less on the industrial level and more on the company level. This section then introduces the role and responsibilities of SASAC and how its actions can impact firm decision-making processes.

The SASAC was established in 2003 during the overall restructuring effort to proceed the division between government and the SOEs. In 2017, the SASAC received between 5% and 15% of its companies' annual net profits in the form of dividends, which it accumulates into a 'state capital management budget' (国有资本经营预算) drawn up by the SASAC and overseen by the Ministry of Finance (MoF).

The SASAC is an institution under the direct management of the State Council, while members are appointed by the organisation department (中组部) of the CCP. According to the SASAC official website, the responsibilities of the agency include the following:

- Supervising and managing the state-owned assets of centrally administered SOEs, performing investor responsibilities, and supervising and managing the state-owned assets of the enterprises under the supervision of the central government; and

- Having the responsibility of supervising the preservation and increment of the value of the state-owned assets of the supervised enterprises, including (1) establishing and improving the index system of the preservation and increment of the value of the state-owned assets, (2) supervising and administrating the preservation and increase of the value of the state-owned assets of the supervised enterprises through statistics and auditing, and (3) establishing and implementing policies related to management of wages and remuneration of the supervised enterprises and regulations of the income distribution of the top executives.

As Sampson (2016) and Xu (2016) have noted, it has to be mentioned that the executive management of SOEs that the SASAC can define comes from the aforementioned organisation department of the CCP, including the board of directors, general manager, and deputy positions. This is important because it means that there is a personal connection between the performance of the companies and the incentives at managerial and personal levels.

Further responsibilities include the following:

- Take charge of the reform and restructuring of the SOEs, guiding and pushing the reform and restructuring, advancing the establishment of modern enterprise systems, and establishing corporate governance;
- Taking charge of the appointment and removal of the supervised enterprises, giving rewards and penalties according to performance, establishing a corporate executive selection system in accordance with the requirements of the socialist market economy system and modern enterprise system;
- Taking charge of the daily management of supervisory panels;
- Taking charge of the relevant work of state-owned capital operational budgets, being responsible for organising the supervised enterprise to turn state-owned capital gain over to the state, participating in formulating the management system and methods of the state-owned capital operational budget;

- Driving supervised enterprises to apply the guiding policies, principles, laws, and regulations;
- Taking charge of the fundamental management of the state-owned assets of enterprises, drafting laws and regulations on the management of state-owned assets, and establishing related rules and regulations.

The SASAC has approval responsibility when it comes to acquisitions or investments.[17]

According to the National Bureau of Statistic of China (2016), the number of companies supervised by the SASAC has decreased from 196 (2003) to 102 (2016), while their size and profitability has increased dramatically. Many of the companies guided by the SASAC combined their highest quality assets into subsidiary firms that were subsequently listed on domestic and international stock exchanges to raise capital (although majority ownership of the subsidiaries, and full ownership of the mother companies, remained with the SASAC). In the electricity industry, this applies to all of the 'Big Five' power generation companies, but not to the two grid companies, which remain under full SASAC ownership.

According to Cunningham (2009), while regulations relating to ownership of Chinese domestic energy assets are tightening, rules governing the growth of outward FDI have increasingly liberalised to allow a wider range of firms and regulators increased breadth in approval and to lower institutional barriers to capital outflow (Cunningham, 2009). This diversification of actors and decentralisation of approval has supported increased volumes of investment abroad but has also weakened central state oversight over such investments.

[17] Interview with official of the State-owned Assets Supervision and Administration Commission, 2016.

3.3 Brazil's electric power sector

The following provides an overview of the Brazilian power sector, including the administrative and regulatory moves relevant to SGCC's market entry and the relevant institutional actors.

Here, the most important developments and entities are briefly introduced in the context of the sectorial reform steps that took place in 2004. In Brazil, the late 1990s and early 2000s witnessed the exhausted investment capacity of the state-dominated model, demanding changes towards greater efficiency of the system in order to balance both public and private capital within a competitive market environment. At the same time, the energy crisis of 2001 developed into a national crisis, severely impacting electricity distribution and supply. This crisis was caused by a lack of investment and planning in the generation segment. Apart from the economic impact, the consequences were political. During the presidential campaign the crisis was used by the opposition, resulting in a promise to launch restructuring efforts concerning the electricity sector.

Adjustments of the Brazilian electricity sector in the context of the Lula government: The context of Laws Nr. 10.848 and 10.847

Since the Brazilian Workers' Party (Partido dos Trabalhadores – PT) partially relied on conservative entrepreneurs and sectors for its election, the party made commitments that prevented ruptures with existing public policies, including privatisation policies and the fragmentation of the electricity sector in business units (generation, transmission, and distribution). After the 2002 parliamentary election, Luiz Inácio Lula da Silva, or Lula, succeeded Fernando Henrique Cardoso of the Brazilian Social Democracy Party (Partido da Social Democracia Brasileira – PSDB) as president, and the new government not only introduced new regulations on the role of public-private partnerships (PPPs) but it also began to look into restructuring the electricity sector (GOMES ET. AL, 2015).

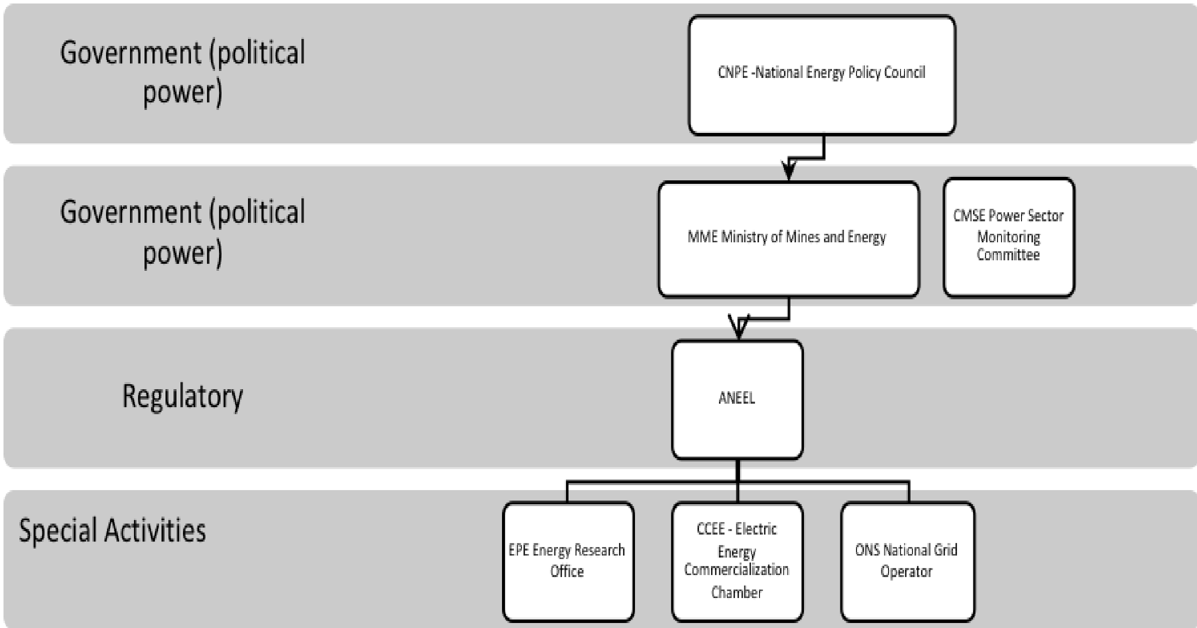
2003 was marked by extensive discussions between the entities of the sector and the federal government, represented by the Ministry of Mines and Energy (MME), to design and implement what was called the ‘New Model of the Electricity Sector’. In February 2003, the federal government through the MME established a working group to advise on the formulation and implementation of the institutional reform of the electricity sector. The work carried out by this group is detailed in the document entitled ‘Institutional Model of the Electric Sector’ published by the MME on December 11, 2003. The proposed model established three main objectives: ‘to guarantee the security of electricity supply’, ‘promote tariff modality through the efficient contracting of energy for regulated consumers’, and ‘promote social insertion in the Electricity Sector, in particular through universal service programs’ (MINISTRY OF MINES AND ENERGY, 2003, p.7). The model was implemented based on Provisional Measures n. 144 and n. 145 in December 2003. While the first changed the institutional and regulatory frameworks of the sector, and the second approved the creation of the Energy Research Company (EPE). The new model introduced the following changes:

- The resumption of the role of the executive as granting authority, previously performed by ANEEL and transferred to the MME;
- The restructuring of medium and long-term planning through the EPE and monitoring of competition in the generation segment with the bidding for the lowest tariff;
- The long-term redirection of energy contracting compatible with the amortisation of investments made;
- The creation of two energy contracting environments: a free and a regulated one;
- The untying of the distribution service of any other activity; and
- The establishment of a conjunctural reserve to re-establish the conditions of balance between supply and demand and the establishment of a regulated energy contracting pool to be purchased by the distributors.

In this regard, the new regulatory framework of the Brazilian electric sector, which was established by Acts no. 10847 and 10848 in 2004 under the Lula government, is oriented to long, medium, and short-term sector planning functions in order to guarantee energy supply, promote tariff modality, and strengthen the existing agencies.

The government returned energy planning to a central, government-led role (GOMES ET AL, 2015). In this regard, the institutional agents of the Brazilian sector are found below:

Figure 3.3 - Institutional agents of the Brazilian electricity sector



Retrieved from: Tomalsquim, 2012, p. 31

According to Tomalsquim (2012, p. 34), the separation between government and regulatory activities explains why on the one hand political guidelines (government and majority in Congress) are followed in Brazil's power sector, while on the other hand ongoing stable and autonomous activities must continue unhampered by circumstantial aspects. This is the context that required legislative adaptations to the spheres of the competence of the regulator, as is explained below. Due to the importance of Brazil's power sector, the government (political power) must also remain keenly aware of the progress of construction works and facilities in this sector, which is why the Power Sector Monitoring Committee (CMSE) was established. In the following section, the structure and actors of the sector are briefly introduced. Law no. 10,848/2004 significantly altered the regulatory framework of the Brazilian electricity sector and resulted in the institutional structure still prevailing today with its functions and institutions is organised as follows (GOMES ET. AL, 2015; TOMALSQUIM 2012; ANEEL, 2017):

- The National Council for Energy Policy (Conselho Nacional de Política Energética – CNPE) is an advisory body for the President of the Republic, the function of which is to formulate energy policies and guidelines with a view to: promoting the rational use of the country's energy resources, ensure the supply of energy to the most remote areas of the country, and provide a periodic review of the country's energy matrix.
- The MME is an organ of the federal government that represents the Union as Granting Authority and is responsible for conducting the country's energy policies. Its tasks are to formulate and implement policies for the energy sector in accordance with the guidelines defined by the CNPE. It is also responsible for defining the planning of the Brazilian electricity sector, monitoring the security of supply through the CMSE, and determining preventive actions to restore security of supply in case of conjuncture imbalances between supply and demand of energy.
- The CMSE is a committee created in the ambit of the MME with the participation of representatives of ANEEL, CCEE, the EPE, and ONS, and its main objective is to ensure continuous and safe supply to the electric power market of the country. In the case of conjuncture imbalances between supply and demand, it may propose preventive measures to restore adequate levels of security at the lowest cost to the consumer.
- The National Electric Energy Agency (ANEEL) is an entity linked to the MME whose duties are determined by Law no. 9,427/1996, which was constituted by Decree no. 2,335/1997. Its main duties are (i) to regulate and supervise the generation, transmission, distribution, and sale of electric energy; (ii) to ensure the quality of the services provided, the universalisation of service, and the establishment of tariffs for final consumers, and to preserve the economic and financial feasibility of agents and industry; and (iii) to directly or indirectly promote the auctions for the contracting of electric energy by the distributors within the scope of the ACR, currently carried out by the CCEE, under the supervision of the ANEEL.

- The EPE, which is linked to the MME and was instituted by Law no. 10,847/2004, was created by Decree no. 5,184/2004. The purpose of the EPE is to provide services in the area of studies and research aimed at subsidising the planning of the energy sector, such as studies and projections of the Brazilian energy matrix; analyses of the technical-economic and socio-environmental viability of power plants; obtaining the previous environmental license for hydroelectric and electric power transmission projects; elaboration of studies that propitiate the planning of the expansion of the generation and transmission of electric energy in the short, medium, and long term; and execution of studies that propitiate the integrated planning of resource energy.
- The National Operator of the Electric System (ONS) is an institution created by Law no. 9,648/1998 and regulated by Decree no. 2,655/1998, with amendments via Decree no. 5,081/2004. This body is responsible for operating, supervising, and controlling the generation of electric energy within the scope of the SIN and managing the basic network of electric power transmission in Brazil. The ONS operates under the ANEEL.
- The Electric Energy Trading Chamber (Câmara de Comercialização de Energia Elétrica – CCEE) is a non-profit civil association made up of agents that operate in the electricity purchase and sale market. Its function is the accounting and settlement of electric energy purchase and sale operations, along with monthly calculation of the differences between the amounts contracted and those effectively generated or consumed by market agents. To this end, the CCEE records contracts signed by buyers and sellers of electricity and measures the physical amounts of energy moved by agents. The CCEE is also responsible for the calculation of the LDP; the development, improvement, and dissemination to market participants of energy trading standards; the promotion of auctions for the purchase and sale of energy under the ACR; and the management of the contracts signed in these auctions. Since 01/04/2014, the CCEE has been responsible for the administration of the ACR account intended to cover extraordinary expenses of electricity distributors (CHAMBER OF COMMERCIALIZATION OF ELECTRIC ENERGY, 2014).

Given the above outlined actor structure, in terms of interest representation and corporate interest consolidation, the Brazilian electric sector can be accessed in the following spheres: a) the National Congress (law projects, public hearings, etc.), b) the executive branch and the ANEEL (ordinances, CMSE minutes, resolutions, despatches, etc.), and c) sectoral institutions (the ONS, CCEE, EPE, and environmental organs) concerned with energy balance and subsystem flows, weekly PLDs, auctions, tariff readjustments, and revisions. As we will see in the case study, foreign companies mostly draw on b) and c) in order to interact with the state structures.

When it comes to the specific operation structures of the segments, energy transmission is separate from generation, commercialisation, and distribution. Companies maintain contracts with distributors, transmitters, and the ONS, which is responsible for managing transmission services in Brazil, including remunerating the transmitters through the allowed annual revenue. The payment of revenues derives from charges for the use of the transmission system paid by consumers and users and collected by the ONS based on contractually agreed-upon amounts of usage. All of these charges are calculated by the ANEEL and form the total RAP of the transmission companies. To become a new transmission concessionaire, the company must be the winner of a transmission auction by offering the highest RAP discount through an auction held by the ANEEL or must acquire a previously auctioned concession on the market, provided that the transfer of ownership is approved by the ANEEL. Oliveira (2007) has argued that democracy and political stability played an important role in increasing the electrification rate in Brazil and facilitated the gradual adaptation of power sector reforms.

Moreover, before launching into privatisation, strong regulatory foundations acted as a precursor to attract private capital. The wider political context in Brazil in the 2000s during the terms of both Lula and Rousseff was characterised by a pro-business stance since, for example, public-private partnerships in electricity generation shaped the enabling environment for firms.[18] The revenues of the transmission agents are therefore defined at the time of granting the concession according to a ceiling revenue model; these revenues, calculated based on the necessary investments, their adequate remuneration, and the cost associated with the required quality of service, are adjusted annually according to economic indexes defined in the contract and may

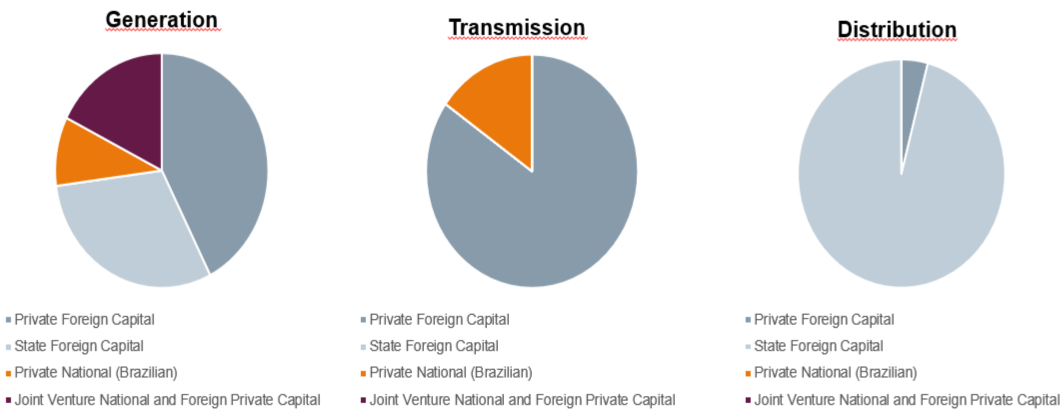
[18] Interview with energy transmission expert, University of Sao Paulo, 2017.

or may not be subject to periodic reviews (depending on the date of grant due to unfolding of legislation).

3.4 Sectorial reforms, privatization and entry of foreign capital

Foreign capital plays a vital role in the Brazilian electricity market. The shifting interests of states in certain economic sectors and the growing number of companies and actors interested in participating change the nature of the market relations as a process of ongoing changes. Since privatisations in the 1990s, there has been significant participation of foreign capital in Brazil's economic infrastructure sectors, including the energy, oil and gas, and telecommunication sectors, with the latter two being among the main recipients of FDI in the country in the last 10 years (SÁ AND MEDEIROS, 2006; SÁ, 2011). This for example can be seen by the participation in the capital types by the M&A enterprise value in the generation, transmission and distribution segment between 2016 and 2018, reflecting the increasing participation of foreign capital (both state and private) in the Brazilian energy sector:

Figure 3.4 - Participation in the capital types by M&A enterprise value in the generation, transmission and distribution segment: 2016 - 2018 (R$ Billion)



Retrieved from: Oliveira et al, 2018

In Brazil, the opening of the sector reflects the need to relieve critical power restraints and to improve technical efficiency. It was in 1995 through the Concession Law, the Electric Sector Law, and EC No. 6 that there was legal certainty definitively allowing the entry of foreign capital into t he sector. The creation of the ANEEL in 1996 also favoured the entry of foreign investors in this market by withdrawing from the MME the powers to inspect the provision of services, the definition of tariffs for the use of distribution systems, and the resolution of potential conflicts between the granting authority and private operators, among other functions (ANEEL, 2008).

Concerning companies in the sector, the MME defines strategies and guidelines such as the need for bids and privatisations, including for example energy-marketed or privatisation of some system that the ministry itself does not think is more appropriate to maintain control (ABREU, 1999). These definitions are important in defining company strategies for the sector. At the same time, the role of expert knowledge arises as a critical resource in the energy sector, because state actors in the auctions must also listen to firms' requirements since the firms respond to government auctions and are dependent on the conditions for participation to generate private sector interest.[19] This turns the access of firm interests to the energy sector institutions involved is a necessary condition to guarantee the operation of the transmission sector in the long run.[20]

As the following chapters show, from the firm perspective, the competitive environment resulting from the market reforms in China enabled the Chinese companies in the sector to profit from technology transfer from foreign MNCs, upgrade their equipment and gain valuable operating experience in China, specifically with the hybrid UHV AC [alternating current] and DC [direct current] grid [21]. In Brazil, investment promotion by the Brazilian government, including the Brazilian Agency for the Promotion of Exports and Investments (Apex-Brasil); the National Investment Information Network (RENAI), belonging to the Ministry of Development, Industry and Foreign Trade (MDIC); the Civil House Commission to encourage private productive investment (Sala de Investimentos) and the Department of Trade Promotion of (DPR), of the Ministry of Foreign Affairs, aimed to attract international companies to the market.[22] This welcoming attitude, including high-level support by state leaders and ministers, further facilitated the entry of foreign capital.

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[19] Interview with ANEEL employee, 2018.
[20] Interview with former employee of the Brazilian Ministry of Mines and Energy, 2018.
[21] Interview with State Grid Research Institute Employee, 2016.
[22] Interwiew with APEX representative, 2018.

In addition, several structural elements of the state-business environment impacted on the increasing participation of foreign, specifically Chinese companies in the energy transmission segment. Both countries face similar structural constraints, including increasing energy consumption and large distances between generation and consumer centres. In the transmission segment, both countries have the largest transmission systems in the world.

The energy shortages in the beginning of the 2000s in both countries were critical junctures that acted as triggers for changes in the electricity system and institutions governing the sector.[23] Concerning the political-institutional environment, the sectorial environment relevant to the transmission sector demonstrates fundamental differences in the state-business relations. In China, the transmission sector is state-driven with targets and guidelines. Private sector participation is nearly inexistent[24], because SOEs dominate and can draw on multiple sources of state support, and a combination of different institutional issues such as ministerial turf wars, overlapping coordination, etc. enable state-owned companies to emerge as policy actors. At the same time, strategic efforts of local, central, and provincial levels of the government further fuel the policy dynamics, pushing for change at local levels.[25] Firm participation is informal. In contrast, state-business relations in Brazil are characterised by state-private sector interaction and a clear separation of responsibilities between the sectorial actors in terms of political, regulatory, and research/demand-related inputs. In turn, this creates more opportunities for firms to build on advantages and capabilities to participate in, access, or obtain relevant resources.[26] At the same time, the industry-level state-business relations in which foreign companies are embedded rather formal and open in terms of market participation. Lastly, the strong Chinese presence in the Brazilian energy sector requires a look beyond the electricity power industry as a strategically important sector of the countries' economies. In order to understand how companies in China, as central level large firms emerged and established themselves as actors in the internationalisation process and interacted both with the FDI attraction by Brazil and the FDI promotion and `going out` policy guidance issued by the Chinese state.

[23] Interview with official at the National Energy Administration, 2016.
[24] For the role on foreign companies and private sector in China, see Kellee (2007).
[25] Interview with energy strategy expert, 2017.
[26] Interview with representative of Brazilian Ministry of Planning, 2018.

4 FIRM-LEVEL DETERMINANTS: SOE INTERNATIONALISATION IN CHINA

Political economy literature has argued persuasively that the recognition that ownership is separated from decision-making authority requires examination of how decisions are made on both sides of the relationship between the SOES and the state, rather than assuming that ‘state ownership means state direct control (XU, 2016). The Chinese state industry has concentrated on few strategic sectors, culminating in what Pei (2006) has denominated ‘selective withdrawal’. The industrial policy regime underpins the internationalisation process, which created the powerful entities of SOEs. China's SOE internationalisation created powerful emerging market firms that operated across continents, which formed the backdrop of pro-market reforms in several industrial sectors in the 90s and 2000s. According to SASAC, the value of overseas assets held by China's centrally owned SOEs has exceeded 6 trillion yuan ($1.2 trillion) and comprises investments in more than 185 countries and regions. Political status and strong embeddedness in the domestic institutional and industrial context has formed the foundations of all SOEs’ internationalisation attempts. This chapter provides an overview of central SOE development trajectory in the state economy and the arrangements that underlie their drive to ‘go global’.

4.1 SOE consolidation after opening-up

State-owned enterprises remained vital players in the Chinese economy. These companies originated from the planned economy under Mao Zedong, when a central planning regime held strong control over production and factor allocations. State-owned enterprises were regarded as work units that generated the main industrial output. In the late 1970s, Deng Xiaoping initiated an ‘open door’ economic policy while promoting systematic economic reforms, thereby spearheading China’s market economy transition. This also implied reform of SOEs, and the government decided that it would aim for gradual reform of SOEs: The reforms were to be achieved through ownership reform or restructuring and sought to increase competition, resolve managerial issues, and enact institutional changes. The government opted for gradual reforms because full privatisation was not considered for ideological and social stability reasons.

During the 1980s, SOE reform focused on increasing the exposure of SOEs to market competition. Competitive exposure involved the use of township and village enterprises (TVEs) and incentive schemes for SOE workers and management to encourage productivity and efficiency. The use of a dual track approach as a means of market liberalization involved a market space being introduced as a niche in the planned system (BENNETT, DIXON AND HU, 2008). This granted the SOEs autonomy to sell output beyond established quotas and hence keep the margins. This system was maintained until a transition to the market economy as a national development objective in the context of the price reform in 1992.

Despite the effect of the latter in shaping the slow beginning of liberalisation efforts, SOE profitability was hampered by the organisational and regulatory surroundings; managers had to attain specific revenue targets under the 'contract responsibility system', and large price differentials created incentives for arbitrage gains. Each SOE underwent its own negotiation of the profit tax rate. Together with the composition of different public entities as ownership representatives, this resulted in rent-seeking and detachment from the direct mandate of the SOE. It was only in 1990s, when the 1993 company law provided a legal foundation for SOEs, that SOEs could be corporatised into shareholding companies with a modern corporate board structure that could nonetheless be easily constrained by the chairman. Ownership diversification was limited because the state remained the majority stakeholder of most listed corporations, and shares were non-tradable until 2005.

During the 1997 Asian Financial Crisis and the preparation for China's 2001 WTO accession, SOE reform was continued between 1998 and 2002. The slogan 'Grasp the big, let go of the small' was adopted, and many small SOEs underwent privatisation at local government level, drawing on management buyouts, share issue privatisation, and joint ventures with foreign firms and mergers. It was in this context that the central and provincial government entities withdrew from competitive sectors but kept control of pillar and strategic industries while merging large SOEs into conglomerates. The State-owned Assets Supervision and Administrative Commission (SASAC) was founded in 2003 to act as a shareholder and regulator of non-financial SOEs. State-owned enterprises were large contributors to China’s going out policy in the early 2000s because SOEs were supported by the policy banks. The prominence of the

SOEs was further backed by the 2008 stimulus package that was launched in the face of the global financial crisis (ZHENG, 2015, LEUTERT, 2016).

At present, the central SOEs are divided into two categories, depending on size and strategic role. The first is a core group of 53 firms known as important backbone state-owned enterprises. This group includes many of China's largest and best-known companies such as Sinopec, China Mobile, and State Grid. Due to their varying strategic importance and size, these two groups of central SOEs possess different administrative ranks. The core 53 state firms are ranked at the vice-ministerial level. This provides their top executives with official standing that is equivalent to political elites of the same administrative rank, such as provincial party vice-secretaries or governors (ZHENG, 2015, LEUTERT, 2016).

The second group comprises the remaining firms - a varied mix of global industry players such as Sinosteel, lesser-known companies such as the China National Salt Industry Corporation, and state-run research institutes such as the General Research Institute for Nonferrous Metals. The remaining centrally owned firms have department-level rank. Administrative rank confers important political privileges that can enhance executives' ability to advocate for benefits to their companies such as licenses or to oppose economic policies that would be disadvantageous to their industries. These political privileges include access to documents of varying grades of classification, invitations to meetings for officials of a certain rank, and the opportunity to participate in study groups and further training at the Central Party School of the Chinese Communist Party (ZHENG, 2015, PANG, 2014, LEUTERT, 2016).

Table 4.1 - Policy goals on state ownership across sectors

Strategic industries	Defence, power generation and distribution, oil and petrochem, telecom, coal, civil aviation, shipping	Maintaining 100% state ownership or absolute control; increasing state-owned assets in these sectors
Pillar industries	Machinery, auto, IT, construction, steel, base metals, chemicals, land surveying, R&D	Absolute or conditional relative controlling stake; enhancing the influence of state ownership even as the ownership share is reduced where appropriate
Other	Trading, investment, medicine, construction materials, agriculture, geological exploration	Maintaining necessary influence by controlling stakes in key companies; in non-key companies state ownership will be clearly reduced

Retrieved from: Conway et al, 2010

In 2013, the reform of SOES was debated at the Third Plenum Reform. The discussion concluded that SOEs should increase international competitiveness. The discussion also addressed management systems and governance issues such as SOE classification, the establishment of modern enterprise systems, and ownership issues. In September 2015, Beijing released long-delayed guiding opinions for reforming state firms, which were followed by a series of policy documents.

Three key challenges block the path ahead: deciding when and how to grant market forces a greater role, especially after stock market turmoil; aligning managerial incentives with firm performance and corporate governance priorities; and overcoming company-level obstacles. Continuing to restrict competition in protected sectors while merging centrally owned firms will increase these companies' market share at the risk of long-term competitiveness and efficiency gains. Yet such performance concerns are a lesser priority for SOEs in strategic industries, where political concerns rather than market logic remain paramount. Second, while the Chinese Communist Party under Xi is actively exercising its authority to appoint and remove the top leaders of central SOEs, shuffling executives cannot eliminate their multiple and often conflicting incentives.

4.2 The political underpinning of the domestic SOE coordination

An examination of the SOEs in China permits a glance at a particular corner of state-business relations in China. Domestically, SOEs benefit from direct and indirect subsidies for factor costs (notably capital, energy, and land); regulatory preferences; preferences under competition law; preferences in public procurement; and restricted access and technology transfer for foreign companies because of a highly restrictive investment regime. This has allowed them to maintain their position as administrative monopolies in a broad range of sectors. However, despite the Chinese leadership's pledge at the Third Plenum of the Chinese Communist Party (CCP) in 2013 to let the market, and thus the growing private sector, to play a 'decisive role' in resource allocation, the current reform design suggests that SOEs are likely to retain many of their privileges. This will hinder private domestic and foreign firms in their future attempts to compete with SOEs on a more equal footing in and outside China.

In the case of China, firm embeddedness is shaped by the political economic system, which consists of mechanisms between state-business coalitions within a decentralised system. Economic embeddedness is closely tied to political embeddedness and is associated with close ties to the government. Political embeddedness refers to the social embeddedness of firms and especially pertains to political actors and institutions. Hence, firms with individual and institutional ties to the state at the interpersonal level (managerial ties to political actors) and at interorganisational level (organisational ties to political institutions) (SUN, MELLAHI, AND THUN, 2010) suggest that in the post-Deng era, increasing factionalism and power struggles place SOEs in the middle of these power struggles. This is because high-ranking SOE management positions imply upgrades in the party and the state structure.[27]

In the 1990s, SOE increased their political saliency as industrial and regulatory reforms were discussed and implemented. In a similar vein, the rise of the SOEs during the regulatory reforms in the 1990s implied their growing political relevance in the industrial regime. Consequently, SOE leadership, which mostly comprised high-ranking CCP members, held greater power in terms of relative impact on industrial policy. In this context, Wang (2017) has described China's SOEs as consisting of a two-pronged corporate governance structure: legal governance and political governance, the latter of which pertains to the CCP's control of SOEs. Both structures run separately but intersect in the decision-making process (WANG, 2017). Recent literature has described the determinants, valuation, and consequences of personal-level political connections (e.g., politicians sitting on corporate boards) in emerging economies (FACCIO, 2006). Close ties between the state and SOEs are clearly visible in corporate governance structures. Unlike private firms, where managers generally report to an independent board of directors, directors of SOEs are regularly politically appointed (VAGLIASINDI, 2008).

[27] For recent debates on the ongoing SOE reforms, Leutert (2016) stresses re-classifications and the articulation for SOE operation and reform in different sectors, central level actors including SASAC and state council are fundamental. In this regard however, the different interests of different actors of party, government and business cause coordination difficulties (Leutert, 2016). This is for example emblematic through the fact SOE executives occupy higher ranks as the regulating agencies, or the high ranking positions within the Communist Party or local government are occupied by ex-SOE executives.

Top SOE managers are often political insiders, which further blurs the lines between business and politics. Their performance as corporate leaders impacts their positions not only with the firm but also in the political hierarchy. Business managers in SOEs thus often view their responsibilities as two-fold—to advance the interests of the firm and the state—and may suffer consequences for failing to do so. Third, financial support also provides leverage over SOEs. These firms do not and in many cases could not operate without the financial sponsorship of the state.

In China, embeddedness is tied to close social relations between political and economic elites. The power to appoint managers at the largest 50 SOEs lies with the Central Organisation Department (COD), the head of which is a member of the Politburo. The SASAC maintains the power to appoint the leadership of the 100 smaller central SOEs, subject to the approval of the COD. A study by Pei (2006) has demonstrated that the three top leadership positions - CEO, chairman, and party secretary—in almost all centrally-managed Chinese SOEs are occupied by senior members of the CCP. In a number of cases, the CEO and party secretary are the same person. The management of legitimacy to strengthen the ruling position of the CCP is embodied in all major aspects of the governance structures of SOEs (Wang, 2014, p. 637). Chinese SOEs are legally organised in the corporate form and feature all or most of the attributes of the separation of ownership and control model, but the real control comes from the party-state of the CCP. The CCP controls SOEs through general requirements on policy compliance and specific powers such as appointing the senior executives of SOEs (WANG, 2014, p. 636).

4.3 Participation and business politics of central SOEs in the business sector

It is necessary to consider China's state firms as politically relevant actors. Regardless of the formal separation of government and enterprise functions, the high-level management of central SOEs such as SGCC have maintained vice-ministerial positions because many central SOEs emerged from ministries. As SOE reform did not contemplate the ranks, the institutional background of these companies implies that SOE management may have the same administrative rank as the highest level of the government counterpart that supervises the SOEs. The study of Gue Jie (2015) has demonstrated that this is the case for the state coal mine industry and its internationalisation to Peru. This is also true for SGCC: the construction of political support and of informal and formal ties may positively impact participation in policy making but may also be due to the government's strong reliance on firm expertise in specific industrial sectors where business input is needed. In some cases, the informal connections to top officials allow the circumvention of sectoral authorities and liaison with top leaders. On the other hand, the formal connections to government due to the high administrative rank of SOE management may provide direct access to relevant institutional actors in the state structure.

The party state structures that underlie the outward investment are complex. In the following section, we review the different competencies of actors with specific regard to outward investment. Several actors also have their stakes in foreign economic policy matters and resource-related issues, making it difficult to attribute them to one specific function.

Table 4.2 - Actors in the internationalisation process

State Council	The State Council functions as central leadership and takes care of fundamental issues of concern such as diplomacy, national defence, finance, economy, culture, and education; it does not concern itself with concrete policy initiatives (Luo et al., 2010). The State Council formulates regulations and orders and defines institutional and administrative responsibilities, which includes those over ministries and treaties with countries.
National Development and Reform Commission (NDRC)	The NDRC evolved from the State Development Planning Commission, which was the successor organisation to the National Planning Commission (NPC) (Luo et al., 2010). According to a 2008 circular of the State Council concerning organisational structure, the NDRC as one of the component departments of the State Council should approve, authorise, and review key investment projects for overseas resources development investment projects that utilise a large amount of foreign exchange as mandated by the State Council. The State Council should also develop strategies, plans, goals, and policies to balance and optimize outward investment (www.ndrc.gov.cn). One of the most important policies issued by NDRC took the form of the Interim Administrative Measures for the Examination and Approval of Overseas Investment Projects. The NDRC works closely with the Chinese policy banks to provide financial support for relevant overseas projects. The Department of Foreign Investment and Overseas Investment is under the control of the NDRC and is responsible for the examination of overseas resource development, large investment projects, and the plans to use foreign exchange for OFDI (wzs.ndrc.gov.cn).
MOFCOM	The MOFCOM evolved from the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). The MOFCOM's functions include drafting and implementing policies and regulations of large non-financial OFDI projects, negotiating bilateral and multilateral investment and trade treaties, ensuring that China's economic and trade laws adhere to international treaties and agreements, and coordinating China's foreign aid policy and relevant funding and loan schemes. The Department of Outward Investment and Economic Cooperation (hzs.mofcom.gov.cn) is the under the control of the MOFCOM and is the competent authority of OFDI. This department is set up to formulate laws and regulations with regard to OFDI, to formulate administrative measures and policies guiding overseas investment, to examine and approve OFDI and the establishment of overseas affiliates (excluding financial companies) and supervise their operations, and to guide the work of Chinese authorities in foreign countries. These responsibilities are reflected by the MOFCOM's examination and approval of OFDI projects according to the Measures for Overseas Investment Administration. The MOFCOM is also involved in information provision and technical assistance, particularly the publishing of the Countries and Industries for Overseas Investment Guidance Catalogue.
People's Bank of China (PBC)	The People's Bank of China is one of the component departments of the State Council and functions as China's central bank. The PBC's main responsibilities are the macro-control and coordination of the Chinese financial system, which includes issuing and enforcing regulations, formulating and implementing monetary policy, and regulating interbank markets (www.pbc.gov.cn). The PBC's influence on China's OFDI is exercised by its combined powers over monetary policies and foreign exchange control. For example, some incentives to motivate enterprises to invest abroad include RMB appreciation and a reduced foreign exchange reserve ratio. However, the PBC does not provide grants or loans for enterprises to invest abroad. These loans are provided by China's policy banks (directly under the State Council) and commercial banks (under the supervision of the China Banking Regulatory Commission).
State Administration of Foreign	Similar to the NDRC and MOFCOM, the SAFE's current tasks have been confirmed after several reorganisations which can be dated back to the State General Administration for Exchange Control in 1982 (Voss et al., 2008). The SAFE is principally responsible for monitoring cross-border capital flows,

Exchange (SAFE)	supervising overseas and domestic foreign exchange accounts, and undertaking management of foreign exchange reserves (www.safe.gov.cn). The SAFE is under the direct control of PBC and governs China's foreign exchange reserves. Its main responsibilities include putting forward foreign exchange management system reform, drafting regulations related to foreign exchange administration, and supervising the domestic and overseas foreign exchange accounts. Any enterprise that seeks overseas activity must apply to SAFE or its local branches for the OFDI foreign exchange registration certificate. Meanwhile, the SAFE works with MOFCOM to inspect and evaluate Chinese enterprises' performances per annum. The SAFE also has rights to punish institutions which violate relevant stipulations regarding foreign exchange administration.
MOFCOM	The OFDI-related responsibilities of MOF include formulating and implementing government policies on mergers and acquisitions, managing the government's non-tax revenues and governmental funds for supporting enterprises, monitoring the corporate finance of central enterprises and profitability of state-owned assets, and supervising the appropriated funds for investment projects by the central government (www.mof.gov.cn). One of MOF's key contributions is to provide special funds for foreign economic and technical cooperation.
China Securities Regulatory Commission (CSRC)	The China Securities Regulatory Commission (CSRC) is a ministry-level unit that is directly under the State Council. Its main responsibility is to regulate China's securities and futures markets to ensure their orderly and legitimate operation. This includes drafting policies and development planning for securities and futures markets; inspecting the issuance, listing, trading, custody, and settlement of stock, convertible bonds, and corporate bonds; supervising listed companies and their stock market behaviour; inspecting domestic enterprises' direct or indirect overseas issuance and listing; monitoring foreign institutions that attempt to set up securities and futures organisations in China. The CSRC issues annual reports to provide information on securities and futures on China's capital market.
State Asset Supervision and Administration Commission (SASAC)	In 2003, the SASAC was established and made directly subject to the State Council. In terms of the SASAC's structure, the SASAC is the only name in the category 'special organisation directly under the State Council'. The SASAC is the state's investor; guides and pushes forward the reform and restructuring of SOEs; supervises the preservation and increment of the value of state-owned assets for enterprises under its supervision; appoints, evaluates, rewards, punishes, or removes top executives of the enterprises under the supervision of the central government; and directs and supervises the management work of local state-owned assets (www.sasac.gov.cn). The SASAC primarily functions with the administration, approval, and support of central enterprises. However, SASAC has been questioned over whether it can fulfil the objective of ensuring that SOEs will remain competitive or whether it can maintain and further increase the value of state-owned assets (Clarke, 2003, Naughton, 2007, Pearson, 2005). The SASAC works at the national and sub-national levels and exercises its power through appointing senior managers to SOEs and through involvement in the major decision-making of its controlled firms (Naughton, 2007), particularly before 2010. Tan (2009) has reported that at the end of 2009, the Organisation Department of the CPC Central Committee and SASAC promulgated two measures to administer and supervise SOEs' senior management. The Interim Provisions Concerning the Administration of Central Enterprise Leaders formulates the requirements, positions, and working periods for SOEs' boards of directors, senior managers, party committee members, and other leaders. Additionally, the Measure to Comprehensively Assess and Evaluate the Leadership Team and the Leaders lists the detailed procedure and methods to assess senior management and the relevant rewards and punishments. Although the complete official versions are not available, these two measures noticeably indicate that the Chinese government has the rights to appoint and assess all leadership members of SOEs. These managerial candidates may not be most suitable but are the most rewarded (Voss et al., 2008). Furthermore, an OFDI project is regarded as a crucial decision that influences an SOE's value of state-owned assets and thus cannot avoid SASAC's supervision (Voss et al., 2008).

	The conflict between SASAC's two roles has not yet been clarified (Wen and Tan, 2009). Because SASAC is a representative body that was created to exercise the government's ownership rights over selected state-owned firms (Naughton, 2008), its staff primarily came from the State Economic and Trade Commission, which has now been restructured and cancelled (Hu, 2005). The SASAC has the right to promulgate policies and regulations, which typically is the responsibility of institutional organisations. Except for its performance as the governmental supervisor, SASAC is currently the largest investor and owner of all non-financial SOEs (Luo et al., 2010). However, this phenomenon is not consistent with the criterion of 'separating politics from capitals' (Zhang, 2009).

Retrieved from: Cheng, 2012

Economic coordination in the context of SOE internationalisation is complex. In strategic and pillar industries, sectoral policy is developed and executed by three types of institutions of the party-state: 1) the state bureaucracy regulatory agencies (the NDRC and the NEC), 2) SOEs, and 3) the Chinese policy banks (China Development Bank – CDB, the Export Import Bank – China Exim Bank, and the China Investment Corporation).

Overall, investment decisions are the by-product of cooperation between these institutions and the CCP leadership to secure the political influence of the state in the market. However, the role and influence of the CCP in investment decisions may vary according to industry and investment volume. This coordination binds the SOEs due to their position within the Chinese power hierarchy due to the influence of the nomenklatura system and guanxi networks. The coordination also addresses the problem with the state institutions' lack of overview of the sectors and their limitations in controlling SOEs (ZHENG, 2015).

However, the SOEs maintain freedom to decide on the direction of investments and the overall administration of the company. The state initiates a range of policies that provide those SOEs with access to financial resources and licenses to operate certain technologies to ensure that they acquire a monopoly in the strategic sectors. Furthermore, the SOEs are granted the authority to implement state policy by channelling private investments in the sector. This is intended to speed up the decision-making process and approach market-driven investment decisions instead of administrative ones (ZHENG, 2015).

Chinese state-business relations move within the broad SME framework, which includes cooperation between the state and domestic business at various administrative levels, thereby forming a dynamic state-permeated market economy. By contrast, internationalisation strategies have become assertive and entangled within a state-centric but not necessarily state-driven web of relations and are embedded in a wider economic development framework. Internationalisation strategies through firms in China can be ushered through ownership and policy-making aimed at outward internationalisation, which includes the adoption of suitable policies, measures, or programs that are capable of encouraging OFDI. This can include 1) streamlining administrative procedures, 2) easing capital control, 3) the provision and guidance on investment environments, and 4) reducing political and social investment risks (LUO et al, 2010). Another factor concerns state-driven coercive pressure within state-business relations that is aimed at displaying the ties between the economic elite and the state and party structure (VOSS ET AL, 2009; DING AND LI, 2016).

Economic development is central not only to domestic policy making but also to the formulation of foreign policy, and internationalisation efforts have been connected to economic foreign policy preferences. As ten Brink (2015) has noted, China’s foreign economic and currency policy reflects the state-permeated and developmentalist elements of its non-liberal form of capitalism. Moreover, foreign economic policy is increasingly characterised by proactive state promotion of FDI (Mc Nally, 2012, Ten Brink, 2015). This includes mechanisms directed at reducing market failures, economic and political risks, and programmes and policy measures. For example, the OFDI in certain sectors such as high technology sectors is promoted through a series of incentives including tax rebates, foreign exchange assistance, and financial support. This can also create regulations or pressures to boost or even limit internationalisation of certain industries.

The multi-level structure of governance in China also applies to the way firm internationalisation efforts relate to state capacities. That said, internationalisation efforts also can differ according to the relevant administrative level (WANG ET AL, 2012). The central government provides regulatory frameworks to steer internationalisation, ease capital controls, and provide information on investment opportunities; the governments at lower administrative levels must comply with the government’s policies. Specific foreign policy measures and instruments are drawn upon to promote the development strategy in the more complex context of the actors of Chinese foreign economic policy formulation (TEN BRINK, 2015; LUO ET AL, 2010).

According to Zhang et al. (2009) and Wang (2016), policy support for FDI can draw on two central characteristics: the first refers to the federalist administrative structure, or, as Xu (201) has stated, the policy making system reflects political centralisation and economic regional decentralisation. Chinese FDI policies are largely decided centrally, which is different from other economic policies which are negotiated and structured through the different local and central actors. This may be explained by the experimental nature of Chinese policy-making since the re-opening and by the recent trajectory of Chinese development (ZHANG ET AL, 2009; WANG 2016).

The second feature is the role of the intertwined economic and political order. Promotion policies for OFDI are subject to an intertwined economic and political order that is dominated by an administrative bureaucratic regime at the central level. This augments the political legitimisation that fosters, creates, and expands OFDI and business development (ZHANG ET AL, 2009; WANG, 2016).

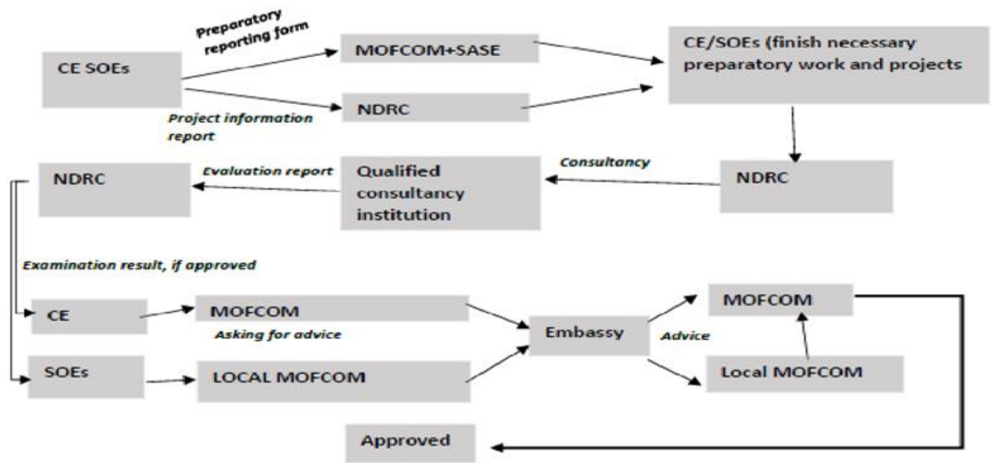
Overall, the formal state support in terms of the policies that are directly targeted at OFDI can be classified as:

- Encouragement guidelines and regulatory mechanisms to stimulate internationalisation. In 2011, the MOFCOM issued the Opinions for Promoting the Internationalisation Development of Strategic Emerging Industries. These Opinions had the message that internationalisation is an inevitable choice for fostering and developing strategic emerging industries. The document specified four internationalisation development directions of the emerging industries: (1) promote the market competitiveness of the whole industry chain including R&D, manufacturing, and marketing; (2) improve the internationalisation capabilities of entities; (3) create a supporting system (fiscal incentives, financial support etc.); (4) and consolidate domestic foundation for the internationalisation of strategic emerging industries.
- Approval policies: The structure for overseas investment processes is more complex. Wenbin and Wilkes (2012) have examined the administrative level of foreign policy making and the policies concerning overseas investment. The

authors have identified 26 central government agencies involved in the process of policymaking. According to Cunningham (2016), diversification of actors and decentralisation of approval has supported increased investment abroad but weakened central state control over investment.

Wenbin and Wilkes (2012) have identified different levels that structure the investment processes. At the first level, the state council is responsible for the general management of China's government and significant decision-making processes. The second level consists of the main ministry-level agencies that are involved in overseas investment management, namely the MOFCOM, the SAFE, and the NDRC. The SASAC governs the sale, merger, acquisition, and annual auditing of a select group of state assets at the central and local levels. The commission also has input into personnel movements for individuals of vice-ministerial rank and below. The MOFOCM and NDRC are coordinating their activities as they draw on common standards and criteria to review partnerships, ventures, mergers and acquisitions, and other proposed projects.

Figure 4.1 - Approval procedures and processes



Retrieved from: Xu, 2010 and own elaboration

While the NDRC ensures alignment to national development goals, the MOFCOM approves FDI projects and ensures that administrative measures are in line with SASAC, SAFE, and NDRC. Overall, the MOFCOM is in charge of keeping track of investment volumes and destinations.

Table 4.3 - Cross border M&A deals and their approving departments

Value	Departments	
	Central Enterprises	Other SOEs
R < $200m	MOFCOM, NDRC, and SC	MOFCOM, NDRC, and SC
$100m < R < $200m	MOFCOM and NDRC	MOFCOM and NDRC
$30m < R $100m	NDRC	NDRC and local MOFCOM
R < $30m	None	Local NDRC and local MOFCOM
I < $100m	MOFCOM, NDRC, and SC	MOFCOM, NDRC, and SC
$50m < I < $100m	NDRC and SC	NDRC, SC, and local MOFCOM
$10m < I < $50m	NDRC	NDRC and local MOFCOM
I < $10m	None	Local NDRC

Retrieved from: Cheng, 2012. Note: R = overseas development; I = investment

The third level includes functional agencies that mainly share the burden of assistance to ministers. These agencies relate to specific investment areas, particularly those which are priorities of national economic development, such as energy. For example, monitoring policies can be targeted to introduce reporting and forms of control through data collection and progress. This was introduced in 2011 by the SASAC to report more systematically on the status of overseas assets.

Another dimension is the financial support system, which includes fiscal incentives, financial guarantees, credits from state-owned banks, sovereign wealth funds, and preferential credit in key priorities set by the government. China adheres to the state-permeated market economy type because most of its companies are immune from short-term volatilities on global capital markets because they possess state-backed funding. China’s policy banks, the CDB and the Ex–Im Bank of China; and several commercial banks including the Bank of China, Bank of Shanghai, China CITIC Bank, and the Bank of Communications have also provided huge credit lines and loans to wind power enterprises. Some loans were specifically designed for certain companies. Other examples include the Advanced Manufacturing Fund, which has been charged with allocating RMB 20 billion for upgrading the technology of key industries; the National Integrated Circuit Fund, which has RMB 139 billion at its disposal; and the Emerging Industries Investment Fund, which holds RMB 40 billion (ZHENG, 2016).

Overall, a pro-business development approach and policy support that is aimed at internationalisation pursue the overall objective of moving up the value chain. Within this dynamic of domestic and international arrangements, domestic policy support for outward FDI draws on competitive political advantage, comparative economic advantage, and a comparative symbolic and economic diplomacy advantage, as Alden and Hughes (2009) has demonstrated.

According to Alden and Hughes (2009), the non-interference principle of China is its competitive political advantage. This principle enables China to engage with any state regardless of its international reputation and restrictions. The comparative economic advantage of Chinese MNCs derives from policy support and state-business relations. This advantage involves a low-cost bidding strategy that is centred on lower-skilled labour and lower managerial costs. At the same time, the comparative symbolic and economic diplomacy advantage refers to how Chinese diplomatic attention is a prominent feature when it comes to bringing in MNCs. Depending on the context, this can also include development assistance and support for prestige projects.

4.4 Energy-related investments and internationalisation

From the company view, the example of Chinese oil companies provided by Meidan (2016, p. 20-21) exemplifies how the business politics of internationalisation had provided the company with skills beyond market-related resources and benefits:

> *In 1993, Wang Tao, president of CNPC, explained the rationale behind going overseas, in terms of a window of opportunity that had opened up for China: the initial experience of cooperation with foreign companies had been fruitful, and concerted diplomatic efforts were all creating a 'good environment for developing overseas oil cooperation in developing new sources,… overseas oil could alleviate the shortage. The objectives of foreign cooperation, according to Wang Tao, were to enhance the skills of Chinese oil company employees, help China implement a global strategy by familiarizing itself gradually with global trends and new technologies, acquire resources, capture a share of the international market, and build up CNPC's image and reputation abroad. At the same time, Wang Tao was clearly cognizant of the need to appeal to a political audience and suggested that closer commercial ties with these energy producers would also contribute to fostering closer political ties…* Moreover, further overseas acquisitions were important for distancing corporate activities from government scrutiny.

This statement pitches the strategic non-market advantages of internationalisation closely rooted to home context reasons and the deeper logics of outward firm activities. While the oil industry is one of the earlier examples of Chinese firm internationalisation, it served as example for the `catching up process of other energy industry segments`, as one interviewee confirmed. Oil industry SOEs had set an example of how the firms had navigated the political arena of state- party domestically. This was particularly useful knowledge as calls for strengthening the position of the Chinese industry globally further fed into the systematic internationalisation of diverse industry segments. As a guiding document, for example, China's 13th 5-Year Plan for Electric Power Development (2016-2020) called for the strengthened participation of Chinese companies in electrical sectors overseas. By summarizing the 12th and the 13th 5-Year Plan for Electric Power Development, the overall strategic narrative, calling for constant innovation and upgrading in the sector, set a clear vision of competitiveness and international development:

Table 4.4 - Five-Year Plans for Electricity Power Development

12th Five-Year Plan for Electricity Power Development	13th Five-Year Plan for Electricity Power Development
-Establish cross-sector coordination mechanisms such as energy, diplomacy, finance and taxation, foreign trade, and finance, and strengthen macro guidance and services for overseas energy development and utilization. -Improve the energy 'going out' filing mechanism and improve the coordination of enterprises participating in the development of overseas resources. - Establish and improve the international energy information platform, carry out international energy reserves and emergency mutual assistance cooperation, formulate energy security emergency plans, and enhance the ability to respond to various emergencies. - Adhere to the new energy security concept of mutually beneficial cooperation, diversified development and coordinated protection, actively participate in the development of overseas energy resources, expand energy foreign trade and technical cooperation, enhance the supporting capabilities of transportation and finance, build a new pattern of international cooperation, and jointly safeguard global energy security. - Focusing on enhancing global oil and gas supply capacity, giving full play to China's market and technological advantages, and in-depth cooperation with energy resources countries. - Actively promote cooperation in refining, chemical and storage operations. Support superior energy enterprises to participate in the development of overseas coal resources and carry out overseas power cooperation. Relying on overseas energy project cooperation, the energy equipment and engineering services will be 'going out'. - Adhere to the combination of attracting investment and attracting energy and the development of energy industry, optimize the use	-Implementing the Belt and Road Initiative, strengthening international cooperation in power, adhering to the principles of openness, inclusiveness, policy differentiation, and win-win cooperation, making full use of international and domestic markets and resources, and actively promoting international cooperation in power equipment, technology, standards, and engineering services. - Promote cross-border grid interconnection and interoperability as needed. - Encourage power companies to participate in the construction and operation of overseas power projects. - Explore the construction of a global energy Internet to drive global electricity demand in a clean and green way. - Actively carry out foreign business. - Expand the export of power equipment and actively promote the export of large-scale complete sets of equipment such as thermal power, hydropower, nuclear power, and power transmission and transformation. - Actively promote foreign power services, carry out power upgrade and cooperation, and promote international cooperation in power supply design and standards. On the basis of controlling financial risks, we will steadily promote foreign power investment. In terms of achievements, the international leading UHV transmission technology began to be applied, and the construction of ±1100 kV DC transmission project started. The power grid dispatching operation capability is continuously improved, and the power supply safety and reliability level is effectively improved. Key technologies and complete sets of equipment such as new energy generation grid-connected, power grid disaster prevention and treatment

of foreign capital structure, guide foreign investment to strategic emerging industries in the energy field, and promote the introduction of advanced technology, management experience and high-quality talents. - Encourage foreign capital to participate in inland complex oil and gas fields and deep sea oil and gas field risk exploration. Select exploration and development cooperation zones in shale gas resource-rich basins such as Sichuan and Erdos, and construct pilot demonstration projects. - Encourage cooperation with oil resource countries in the construction of refining and storage facilities. - Encourage cooperation in coal safety, high efficiency and green mining. Learn from the advanced experience of international energy management, and strengthen exchanges and cooperation with major countries and international institutions in strategic planning, policies and regulations, energy conservation and efficiency improvement. - Optimize the structure of energy trade. Focusing on crude oil and supplemented with refined oil, we will consolidate and expand the sources and channels of imports, expand the scale of oil trade, and increase the proportion of oil and gas imports. - Promote diversification of energy trade. - Encourage more qualified enterprises to participate in international energy trade and promote the diversification of trade entities. Comprehensive use of futures trade, long association trade, entrepot trade, barter trade and other means to promote diversification of trade methods. Actively promote the diversification of trade channels, varieties and transportation methods. - Encourage domestic insurance institutions to carry out ‘national oil national security’ and overseas personal and property insurance. - Actively and steadily participate in international energy futures market transactions, and rationally avoid market risks. - Actively participate in global energy governance, make full use of international energy multilateral and bilateral cooperation mechanisms, strengthen exchanges and dialogues on energy security, energy conservation and emission reduction, climate change, clean energy development, etc., promote the establishment of a fair and reasonable new global energy order, and coordinate energy conservation Safety.	have made breakthroughs, and multi-terminal flexible DC transmission demonstration projects have been completed and put into operation. Power international cooperation to expand into a new situation. External nuclear power, thermal power, hydropower, new energy power generation, and power transmission and transformation cooperation have been continuously strengthened, and investment forms have become increasingly diverse. It has driven China's standards, technology, equipment and finance to go out. Conduct electricity trade with 8 neighbouring countries and regions, and invest in power grids such as Brazil and Portugal. The internationalisation of power companies faces the experience of accumulating international competition, improving the diversification of products and services, connecting power industry standards with international standards, fulfilling corporate environmental responsibilities, and improving financial insurance supporting services. The process of power internationalisation puts new demands on the power interconnection and power equipment manufacturing level between China and neighboring countries.

Retrieved from: 12th and 13th Five-Year Plan for Electricity Power Development

Anchoring the sectorial narrative to a competitive environment encouraged companies to anchor their business culture to a bold expansion abroad, stepping into competitive markets. Technological innovative approaches and internationalisation were thus complementary activities: While going global, firms had to adapt their business practices and turned more competitive.

In the wider context of business groups, encouragement has been provided by the China Electric Power Enterprise Association. This clearly demonstrates that the 'going out strategy' ('走出去') is a vital form for Chinese companies in the electricity sector and has received active encouragement from the state and business associations. According to Hongyi et al. (2014), the institutional advantages for Chinese SOEs also include government-driven support, which includes diplomatic support, financial backing from state ownership, and also the possibility to access and draw upon state-supported scientific and technical research. For the SOE internationalisation of energy companies, such a support basis would be vital for generating competitive advantages, given that SOE internationalisation is not as straightforward of a process as it might seem.

Firms must navigate a heterogeneous state where state agencies compete and where the companies have multiple connections through formal and informal state structures. In these structures, the companies maintain the level of ownership, sectorial limitations, and government access. Overall, the internationalisation of energy investment in China means that a differentiated picture is necessary to further understand the layers and nuances of the different forms and degrees of state participation, guidance, and corporate interests. Firms must navigate strategically between the different policy arenas of China's party-state to survive economically and politically.

Moreover, while interviewees were hesitant to explicitly link foreign policy to top-down and state-guided firm internationalisation, there is a strategic element to internationalisation for foreign policy that has been expressed ideologically and practically through public policies and incentives. For example, CPC orientation for SOEs and outward investment is closely followed up in the wider SASAC structure. This orientation uses the advantages of the international resources of the central SOEs, fully serves the country's overall diplomatic standing, improves the level of foreign affairs management services, and accurately serve international cooperation. Rules also provide further guidance for compliance, such as the 2017 'Guiding Opinions on

Strengthening the Prevention and Control of the Risk of Cleaner Overseas Chinese Central Enterprises' ('关于加强中央企业境外廉洁风险防控的指导意见).

Global competitiveness, integrity, and anti-corruption is ensured through a tight CPC grip:

> *The party committees and discipline inspection commissions (discipline inspection teams) of the central enterprises must stand at a height of comprehensive and strict administration of the party, profoundly understand the importance and urgency of grasping the prevention and control of the risk of overseas cleanliness, and earnestly fulfil the party's responsibility for managing the party's political affairs. The prevention and control of corruption risks runs through the entire process of overseas party building work and investment management, strengthens supervision and management with strong measures, and enlarges central enterprises and fosters global competitiveness in order to maintain the safety of state-owned assets, strengthen and optimize the company (STATE COUNCIL, 2017).*

Finally, the complex structures of companies in the energy sector makes them large business groups, and business groups are special cases for internationalisation. In particular, Yiu (2011) has specified that Chinese business groups possess unique multinational (ownership–location–internalisation) attributes for expanding overseas, which includes an internal market in the form of horizontal and vertical linkages among group affiliates as well as institutional support from the government.

Overall, we can see that the more systemic issues to feed into the empirical context: growing China-Brazil relations with increasing diplomatic ties and cooperation, and the different structures of the electricity sectors, which impact how the firm case is to be analysed in the second study. The point of this part is that different state-business relations impact how companies navigate different institutional environments and draw on business politics to support their business endeavours. The energy sector is an arena where political action takes place in the form of policy decisions that strongly influence national and international companies. The specific sector arrangements and needs are vital to understanding how a firm organises itself. While the sectoral influence over policy is determined by state-business relations arrangements, the degree of interest and ability of actors to advocate for their preferences (GOUREVITCH, 1986) can have impact on the quality of sectorial policies and outcomes that is equal to the impact on company decision-making processes.

The role of SOEs in China's domestic environment has substantially changed. Today, Chinese SOEs have developed into international players with a strong backing from the state. In China, the informality of the state-business relations is mediated through the state-party structure, reflecting state domination. Formal institutional linkages and visions such as guidelines and political macro orientations further shape coordination and the enterprise agendas. Formal and informal links, the embeddedness of SOE business politics, and the logic of SOE action demonstrate how non-market factors inform the decision-making processes of companies and how they coordinate their business strategy regarding SOE internationalisation.

5 THE ‘GOING GLOBAL’ DYNAMICS OF A CENTRAL ELECTRICITY SOE

> *‘Yes, the Russians and Japanese might have the technology. But the most advanced core technologies cannot be bought,’ said Wu Yusheng, deputy chief engineer of SGCC. ‘Besides, we have our own conditions and technological requirements that are different from others. Therefore, we must rely on our own efforts for independent innovation.’ (XINHUA, 2009)*

In China, the clout of central SOEs extends deep into the national economy. This chapter examines SGCC’s emergence and consolidation, as well as its integration into the state industry structure and the internationalisation efforts undertaken by the company. The chapter follows the argument anticipated by Sampson (2016) that SGCC’s global presence is due to political and economic motives. Drawing on the previous chapters on the characteristics of the Chinese electricity supply sector, as well as the internationalisation promotion efforts by the Chinese state mechanisms, this chapter assesses the specific government-related and firm-specific advantages that turned SGCC into a global player.

5.1 The emergence of the State Grid Corporation of China (SGCC)

Domestically, and in the case of the electric supply industry, studies on the role of central-level SOEs in domestic restructuring processes of strategic industries have found that the central government’s guidance over this specific industry as a strategically important sector of the country’s economy is subject to substantial interference by central state firms (Sampson, 2016).

The first years of SGCC in the context of the energy sector were marked by sector reforms, the going global policy, and a surge of unfolding technological development in a sector that was characterised by supply shortages. Before SGCC’s rise to become the largest public utility company, holding a monopoly in China with a core business in transmission and distribution, the reform efforts of the Chinese power sector had been ongoing for over a decade. The power sector reform in China was approached in a three-stage process starting in 1985. The reform timeline below reviews the steps analysed in the third chapter. In its essence, since 2002, the liberalisation of the companies led to increasing competition in the power sector segments.

Table 5.1 - Reform timeline for China’s electricity sector

	1980-1984	**1985-2001**	**2002-Present**
Industrial Structure	Vertical integration	Vertical integration	Unbundled generation & transmission & distribution (2002)
Ownership	Predominantly central government owned	Central and provincial government ownership. Increasing private investment in generation	Central and provincial government ownership, declining share of private investment
Dispatch	Economic dispatch based on total embedded cost	Equal shares dispatch	Equal shares dispatch; pilot projects for energy efficient dispatch (2007)
Wholesale Generation Pricing	Internal transfer prices	Investment recovery based on financial lifetime (1985) Investment recovery based on operational lifetime (2001)	Benchmark price (2004) Fuel price-wholesale price movement (2004)

Source: Kahrl et al. (2013, p.362)

The last stage occurred in 2002 when the State Council issued restructuring measures to initiate competition and divide the generation and transmission elements. The State Council Document No. 5 installed this change with the main objective to separate government and business functions. The State Grid Corporation of China was founded in 2002 and succeeded the integrated power sector monopolist – the State Power Corporation of China (SPCC) – and the MEP. This reform divided the SPCC into five generation groups, two grid companies, and accessorial business groups. Concerning the grid element, alongside the SGCC, China Southern Grid Corporation (CSCG) was founded, resulting in a diversification of the actor structure. As an outcome of the reforms, the SGCC was in charge of transmission and distribution with national coverage of almost all provinces.

Bound to the state-owned asset management system, State Grid is a state-owned enterprise, with the SASAC exercising the ownership rights of the assets and dividends being paid at 15% of the net profits in 2016 (ZHENG, 2015). The restructuring resulted in increased competition in the electricity industry, with companies having to start to compete to receive attention from the SASAC and other sectoral government agencies. Today, the company considers investment in construction and operation of the power grid its core business and undertakes the basic mission of ensuring safe, economic, clean, and sustainable power supply. With headquarters in Beijing, the SGCC’s grid network covers 26 provinces regions policies administered by the central government and maintains five out of six regional grids, totalling 88% of the national territory.

The non-financial SOEs are vertically integrated groups, with a state-owned group company at the top of the hierarchical core, below which a constellation of different subsidiary companies, including publicly listed firms, joint venture firms, finance companies, and research institutes. Each of these subsidiary entities may in turn have additional subsidiaries or hold shares in other such subsidiary entities. Today, State Grid is embedded in a large structure consisting of headquarters, provincial subsidiaries, research institutes[28] and other direct subsidiaries, as illustrated in the figure below. In other words, the company is a large-scale conglomerate involving central government players as well as other players.

[28] Research institutes have been key for technology development and delivery of patents. Policymaking encouraged the consolidation of research institutes in fields relevant to the firms and its increase of international competitiveness. With more than four research institutes, R&D has a main role in SGCC`s firm activities (annual R&D input later in the chapter). The company also maintains partnerships with university, where it undertakes applied research together with the academic community.

Figure 5.1 - The SGCC's organisational structure

Organizational Structure

The Headquarters

1 Administration Office (Board Office)
2 General Office
3 Global Energy Interconnection (GEI) Office
4 Strategic Research Office
5 Dept. of Development and Planning
6 Dept. of Finance & Asset
7 Dept. of Safety Supervision
8 Dept. of Operation & Maintenance
9 Dept. of Marketing (Dept. of Rural Electrification)
10 Dept. of Science & Technology
11 Dept. of Construction
12 Dept. of AC Transmission Project
13 Dept. of DC Transmission Project
14 Dept. of Information and Communication Technology
15 Dept. of Procurement (State Grid Bidding Management Center)
16 Dept. of Affiliates Management
17 Dept. of Public Relations (State Grid Brand Building Center)
18 Dept. of International Cooperation
19 Dept. of Auditing
20 Dept. of Legal Affairs
21 Dept. of Personnel
22 Dept. of Human Resource
23 Restructuring Office
24 Dept. of Retirement Affairs
25 Dept. of Logistics
26 Dept. of Corporate Culture (co-working with Youth League and Party Committee)
27 Supervision Office (co-working with the discipline team from Central Commission for Discipline Inspection of the CPC stationed in the company)
28 Labor Union
29 National Power Dispatching & Control Center
30 State Grid Operation Monitoring (Control) Center
31 State Grid Power Exchange Center (Beijing Power Exchange Center Co., Ltd.)
32 Association of Enterprise Management

Provincial Subsidiaries

1 Beijing Electric Power Company, State Grid
2 Tianjin Electric Power Company, State Grid
3 Hebei Electric Power Company, State Grid
4 Jibei Power Grid Company, State Grid
5 Shanxi Electric Power Company, State Grid
6 Shandong Electric Power Company, State Grid
7 Shanghai Electric Power Company, State Grid
8 Jiangsu Electric Power Company, State Grid
9 Zhejiang Electric Power Company, State Grid
10 Anhui Electric Power Company, State Grid
11 Fujian Electric Power Company, State Grid
12 Hubei Electric Power Company, State Grid
13 Hunan Electric Power Company, State Grid
14 Henan Electric Power Company, State Grid
15 Jiangxi Electric Power Company, State Grid
16 Sichuan Electric Power Company, State Grid
17 Chongqing Electric Power Company, State Grid
18 Liaoning Electric Power Company, State Grid
19 Jilin Electric Power Company, State Grid
20 Heilongjiang Electric Power Company, State Grid
21 East Inner Mongolia Electric Power Company, State Grid
22 Shaanxi Electric Power Company, State Grid
23 Gansu Electric Power Company, State Grid
24 Qinghai Electric Power Company, State Grid
25 Ningxia Electric Power Company, State Grid
26 Xinjiang Electric Power Company, State Grid
27 Tibet Electric Power Company, State Grid

Other Subsidiaries Directly Managed by State Grid

1 State Grid International Development Limited.
2 Luneng Group Co., Ltd. (Duchengweiye Group Company)
3 NARI Group Corporation (State Grid Electric Power Research Institute)
4 State Grid Information & Telecommunication Technology Group Co., Ltd.
5 State Grid Electric Vehicle Service Co., Ltd
6 State Grid E-commerce Co., Ltd.
7 China Electric Power Equipment and Technology Co., Ltd. (State Grid Project Management Company)
8 State Grid Xin Yuan Co., Ltd. (State Grid Xin Yuan Hydropower Co., Ltd.)
9 State Grid General Aviation Co., Ltd.
10 State Grid Materials Supply Co., Ltd.
11 Yingda Media Investment Group Co., Ltd.
12 State Grid Energy Conservation Service Co., Ltd.
13 State Grid Zhongxing Co., Ltd.
14 State Grid XJ Group Corporation
15 State Grid Pinggao Group
16 Shandong Power Equipment Co., Ltd.
17 State Grid Operation Company
18 State Grid DC Engineering Construction Company
19 State Grid AC Engineering Construction Company
20 State Grid Information & Telecommunication Technology Company
21 State Grid Call Center
22 China Electric Power Research Institute
23 State Power Economic Research Institute
24 State Grid Energy Research Institute
25 Global Energy Interconnection Research Institute
26 State Grid Management Academy (State Grid CPC School)
27 State Grid Advanced Training Center
28 State Grid Institute of Technology (State Grid Youth League School)
29 State Grid Yingda International Holdings Group Ltd.
30 China Power Finance Co., Ltd.
31 Yingda Taihe Property Insurance Co., Ltd.
32 Yingda Taihe Life Insurance Co., Ltd.
33 Yingda Chang'an Insurance Brokers Group Co., Ltd.
34 Yingda International Trust Co., Ltd.
35 Yingda Security Corporation Ltd.
36 State Grid International Finance Leasing Co., Ltd

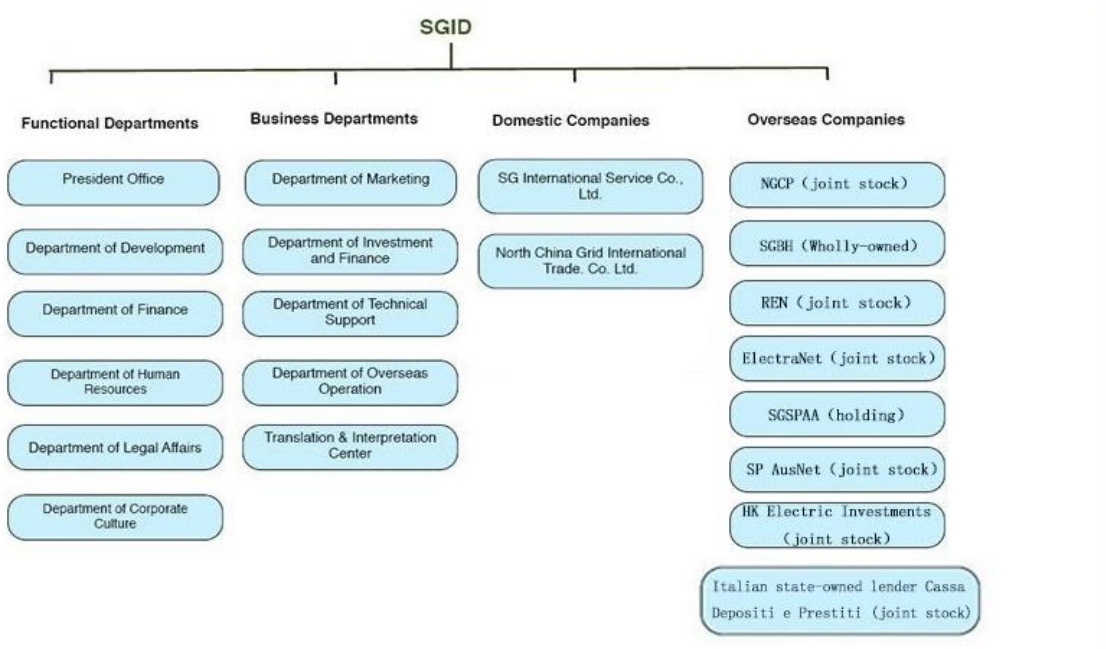
Branches

1 State Grid North China Branch
2 State Grid East China Branch
3 State Grid Central China Branch
4 State Grid Northeast China Branch
5 State Grid Northwest China Branch
6 State Grid Southwest China Branch

Retrieved from: SGCC CSR 2016 Report, 2016

As a large corporation, the SGCC acts with a large variety of subsidiaries; for example, for foreign investments such as those in Brazil, State Grid International Development Limited is the responsible unit.

Figure 5.2 - State Grid International Development Limited structure



Retrieved from: Source: State Grid Website, 2018

In terms of internal group-governance, Lin (2014) establishes that group-governance structures are detailed in legally binding arrangements, embraced by all group members. The process is top-down in terms of control of decision-making processes but accepting input and participation from the subsidiaries. The main company imposes the terms of the articles, and the internal governance rules provides the main company with veto rights and governance rights regarding to the group (Lin 2014).

The corporate governance of Chinese SOEs implies internal (board of directors, board of supervisors and operators' incentive constraint mechanism) and external (securities market, legal system, institutional investors and other issues) governance (SONG, 2016).[29] The legal structure of the SGCC and its interaction with other government agencies is based on different institutional and legal prerogatives, including the Power Law, the SOE Law, and the State Council's Document No. 5 (XU, 2016, p. 139). In 2003, the State Council approved two legal documents – 'The Formation of the State Grid Corporation of China' and 'The Charter of the State Grid Corporation of China' –

[29] In the broader context of Chinese corporate governance, this author describes the Chinese corporate governance system as `transplanted`, as the Chinese system differed to other countries where the legal and market system has reached a higher degree of maturity. The form of Chinese corporate governance, specifically in the case of SOEs, operated on different codes, laws and market rules, as well as corporate culture and the legal system.

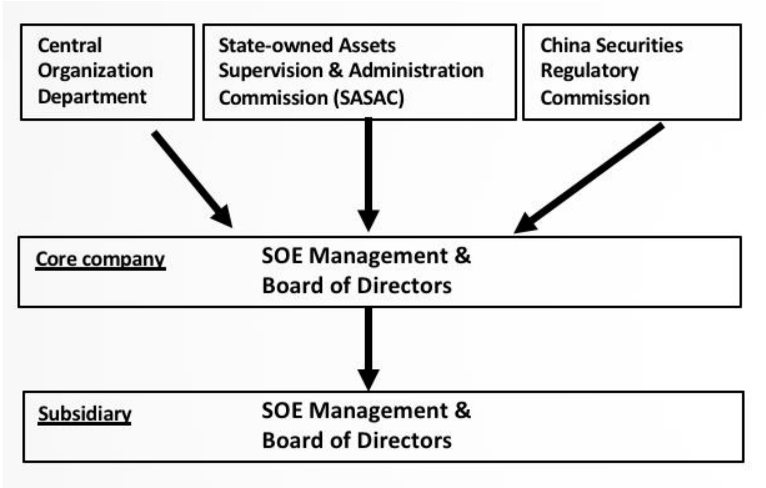
submitted by the SETC. These documents provide the legal basis for the SGCC's interactions and navigation of bureaucratic and administrative structures. The SGCC was created under the 'Law on Industrial Enterprise Owned by the Whole People' (SOE Law), which requires Chinese corporations to assume the responsibility for wins and losses and base their operations on a market-system approach. According to Xu (2016, p. 37), 'this made SGCC a company with operating flexibility, but without the financial responsibility of commercial corporations'.

Corporate governance is also shaped along the ideational lines of the state-party structure. Such a duality has been recognized in the 2005 'Guiding Opinions on Strengthening the Construction of Corporate Culture in Central Enterprises' (SASAC, 2005) which recognized the ' corporate culture is the spiritual pillar and source of power for the … development of enterprises, and is an important part of the core competitiveness,…corporate culture is an important part of strengthening the party's ability to govern….a strategic measure for enterprises to improve management level, enhance cohesiveness and build core competitiveness'.

SGCC has integrated this in six guiding principles: (1) Uphold the party's overall leadership, implement the decision-making and deployment of the Party Central Committee and the State Council; (2) Adhere to the corporate tenet, and promote the core values of the company; (3) Adhere to the basic mission of promoting re-electrification, building an energy internet, and meeting power demand in green way; (4) Adhere to the construction of a strong smart grid with UHV as the backbone network and coordinated development of all levels of power grids; (5) Constant improvement of the modern state-owned enterprise system with Chinese characteristics with growing competitive advantages; (6) High-quality development, focusing on the development layout of 'one core, three pillars' (grid business and industry, finance, international business).

To this complexity is added the role of the party, as in the context of Chinese corporate governance, according to Song (2016), SOEs have to take care of the relationship among the shareholders' meeting, board of directors and board of supervisors; as well as the commission for discipline inspection and the Party Committee.

Figure 5.3 - Central SOE corporate governance structure



Source: Own elaboration

In the first and second chapter, the overall features of China's party-state system were outlined. When it comes to understanding the access a company can have in China within and outside of the state-party structure, one must understand both the political and bureaucratic forms of access a company can engage in. According to Xu (2016), the Chinese party-state is characterised by the constraints of the institutional rules in which the agents act, but also by the incoherent set of visions between the institutional agents and the need to convert the frequent policy guidelines and orientations into practical and achievable outcomes.

State-owned enterprises must rely on their negotiation skills to access information and ensure that their interests are being attended. As a state-owned company administered at central government level, the SGCC's embeddedness in the institutional and party structures of the Chinese state has become evident at the corporate governance level of the management leadership. Chinese central SOEs follow two overlapping personnel management schemes, the corporate and the party (following the CPC structure, including secretary, deputies and other ranks) system. Generally, the corporate rank as a corresponding in the party system rank. For example, the SGCC's former chairman Liu Zhenya (刘振亚) was an alternate member of the CCP's central committee (2007–2012) with the rank of vice minister (SAMPSON, 2016). With the formal establishment of the board of directors in 2013, Shu Yinbao replaced Liu as chief executive officer (CEO), and Liu became board chairman (XU, 2016).

As in the case of company internationalisation[30], the chosen approach to innovation in China can be impacted by the different relations between corporate governance and ownership, as well as the segment of industrial activity. Concerning domestic policymaking, studies on the industry policy impact of SOEs have concluded that particularly in the strategic sectors of the energy sector (oil, natural gas, and electricity), structural and policy developments are driven by firm preferences. Several studies have also portrayed SOEs as pursuing their own internationalisation agendas independent of central government interference. Xing (2013) has noted the erosion of government authority in some strategic industry settings concerning state firm oversight regarding policymaking and implementation. Furthermore, the political interplay between SOEs and Chinese authorities and officials shifts over time, and the political embeddedness is both organisationally and strategically constructed out of a trajectory of success and failure (DOWNS, 2006; TSAI, 2013; LIAO, 2014).

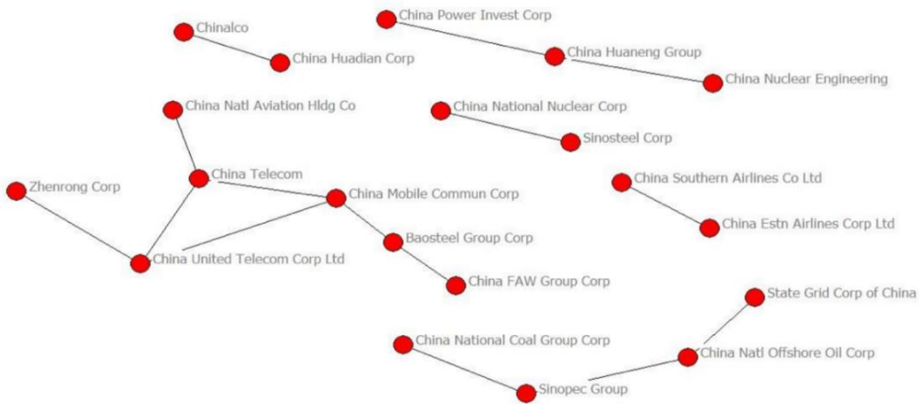
Xu (2016) has contributed to this perspective by emphasising that central SOEs are not automatically entitled to participate in policy processes; neither are their own interests or preferences automatically advocated for in an environment with overlapping and conflicting government institutions and mandates. Thus, Xu (2016) has emphasised, SOEs do have to possess do some degree of proactivity in proposing new ideas and participating in policy debates. Bearing in mind, then, the complexity of the bureaucratic, administrative, and regulatory contexts structuring the state-permeated market economy of China, political embeddedness of firm actors is therefore a strategic asset and represents a comparative advantage for accelerating a company’s interests and preferences.

State Grid is a well-connected actor within China’s wider business environment. For example, Lin (2016) demonstrates the intergroup networks among the industrial

[30] The degree of which state-investment abroad is in fact largely state-guided, in other words, oriented by a strategically driven top-down approach by the government differs from case to case. It however contradicts common approaches allocating the decision power for outward investment entirely to the directives of the state agencies (Pearson, 2005; Eaton, 2013); or on the other hand, to studies affirming great autonomy to SOE´s actions. Such accounts hide the fact that the process of SOE internationalisation in emerging economies, particularly in the case of China, relies on mutual synergies and interactions and while undoubtedly China's government facilitates the political relations between countries and SOEs may facilitate political relationships, the fulfillment of possible economic and even political objectives may rely on a interdependent dynamic between the actors involved.

business groups under the control of the Chinese central government as an important organizational feature of Chinese state-owned companies.

Figure 5.4 - Intergroup networks among industrial business groups



Retrieved from: Lin, 2016

Through a series of associations, it engages with different levels (councillor, chairman, president, etc.). Since 2012, the company has also further stepped up its engagement in the international associations relevant to firm advocacy, specifically in the context of international standardisation. Thus, as is explained later in the chapter, the SGCC itself has actively moved to the stage of interest mobilisation by founding the Global Energy Interconnection Development and Cooperation. The following figures illustrate the increased strategic engagement of the company with national and international associations in 2008 and 2012.

Figure 5.5 - State Grid Participation in associations in 2008

Name of Association and Organization	Role of SGCC		Name of Association and Organization	Role of SGCC
China Enterprise Confederation	Vice Chairman		China Electricity Council	President
China Federation of Industrial Economics (CFIE)	Chairman		China Society for Electrical Engineering	Vice-President
China Business Council for Sustainable Development	Councilor		China Society for Hydropower Engineering	Vice-President
China Work Safety Association	Vice Chairman		China Electric Power Construction Association	Vice Chairman
China Audit Society	Member		China Electric Equipment Management Association	Standing Councilor
......	......		......	......

Retrieved from: State Grid, 2008

What can be seen from these figures is the increase in associations SGCC joined and the strategic engagement by occupying positions in these associations. SGCC joined national associations, industry associations and international sector associations, such as standardization bodies. While such memberships may be strategically vital to the internationalisation of the grid equipment and the consolidation of SGCC as market power, the power of the industry associations vary, can involve different aspects of SGCCs operations and focus on local or international aspects of the corporate strategy. Thus, in China, the public-private divide differs from other countries and is not necessarily around separable spheres, one public (political) and the other private (economic).

Figure 5.6 - State Grid Participation in associations in 2012

Main Associations and Organizations SGCC Participated

Associations / Organizations	SGCC's Role
China Enterprise Confederation Vice Chairman	Chairman
China Federation of Industrial Economics (CFIE)	Chairman
China Business Council for Sustainable Development	Councilor
China Association for the Promotion of Industrial Development	Councilor
China Association of Work Safety	Vice Chairman
China Accounting Society	Standing Councilor
China Institute of Internal Audit	Councilor
China Supervision Society	Councilor
China Price Association	Councilor
China International Public Relations Association	Councilor
Chinese Public Administration Society	Councilor
Chinese Nuclear Society	Councilor
China Bidding Association	Standing Councilor
China Association of Plant Engineering Consultants	Vice Director
China Chamber of Commerce for Import and Export of Machinery and Electronic Products	Councilor
China Machinery and Electronic Products Certification Association	Councilor
China International Contractors Association	Councilor
National Society for Party Building Studies	Councilor

Associations / Organizations	SGCC's Role
China Electricity Council	President
China Society for Electrical Engineering Vice	President
China Electric Equipment Management Association	Vice Chairman
China Society for Hydropower Engineering	Vice President
China Electric Power Construction Association	Vice Chairman
CIGRE	Member
International Commission on Large Dams	Member
IEC	Secretariat of 3 Standard Committees
CIGRE	Member
IEEE	Senior Member
VLPGO	Member
UWIG	Member
G-SEP	Member
WBCSD	Member

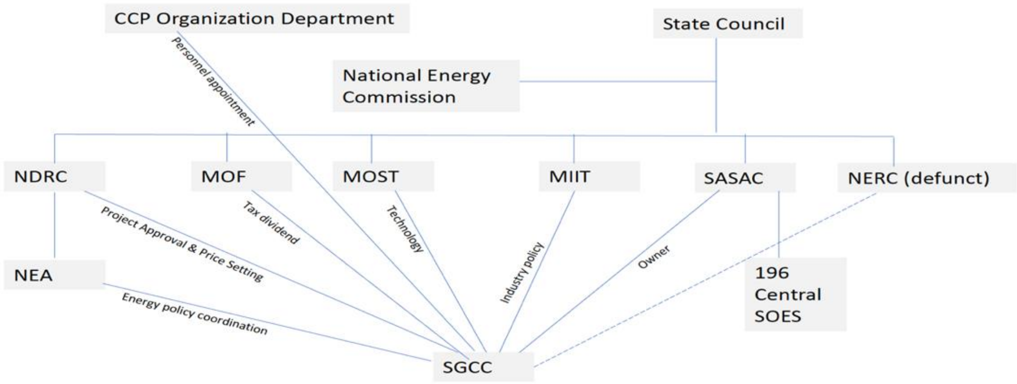
National associations   Associations of the power industry   International organizations

Retrieved from: State Grid, 2012

In the case of private companies, the use of associations may be a way of interacting with the public sector agenda without directly having to access the government or regulatory agencies outside the immediate corporate interests regarding its business operations. This differs in the case of SOEs, particularly in the domestic context in China. First, because many associations are tied to the state-structures. Second, SOE management personnel is classified as public servants and often occupy high ranks in government. Consequently, the purpose of associations serve more the function of industry-focused engagement forum.

Apart from the associations, the way the company interacts with the state can be seen below:

Figure 5.7 - Involvement with state structures



Retrieved from: Xu, 2016

This figure shows how the company is not only embedded through ownership linkages, but other control channels that go beyond the normal shareholder rights.

In the newly restructured energy sector, companies have to engage in policy advocacy if they want to remain competitive in a newly restructured market (PEARSON, 2008; SAMPSON, 2016; XU, 2016). When the electricity shortages turned into a political issue in the early 2000s, the NDRC's reaction was to adopt a variety of measures such as raising energy tariffs, speeding up and improving approval procedures for coal plants, increasing investments in hydropower, and finally increasing investments and policy formulation for the adoption of renewable energies and technological capacity building (SAMPSON, 2016; XU, 2016). It was in this context that the SGCC suggested, during informal talks with the NDRC, building a cross-region, ultra-high-voltage transmission network.

As Xu (2016) has emphasised, in the context of the 2002 reform, the transmission and distribution segment were largely operated by the SGCC, which explains the company's need to speed up its advocacy if it was to survive the ongoing sector reforms in accordance with its own interests. As the SGCC proposed, the solution to the energy shortages and the coal-driven energy sector was to build countrywide transmission networks rather than having to transport coal to load centres.

5.2 Ultra-high voltage as a window of opportunity

In China, the need to link consumer centres and energy generation centres across several thousand kilometres implied several challenges, including operational problems and electricity loss. The demand for higher efficiency created further incentives for the company to think of technology-oriented solutions like ultra-high tension (UHT) technology. In the course of its corporate development, the SGCC developed a large portfolio of solutions including advances in smart grids, electric mobility, and ultra-high voltage (UHV) technology. Turning specifically to UHV technology, UHV itself was not a new technology; rather, it had been developed in advanced economies but had not been advanced due to feasibility issues.

Figure 5.8 - UHV Development

2009	The world's first commercial 1000kV UHV AC project under operation in China
2010	The world's first ±800 kV UHV DC project under operation in China
2011	India's first ±800 kV UHV DC project under construction
2012	The transmission length of China's ±800 kV UHV DC transmission project
2013	The world's first double circuit (UHV) AC project under operation in China
2014	The world's first scale f±800 kV UHV DC transmission project integrating thermal and wind generation bases in China
2015	Belo Monte ±800 kV UHV DC transmission project under first stage construction in Brazil
2016	The world's first ±1000 kV UHV DC project under construction in China, transmission length exceeds 3000 km

Retrieved from: State Grid, 2018

As major operator of transmission and distribution spanning over 80% of China's domestic territory, SGCC leads UHV transmission in China, by assimilating and localizing low- and mid-end technologies and driving the vertical integration of transmission utilities and manufacturers of electrical components. The SGCC understood UHV as a window of opportunity: 'SGCC's grid development agenda posed 'a good leapfrog opportunity to secure a commanding position in international grid technologies' (SAMPSON, 2016, p.147). It is necessary to look back on how the SGCC engaged with research and development (R&D) agenda as a strategic asset whereby it proclaimed UHV transmission technology a strategic asset from very early on. The following table provides an overview of SGCC's increased R&D expenditure over the years:

Table 5.2 - SGCC's R&D expenditure over time

Year	**R&D expenditure (RMB Billion)**
2005	RMB 2.001 billion
2006	RMB 2.836 billion
2007	RMB 4.559 billion
2008	RMB 5.055 billion
2009	RMB 5.138 billion
2010	RMB 6.129 billion
2011	RMB 6.452 billion
2012	RMB 7.940 billion
2013	RMB 5.787 billion
2014	RMB 7.08 billion
2015	RMB 7.376 billion
2016	RMB 6.921 billion
2017	RMB 7.828 billion

Retrieved from: State Grid CSR Reports, 2005 - 2017

To further understand the SGCC's growth, the role of technology requires further consideration. According to Xu (2016, p.223),

> *Technology is neither political nor interest neutral, as its selection is a political process where various interests compete, and those with ideas, resources and political influence tend to win. A technology that gains an early lead in adoption enjoys four types of increasing returns: scale economies, learning effects, adaptive expectations and network economies.*

Research and development efforts in the field of high-voltage technology had been conducted in China since 1986 and supported by the seventh, eighth, and tenth Five-Year Plans (Ke et al, 2017). The commercial usage of UHV was novel, and the SGCC used this idea to react to the unbundling requirements of Document No. 5, as explained in Chapter 3. The SGCC's approach to UVH can be traced back to the early 2000s, and it was Liu Zhenya in his new position as CEO who endorsed the technology and mobilised efforts to come up with a national plan in 2004, target a nationally unified UHV-AC grid, and subsequently have it endorsed by the NDRC director Ma Kai (SAMPSON, 2016). As the SGCC had to garner political support for the endeavour, it had to make UHV one of the government's political priorities. In 2004, management decided to take on the UHV projects as central issues and followed a series of measures, including the establishment of a special working unit for UHV feasibility, and project-related aspects including the scientific and financial viability. A vision was brought to life with an action plan at its core to be followed through on in order to convince the NDRC to provide approval for the endeavour. Without any doubt, the SGCC's structure, with thousands of employees working in different research arms of the company, as well as university-affiliated institutions, were vital for quickly speeding up the vision at a technical level.

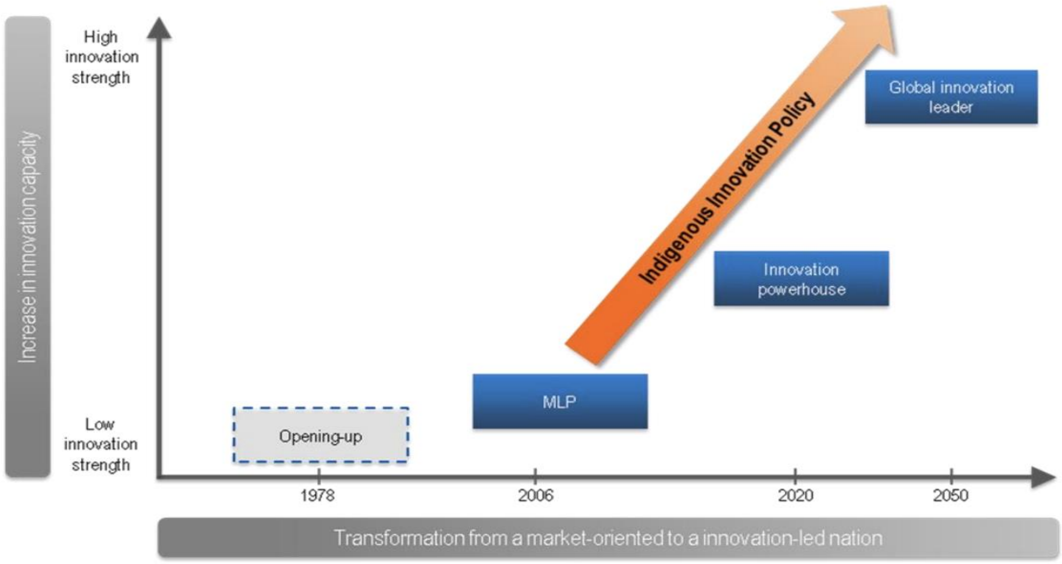
As seen in Chapter 3, the actors within the electricity sector have several different tasks to fulfil within the broader state-party structure. The participation of the SGCC itself should be understood in the context of the reforms of the 2002 regional market building agenda and the mid-2000s when marketization reforms had slowed down and the SGCC proposed the development of an integrated, non-competitive, nationally unified electricity supply system, which differed from the State Council's reform plan built around asset breakup and regionalised competition. The SGCC decided to focus on large-scale infrastructure developments in the form of a UHV transmission grid. In 2006, the first demonstration project was started and SGCC proceeded to anchor UHV demonstration projects in the Project List of the National Energy Work Outline (2005 - 2006).

Similarly, SGCC anchored the strategy to the 2006 'National Outline for Medium- and Long-Term Science and Technology Development (2006-2020)' issued by the State Council attributes the following role to indigenous innovation, which encouraged companies to mature research and development capabilities similar to those of MNCs from developed economies:

> *The guiding principles for our S&T undertakings over the next 15 years are: 'indigenous innovation, leapfrogging in priority fields, enabling development, and leading the future'. Indigenous innovation refers to enhancing original innovation, integrated innovation, and re-innovation based on assimilation and absorption of imported technology, in order to improve our national innovation capability. Leapfrogging in priority fields is to select and concentrate efforts in those key areas of relative strength and advantage linked to the national economy and people's livelihood as well as national security, to strive for breakthroughs and realize leaping developments. (National Outline, II. Guiding Principles, Development Goals, and General Deployment 1. Guiding Principles)*

Indigenous innovation is one of the main efforts of economic reforms and contains a notion of self-reliant/home-grown innovation, with a strong sense of domestic companies making improvements to imported technologies and leaping technology with the business sector as the driver to reduce dependency on foreign technology.

Figure 5.9 - Development of indigenous innovation over time



Retrieved from: State Grid, 2016

The SGCC's Liu Zhenya was quick to follow up on the plan, publicly appreciate the support given by the government, and forge political legitimacy for the company's endeavours:

> *The Chinese government attaches great importance to and actively supports UHV work,and integrates UHV transmission technology research and equipment development into the 2006-2010 national economic and social development plan, the national medium- and long-term science and technology development plan, and the state. Revitalize the key work of the equipment manufacturing industry* (PEOPLE DAILY, 2015).

Given the wider panorama of the institutional environment the SGCC was moving in, the company moved to garner support for UHV as indigenous innovation and a method of increasing engagement abroad as a competitive and profitable actor. At the same time, the company drew on the ideational level of the Chinese economy (global competitiveness and guiding instructions of the party state) to develop its own discourse on how it would feed into the urgent needs of the development and expansion of the Chinese economy. To embark on this UHV journey meant technical specialisation and working from the technological frontier. For this, the SGCC developed all of the necessary structures to company the capabilities needed to reach this frontier.

In 2005, the SGCC proceeded to convince authorities.[31] To do so, the company not only embarked on a media campaign but also guaranteed that it received endorsement of former senior officials and high-ranking industry and government members whose policy advice enabled the SGCC to open doors and publicly advocate for the technology. It must also be said that UHV technology, and therefore the SGCC's visionary plan to install cross-national grids, faced strong resistance in China, with several industry experts warning against the creation of an even larger industry monopoly. In 2006, the official discourse on energy issues shifted from focusing on energy shortages to the pollution-causing coal-driven energy strategy and green development, which was subsequently added to the reasons that investment in UHV would contribute to the country's most central priorities by focusing on energy transition.

As trial UHV projects proved successful, it was easier for the company to win governmental support. The SGCC issued further plans for expanding and following through with the UHV in both AC and DC transmission while embarking on and aligning its political discourse with the government's priorities. The SGCC's ability to skilfully navigate a more pluralised decision-making environment in the post-2000 reforms, its unique position in the party-state system, and its R&D power due to the availability of large numbers of staff and research institutes have enabled it to develop its idea of a UHV network into a vision to reinforce the discourse of a climate-saving, green China.

The same year the demonstration projects were initiated. The debate between UHV technologies (ultrahigh-voltage direct current - UHVDC and ultra-high-voltage alternating current - UHVAC) and the existing, competing extra-high voltage (EHV) technologies further augmented. The argument reinforced by SGCC was that UHVAC was particularly suitable for China as it was supporting China's development vision, would bring technological progress and contribute to the growth of the electric equipment industry. According to SGCC, during the period from 2009–2020,

[31] Interview with SGCC representative, 2016.

implementation of China's strong and smart power grid would be divided into three development phases:

Table 5.3 - Phases of Grid Development

2009–2010	Initial planning and pilot phase, where the master plan for smart grid construction should be made and selected pilot projects should be carried out
2011–2015	Comprehensive construction phase, where major breakthroughs in key technology and equipment for smart grid should be achieved to subsequently enable extensive application;
2016–2020	Upgrading and enhancing phase, where a strong and smart power grid in an all-round way will be built to significantly enhance and optimize grid performance with respect to resource allocation, security level, operation efficiency, and interplay among power grid, power generation, and power customers.

Retrieved from: Xu et al, 2014

In its own five-ear plan[32], SGCC further progressed its ambitious grid plans with the announcement of the constriction of further transmission corridors in 2011, which resulted in the expansion of SGCC and the constriction of seven UHV projects in 2014, of which three used the DC and two projects used the AC technology. In 2015, SGCC announced the construction of another fourteen projects (SGCC, 2016). In his research, Sampson (2016) assesses the counterarguments made concerning the UHV agenda driven by SGCC – they all questioned the affirmations made by SGCC regarding UHV transmission. Overall, the arguments against the monopoly established by SGCC, its market power and reach into the policy-making environment were repeated throughout the years. SGCC was both admired and criticized and demonstrated the ability to choose from a wide range of strategic political menus to navigate the domestic policy-landscape.

[32] It is common for Chinese SOEs to follow the overall planning logics of the state systems, including the long and mid-term planning documents.

Table 5.4 - UHV Counterarguments

Economic	• **Use of state loans to finance regional transfers caused by UHV supergrid**: Conventional technology capable of sustaining the expected increases in regional transfers while referring to UHV infrastructure with its much higher investment necessities – which were to be funded to a large extent via state bank loans – as a huge waste of state funds. • **Economic impact of new technologies vs. coal based:** Long-distance electricity transmission via UHV might end up costing three times as much as further developing the conventional rail-based system of transporting coal to power plants located near urban hubs.
Grid Security	• **Grid synchronization:** UHV-AC based synchronisation of the Central, East and North China regional grids was an unnecessary – and even dangerous – intervention in China's grid structure, as it created the risk that an accident in one regional grid could cause frequency or voltage problems that would immediately spread to all the others • **Advantages of multi-layered and decentralized regional grid structure:** Most devastating blackouts across the world in the past decades had almost exclusively occurred in large and regionally interconnected AC-network structures and that China had not witnessed a single such incident in the past thirty years precisely because of its multi-layered and decentralised structure of distinct regional grids.
Environmental	• **Energy generation:** SGCC's plans to construct large hydropower, nuclear and renewable energy bases were heavily criticised • **Health related impacts of the transmission lines and related technology**

Retrieved from: Sampson, 2016, p.122-128

While the debates concerning the centralization or decentralization efforts of energy transmission had similar nuances as the one occurring in Brazil, the costs planned for UHV lines were high - of roughly $1 million/mile of UHV lines, and each of the company's planned trunk lines would cost billions of dollars (Paulson Institute, 2015). But apart from the criticism concerning the financial, security and environmental impact of the technologies, criticism was directed against the business politics of SGCC itself as the it aggressively pushed for its industry agenda over the years in meetings and in the scientific development of studies and assessment of UHV, as Sampson (2016, p.130) analyses:

> *The grid company had banned all critical debate on the UHV plan within its own company realm while pressuring industry publications (such as the China Power News Network (中国电力新闻冗) which had a long pre-reform affiliation with SGCC's organisational predecessor) to report in a supportive fashion.*

Another part refers to the grid equipment-manufacturing segment. Although being formally bound to the reform agenda and the entities of the state and industry structures, the SGCC pursued its own understanding of business development, particularly when it came to expanding in the area of grid manufacturing. These takeovers were not without outcries, as illustrated by the 2009 takeovers of China Electric Power Research Institute (CEPRI, 中国电 力科学研究院) and the equipment manufacturers Pinggao 平高集团 by State Grid Equipment Co. (国网设备公), Xuji (许继集团), which were both SGCC subsidiaries acting as holding companies.

The China Machinery Industry Federation voiced its concerns regarding unfair competition for the national equipment industry. In an attempt to safeguard its interest, the association sought dialogue with the State Council and issued various appeals, accusing the SGCC of violating the goals of the power system reform (WANG, 2010). The SGCC's move also caused disagreement with major sectorial entities. For example, former Director of the NEA Zhang Guobao said,

> *State Grid Corporation later acquired Xuji Group and Pinggao Group. I did not agree. I did not sign. I have also done work. I said why do you need to do this? This is contrary to the separation of the original power reform ideas network and the main and auxiliary. If Pinggao Group and Xuji Group are acquired, other companies will feel that you are unfair in the future.... But when they saw that I didn't approve it, they approved it through other ministries (CHINA WEEKLY,2013).*

Overall, the SGCC's move was a step against the policies guiding the electricity sector, demonstrating a diverging picture of an SOE capable of pursuing its interests within the state-party system. As explored later on, the development of UHV and the equipment manufacturing expansion had initially been relevant for SGCC to circumvent the regionalisation and unbundling efforts foreseen by the government, but these sectors were eventually highly profitable in the long run and provided the company with high market shares.

In this context, with China's increasing R&D strength, companies such as the SGCC no longer only adopt technology, but have increasingly engaged in the aforementioned indigenous innovation process.[33] Over the past decade, SGCC's monopoly position has facilitated their UHV transmission agenda and technological development plans.

[33] Interview with energy policy researcher, 2016.

The firm benefited from the protective industry agenda, including a local content requirement, which profits local firms. More specifically, due to the vertical integration of China's Transmission and Distribution segment, the SGCC's subsidiaries are in the most favourable positions, as State Grid bought equipment companies such as Pinggao Group, Nari and XJ Group. This can create issues in the bidding process, when SOE subsidiaries obtain privileged access.

The engagement of SGCC in this segment and its increased dominance in the commissions of the State Council and other sectorial entities focuses on standardisation. Such attempts have not encountered favourable opinions only, as the following criticism by Prof. Lu Feng shows:

> *In order to achieve profitability, the company will certainly use its own resources to lobby the government, influence the formulation of policies, and make it develop in a direction that is beneficial to them. This is not a problem in itself, but the administrative monopoly group itself has many functions of policy drafting and formulation, industrial planning and standard setting because of its public power. Moreover, these central enterprises are in charge of various huge resources, and they have the ability and strength to control the right to speak, publicly express opinions, and influence the direction of the policy…. from the current reverse operation of the State Grid, there is such a tendency* (BUSINESS WATCH MAGAZINE, 2010).

SGCC has impacted on the entire value chain of China's UHV transmission development, such as the formulation of national plans and industrial standards, R&D, including the piloting testing of new technologies The SGCC advocated for making Chinese grid technology an international standard, which the company framed as entering a domain fully dominated by Western companies, as demonstrated by Yinbao Shu:

> *As an innovative enterprise, SGCC develops new technologies to advance the electrical power industry. During the past years, SGCC has become a cutting edge global research organization in areas such as ultra-high voltage DC transfer, Smart Grid, large scale renewable energy integration, and electric vehicle charging networks. Through our R&D work, many national standards and corporate standards were established…. SGCC adopted lots of IEC International Standards in the past, but during the last ten years, along with the rapid development of Chinese technology, more and more of our technical standards have been adopted as IEC International Standards* (SHU, 2016).

This also meant SGCC's participation in international standardisation organizations, which offered new markets and access to market trends and made it possible for the

SGCC to influence standardisation processes and participate in the committees. The SGCC entered the global standardisation scene in 2012 as a serving member of the Institute of Electrical and Electronics Engineers Standards Association (IEEE-SA) corporate Advisory Group and the IEEE-SA Board of Governors.

Another part refers to the grid equipment engagement in IEC technical committee activities by holding committee chairmanship and the election of SGCC's executive vice president Shu Yinbiao as the IEC's vice chairman. Furthermore, the SGCC was active in CIGRE's technical committees and held positions on various working groups and task forces. Overall, the SGCC's search for international markets in which to apply its UHV systems has paved the way to invest in countries such as Brazil where market-based electricity price guarantees a return three times higher than would be possible in China, making the country an important actor in standard setting, while the SGCC has been engaging in international coordination processes as it aims to impact its homegrown UHV technology.[34]

5.3 The SGCC's global footprint: formal and informal coordination

Multinational corporations are able to adopt global strategies to take advantage of the value-creating network beyond their home country while strategically embedding themselves in the subsidiary's country or region (HEIDENREICH, 2012). Given the SGCC's monopoly position in the home market and domination of the technology chain related to goods and services of the transmission and distribution segment, it had an abundant portfolio of projects and presence in China. Coupled with access to finances - SGCC is the majority owner of the Yingda International Trust's investment fund and thus had extensive investment capacity - its growth forged its position in the technology market.

In the context of the company internationalization, both the strategy and engagement of SGCC were found to be characterised by contentious direct and indirect interactions between the company and the party-state structure. One of business political

[34] Interview with former employee, NDRC Department of Foreign Investment, 2017.

strategies was to draw on macro-policy orientations and anchor them to its business strategy. As the State Council's 'Going Global'/'Going Out' (走出去) strategy was embodied by the state institutions, building up a stimulating environment for company globalisation, the main feature of the SGCC's 'Going Global' strategy was to rely on independent innovation and export the transmission technology despite the fact the there was no international market for UHV technology and equipment. In public statements, SGCC continuously referred to the 'Going Global' strategy and used the State Council's 'Grow large and strong' (做大做强) approach, which was launched in the context of encouraging SOEs to increase their competitiveness.

The first batch of SOE internationalisation in China's energy sector had been driven by the oil and gas sector in the late 1990s, when investments abroad was still seen with caution by the government. In the case of the oil industry, SOEs advocated for support for overseas projects, arguing the increased need for oil was a strategic issue for China's energy security and that the experience of joint-ventures with foreign MNCs in China had given them the necessary initial expertise for engaging in overseas acquisitions. SGCC benefitted from the experience of these companies, especially with increased adjustment of the business environment for overseas acquisitions, but also the experience of these countries in managing assets abroad.

Meidan (2016) describes that despite the increased activity of O&G SOEs abroad and the advocacy in company headquarters for simplification of approval procedures and favourable tax treatment to foreign projects, central government was still hesitant to provide companies with greater autonomy for its ventures abroad. The author analyses the case of CNPC's foreign E&P campaign which omitted the company's own central management and closed deals independently, as company staff had the necessary connections to domestic industry and ensured a great augment of autonomy to the subsidiary (Meidan, 2016). Overall, SGCC learnt important lessons from previous internationalisation experiences of other SOEs concerning the autonomy of subsidiaries, financial autonomy for investment, the need for greater decision-making authority for its overseas investments, as well as internal and international corporate discipline.

In the mid-2000s, SGCC first started its first internationalisation efforts and what it needed was to guarantee central government support. A meeting with MOFCOM resulted in the internationalisation endorsement, and other meetings with the Ministry of Foreign Affairs (MOFA) secured support from the relevant approval entities (Xu, 2016, Sampson, 2016). Since 2008, international business is developed under State Grid International Development (SGID), which was founded when SGCC entered the market in the Philippines and incorporated in Hong Kong. This is to ensure a centralized decision-making authority within the parent company. The subsidiaries are viewed as important divisions and lucrative assets, specifically when investing abroad.

SGID aims '*actively participate in international cooperation in the field of energy and power, enhance global resource integration capabilities, and gradually gain influence and voice in the international energy field',* as voiced SGID CEO Zhu Guangchao (朱光超), and divides its international business into four larger fields: (1) overseas asset investment operations; (2) international capacity cooperation; (3) grid interconnection and international energy cooperation; and (4) international standards. Benefitting from the controlled electricity pricing system in China and its expanding monopolistic position, the access to global markets contributed to the SGCC's position as an important domestic player because international success promised high returns on investment that were unobtainable in the domestic market (STATE GRID, 2013),

One of the main lessons of the overseas acquisitions of O&G SOEs was to maintain strict internal and international discipline while engaging abroad. As explained in the previous chapters, SGCC had to follow a series of policy measures if it wanted to develop business abroad. The company had to obey the central government's policy guidance on overseas investments, as for example in the case of SASAC's 2012 Interim Measures for the Supervision and Administration of Overseas Investment by Central Enterprises (SASAC, 2012), formally noting the companies to:

(1) Comply with the national economic and social development plan and the industrial policy for overseas investment;

(2) Conform to the direction of the state-owned economy and structural adjustment;

(3) Conform to the enterprise development strategy and international business strategy Highlighting the main business is conducive to improving the international competitiveness of enterprises;

(4) The scale of investment is compatible with the scale of business assets, the level of assets and liabilities, the actual fund-raising capacity and financial affordability;

(5) Compliance with the laws of the country (region) where the investment is made And policies that respect local customs.

Apart from the adherence to policy guidance at state level, SGCC also ensured State Grid International Development (SGID), SGCC's subsidiary and centralized authority mechanisms for overseas project evaluation, negotiations, and expansion, was integrated in the duality of the party-state logic while operating abroad, issuing of guidance for overseas party branches, as emphasized by SGID party secretary is Li Haixiang（李海翔）(SGCC, 2016). This demonstrates that even in the internationalisation context, the informal connections between the different company units, subsidiary-headquarter relations are extended overseas and are an important element of the firm's inner political capital and maintenance of political leverage with the home country political institutions, while they do not assume any relevant dimension in the political setting of the host country.[35]

The choices of where the SGCC would invest would be based on where it could build on its experience, and best use its competitive political and economic advantages, including financing, technology and domestic and diplomatic support. Following its internationalisation approach, the company engaged in international agreements and benchmarking to further improve the management, which becomes evident in its 2011 launched globalization strategy:

[35] Political ranks of Chinese staff overseas, specifically in management positions are usually not displayed by the companies.

Figure 5.10 - Globalization strategy

Business globalization. Push forward six business categories, including overseas power investment and operation, international cooperation on energy resources, electrical equipment manufacturing, international power projects, international power technology and management consulting, and international exchange and cooperation. Forge four platforms for investment and capital operation, electrical equipment, international power projects and international power consulting. **Management benchmarking globalization.** Carry out industrial benchmarking with international strategic partners, exchange experience in grid management, operation and maintenance, and reach a consensus on important issues regarding very large grid operation and technical innovation. **Resource allocation globalization.** SGCC has integrated all kinds of international business resources in aspects of personnel, finance, material, R&D, and project consulting services. It has optimized the all-level coordination mechanism in the Headquarters, regional branches, provincial companies, subsidiaries, and overseas offices, and enhanced its support for international business. The company has established a selection and incentive mechanism for international talents and set up an overseas training system for senior management.

Retrieved from: State Grid, 2011

In terms of economic leverage, SGCC was eager to be recognized as global leader in the development of ultra-high-voltage (UHV) power transmission and transformation technology. More than that, Chairman Liu Zhenya emphasized the global energy market as strategic arenas of competition, as consolidating global standards will increase competition between energy companies equipment manufacturers to ‘go global’ (LIU, 2013). In other words, strengthening China’s input in international standard setting would result in status quo, recognition and legitimacy.

SGCC understood one of the forms to achieve such recognition, was in the field of international energy cooperation. For example, the 2009 International Conference on UHV (Ultra High Voltage) Transmission held in Beijing was attended by representatives from governments, industry, power utilities, R&D institutes, academia and financial organizations from 21 countries and regions. The SGCC guaranteed its voice heard and received the high-level endorsement of the Chinese Premier emphasizing the need to develop ultra-high-voltage (UHV) power transmission technology as part of China's energy distribution strategy (SGCC, 2011).

Less than ten years later, in 2017, with the celebration of the Belo Monte transmission lines with the ±800 kilovolt (kV) UHV DC transmission technology SGCC chairman Shu Yinbao celebrated the company as successful ‘going out’ of China’s UHV transmission technology, meaning that China’s UHV transmission technology, specifications, and standards had officially entered the global application stage. In other words, as the

National Energy Administration (2018) framed it, UHV had become a Chinese 'namecard' (特高压技术成为'中国名片'). [36]

Figure 5.11 - The SGCC's overseas presence

Retrieved from: State Grid, 2017

When considering overseas assets, SGCC took into consideration if the project would enhance both experience and advantages of its national grid system, internationalisation electric equipment, power engineering, and technical consulting would be maximized. The context of SGCC internationalisation is different from studies of for e.g. private firm internationalisation and the discussions when the government intervened in national companies' firm business. As a national champion and huge business group, SGCC had particular advantages as had an internal market in the form of horizontal and vertical linkages among group affiliates as well as institutional support from the government (Yiu,2011). This provided the company with advantages in terms of R&D capacity, value chain and reach.

In the case of SGCC, the government aligned SGCC's discourse to its foreign policy discourse in 2011, although even before SGCC had been mentioned in state documents related to foreign policy and at bilateral visits presidents or ministers of foreign countries, where firm participation was included as a deliverable of the visit with

[36] Interview with representative of SGCC, 2016.

the signature of cooperation agreements, for example. The table below shows the gradual expansion strategy of the company, as it strived to develop into a golden business card (金名片). According to the Deputy Director of the SGCC's International Department, Lu Shirong (吕世荣) as a consequence of national market differences, different investment strategies were adopted, which continuously optimized the overseas business layout. While Europe, America and Oceania have a good market environment and stable income, which allow equity investment mergers and acquisitions; South America and Africa are rich in energy resources and have great development potential. In the case of the developing countries with a lack of technology and funding, greenfield and contracting were the preferred firm strategies (PEOPLE'S NETWORK, 2017).

Table 5.5 –The SGCC's overseas expansion

2009	SGCC's first overseas push starts with the purchase of a 40% stake in a grid operator in the Philippines
2010	SGCC acquires 100% stakes of seven Brazilian transmission companies with concessional rights of 30 years. It is the first independently operated grid asset overseas for SGID.
2012	SGCC purchases a 25% stake in Portuguese state power company Redes Energeticas Nacional and became a de facto member of the European Transport Network organization (ENTSO-E).
2012	SGCC buys 80% of shares of U.S. AES Corporation's wind power business.
2013	Purchase of a 60 % stake in SPI (Australia) Assets Pty Limited (SPIAA), as well as a 19.9 % stake in its sister company SP AusNet.
2014	SGCC as main financier of the Regional Development Project for Energy Transmission between the Centre and South (Cesul) in Mozambique.
2014	In Italy, SGCC partners with the Italian state in buying 35% of the CDP Reti fund from the Italian Cassa dei Depositi. This way, SGCC obtains a blocking minority over the activities of SNAM (gas network operator) and Terna (electricity transmission network operator).
2016	SGCC buys a 14% stake in Eandis, a leading Belgian power grid operator.
2016	SGCC agrees with the Russian power grid company Rosseti to set up a joint venture in China.
2017	SGCC buys a 24% stake of Public Power Corp. (ADMIE) and a 75% stake of the private group Copelouzos, becoming a key player in transport and distribution in Greece. Part of the Mediterranean grid, ADMIE has a connected grid with countries in the region.
2017	CPFL Energia to 54.6%, adding to the 23.6% interest it bought for some 5.8 billion real ($1.82 billion) in September. CPFL controls 14% of the domestic market, operating grids in Sao Paulo and other states.

Retrieved from: SGCC, 2013 and 2018

The summarized table of SGCC's investment abroad reinforces how fast the firm internationalized and became an important international business actor. The first decade of the 2000s with lack of public financing in energy sectors globally and the financial crisis was an ideal moment for the SOE to go global and enter the international policy arena. By selectively focusing on the ‘strategic value’ of its domestic capacity in China, SGCC gradually adjusted to the increasing economic and political momentum of China’s growth as international player to its internationalisation agenda.

The effectiveness of MNCs in foreign countries depends on a variety of factors. With regard to business politics, the use of diplomacy implied certain comparative advantages, as it is immediately available in the embassies and predictable in terms of results, implied less costs and was politically acceptable. In the case of SGCC, for example, the prestigious Ministry of Foreign Affairs, in charge of diplomacy and interaction with foreign governments, but with limited resources and little jurisdiction is only one of the actors to support the company abroad.

While embassies can aid with crucial information-gathering, they can also provide entry points for companies and provide a network structure for future business development. In the case of Brazilian investment in Brazil, the Chinese embassy guaranteed its political support to SGCC in the context of the diplomatic machinery of government. In the case of investments abroad, there are differences in the support for example provided by the home country, such as e.g. commercial diplomacy or other government services, including investment promotion. In China, commercial diplomacy is driven by the powerful Ministry of Commerce, in charge of domestic and international commerce supervision, investment and aid. As already illustrated, SGCC depends on MOFCOM’s approval for its overseas business and has substantial nominal involvement with the local authorities for business purposes.

At the same time, the successful internationalisation of major Chinese SOEs also demonstrate that foreign policy and diplomacy are no longer the sole preserve of government, but that companies can be important stakeholders in representing the wider interests of a country, going beyond the economic realm. SGCC does not only maintain a network with local elites across countries but also has to maintain good relations with a series of local actors, ranging from cities, state-level and federal actors. In addition, it participates in the most diverse events in the countries of its activities, ranging from official ceremonial events, policy-driven workshops, government and public-sector activities, etc. As a result, the company has a deep understanding of the bilateral state-to state relations and business environment. Abroad, SGCC’s business politics materialize mostly outside the shells of the Chinese states, even though the country continues to be confined to the party-state system.

One consideration has to be made concerning the role of states in business development. The way governments relate to companies, national or foreign enterprises, vary. This can be seen in the cases of SGCC's investments in the different countries, where governments either sought to attract Chinese investment or rejected the company's presence in the national grid. To exemplify the different outcomes of SGCC's business politics in the process of internationalization, we briefly assess the cases of SGCC's presence in the Philippines, in Portugal and in Germany. The following section shows that for example the experience in instable political environments can contribute to a higher political risk awareness and better crisis management. Also, the consequence of the extensive internationalisation of a developing country company might induce states to develop antagonistic positions towards company presence. In the end, for the company both costs of doing business and uncertainty

The SGCC's first step on the path to 'Going Global' occurred in Southeast Asia when the SGCC acquired 40% of the shares of the Philippines' national grid with concession rights. The Philippines had been trying to privatise the management of the National Transmission Corp (Transco) since 2003 in order to boost state finances and modernise its power sector. After a lengthy bidding process, the consortium between Monte Oro Grid Resources Corporation, Calaca High Power Corporation and the SGCC gained the right to operate the Philippine power grid with a $3.95 billion bid in what would be the largest privatisation in the Philippines' history. Overall, the case of SGCC in the Philippines is a case about how different institutional characteristics shape interests, and strategy.

Experiencing and navigating not only the interests inside but also the powerful interests outside of the government were key in SGCC's market approach in the early years of the investment in order to mitigate political constraints. Camba (2017) suggests that SGCC's approach in the country was successful due to the firm's coalition with major

Philippine economic elites as partners[37] guaranteeing the distribution of economic return and 'exerted structural material power onto SGCC's economic and political opponents, attenuated contention and political mobilization'. Such assertiveness vis-à-vis domestic business elites could create entry points for the company, when it had increasing difficulties in the host context. This points to the role of different types of elites in the internationalisation process, not only in the home but also in the host context as an important factor in determining business success of MNC: the presence of countervailing actors or conflictual topics can impact strongly on firm performance and needs to be foreseen or remedied. If not navigated well, the company itself could turn into a topic of high political salience.

This was the case in the deteriorating bilateral relations in the beginning of 2013 between the China and the Philippines. As a SOE, SGCC faced strong headwinds when voices in the Philippines raised national security concerns over the major role SGCC had occupied in the national electricity market. The technical operation of the grid has been negotiated since 2013, and in 2014 the Philippine decided against renewing the visas of 18 Chinese national working at NGCP in the Philippines. In 2013, the government had informed the Chinese government regarding the security of foreign companies access to the national power grids. As the case of the Philippines and the German case shows, governments, with national security and foreign policy objectives that exceed efficiency concerns, have the power to intervene in private transactions. In the case of the Philippines, SGCC management took long to acknowledge this constraint and act to turn the unfavourable bilateral climate to their favour. Once the poster child of SGCC overseas activities, the company's activities with NGCP were strongly impacted by the turbulent political environment. While regulatory contexts for evaluating incoming FDI differ, as well the awareness of Chinese FDI is constructed in parallel to China's relative power. Authors recognize the different societal interests behind such perceptions: 'While relatively few deals have been blocked by a negative... finding or a recommendation not to apply, almost all major deals were subject to politicization by the media, members of Congress, the

[37] Calaca High Power Corporation and the Monte Oro Grid Resources Corporation, the partners of SGCC, were first owned by Enrique Razon and then subsequently purchased by Henry Sy, both members of the economic elites in the Philippines (CAMBA,2017)

security community, domestic industry incumbents' (ROSEN AND HANEMANN,2011, p. 62).

After its first move in the Philippines, SGCC continued its gradual move abroad. When with reforms in Brazil new assets became available, the SGCC made its move into the Brazilian market, pursuing an aggressive strategy of buying stakes in local concessionaries and participating in transmission auctions, of which the Belo Monte transmission lines would be the most important ones, because they would enable the export of UHV technology. The SGCC's goal was to utilise UHV-DC technology to connect it with distant load centres.[38]

After pressure from the European Union and global financial institutions, such as the International Monetary Fund to mitigate the impact of the global financial crisis on Portugual, in 2012, the government of Portugal began its privatisation programme and officially allowed SGCC to buy a 25% stake in Redes Energeticas Nacionais (REN), the Portuguese national energy network company via a public privatisation programme. The case of REN's privatization, however, did not remain uncontested in the domestic environment. The Portuguese Court of Auditors (TRIBUNAL DE CONTAS, 2015) evaluated that the bank Banco Espirito Santo de Investimento, which had been involved in assessing the possible privatization of REN and provided financial advisory to SGCC, committed a conflict of interest due to possible insider information in the bidding process.

As the concession holder of the two main Portuguese energy infrastructure the networks, the Rede Nacional de Transporte (RNT) and the Rede Nacional de Transporte de Gas Natural (RNTGN), REN has been an interesting target for SGCC. According to the agreement with the Portuguese government, the SGCC would send a senior management team to take part in the strategic development of REN. The SGCC's role was that of a strategic investor and promote a long-term, stable cooperation with the company's other stakeholders, promoting the efficiency and stability of Portugal's national grid with its expertise in grid planning, construction, operation, and management. Thus, it was also promised that China Development Bank

[38] SGCC's business politics in Brazil will be analysed in the following chapter.

would provide 1 billion euros financing to meet REN refinancing needs and complete new investment plans.

In turn, REN would provide valuable knowledge in terms of technical cooperation for the development of renewable energy. The cooperation received high-level endorsement. SGCC CEO Liu Zhenya met with Portuguese Prime Minister Pedro Passos Coelho to discuss extending the cooperation in the field of electricity and power and with other minister of the government, including the Minister of Finance, Foreign Relations Minister and the Minister of Economy. The diplomatic efforts embedded in the meeting were enormous, the company wanted to guarantee the positive reception of the acquisition by the government and guarantee a smooth market entry and operation.

The high-level ties proved necessary to further address the strategic business interests of SGCC in the country and reduce regulatory burdens. In 2013, the Portuguese government announced the draft state budget for 2014 proposing the creation of an extra contribution applicable to economic operators in the energy sector that develop the following activities, directly affecting REN and consequently the return of its Chinese investors. SGCC together with other Chinese companies in the sector lobbied against the tax with the help of the Chinese embassy (21st Century Business Herald, 2015). The success of this appeal against the tax is to be confirmed. REN appealed to the arbitration tribunals of the tax administration to challenge the tax, and later appealed to the Portuguese Constitutional Court. Different than other sector companies, which refused to pay the tax, REN fulfilled the contributions while disputing them legally (REN, 2018).

In Australia, SGCC's market entry experienced close regulatory and public scrutiny, when State Grid became a major shareholder of the non-listed Australian company ElectraNet, which is responsible for operating the South Australian electricity transmission. It took minority shares in the company with an initial purchase of 41%, increasing the stake to 46% in 2013. Later, SGID and Singapore Power Limited (SP) completed the equity settlement in Australia. Chinese Consul General in Melbourne Song Yumin, SGCC EVP Du Zhigang and SP CEO Wong Kim Yin attended the ceremony, expressing the high-level importance given to the acquisition. SGCC signed an agreement with SP to buy 60% stake in SPIAA and 19.9% stake in SP AusNet, both of which are Singapore Power's Australian assets. This was a major move in SGCC market endeavours and meant a key step in its business politics of internationalization, as it was the first time the company invested both in overseas electricity and gas distribution assets. [39] In 2016, when SGCC and Hong Kong-listed Cheung Kong Infrastructure were bidding for a 99-year lease of Ausgrid, a power supplier power in New South Wales, the Federal Treasurer temporarily blocked the sale to the bidders (ABC, 2015a). SGCC's attempted bidding faced strong headwinds from national industry actors, including a union campaign (ABC, 2015b). The bids were formally rejected in August of the same year on the grounds of national security concerns.

Other market ventures into the South, East and Central European markets have followed and promoted SGCC's consolidation in the grid segment by promoting the lucrative grid equipment segment. The expansion and renovation project of the Kozienice substation in Poland, constructed by SGCC subsidiary Pinggao Group Co., Ltd., was completed in Poland and is the first power transmission and transmission general contracting project completed by a Chinese company in the European Union. In 2014 already, the Pinggao Group and Poland's national transmission system operator Polskie Sieci Elektronergetyczne SA (PSE) signed a contract for the expansion and renovation project of the Kozienice substation with a value of 252 million yuan. Since Pinggao Group entered the Polish market, it has signed and carried out six general contracting projects of PSE. The group plans to start from Poland and bring Chinese equipment to other EU countries. In this context, the role of the Belt and Road Initiative also has been a major way to anchor SGCC not only to Chinese foreign policy and economic engagement abroad, but also to promote the relevance of SGCC as an economic actor for the Chinese government itself.

In the case of Chinese firms, the larger they are, the more likely they are to attract the attention of national governments, regulators and other interest groups. The SGCC's attempts to step into the German market have been met with resistance. In 2018, the SGCC planned to acquire a stake in a major German grid operator, 50Hertz, which is

[39] The assets were considered lucrative, with the companies primarly operating in the Victoria, Queensland, New South Wales and Australian Capital Territory. While SPIAA is active in the power distribution, transmission and distribution segments, as well as infrastructure services, SP AusNet, provides similar energy services in the state of Victoria.

one of Germany's four high-voltage power network operators. The Australian infrastructure fund Industry Funds Management (IFM Global Infrastructure Fund) had previously announced its intention to part with half of its 40% participation in Eurogrid International, the sole owner of the transmission system operator 50Hertz Transmission via Eurogrid GmbH. In March of that year, the takeover attempt by SGCC failed, as the majority shareholder of Eurogrid International, the Belgian electricity network operator Elia System Operator S.A. made use of its right of first refusal and thus increased its stake from 60 to 80 percent. In late May, IFM announced its aim to sell its remaining 20% stake in Eurogrid International (BMWI, 2018).

The attempt of SGCC's German market entry showed how difficult firm participation and the development of institutional capacities vital to enhance its pursuit of preferences can be. Although SGCC achieved to mobilize embassy support in Germany, in late July, two German ministries, the Federal Ministry of Finance and the Federal Ministry for Economic Affairs and Energy announced they had acquired the share and justified this measure with security reasons concerning the protection of critical energy infrastructures and the role of investors with significant state participation from third countries outside the European Union. In return, SGCC and the Chinese diplomats evaluated this as a protectionist move, contrary to opening of until-now protected sectors of the Chinese economy (BMWI, 2018). At the same time, the move of the German government was welcomed in the European Union, where the suspicion concerning increasing Chinese investment into strategic economic sectors had grown and turned into a politicum. More than a market challenge, or a in terms of competition, countries had started to see SGCC as a challenge to its technological capabilities.

This also calls attention to the role of decisional-power of investment deals and screening for understanding national business politics of MNCs. In the US and Canada, the role of Chinese influence groups trying to impact on investment decision-making structures is very consolidated and institutionalized. For example, in the US Congress, the Congressional China Caucus and the US-China Working Group are two groups with sceptical opinions concerning China. Consequently, for advocacy support concerning investment deals, bigger companies do not necessarily depend on individuals of the national elite to get their business done, rather they could engage with the pro-China support groups, for example. At the sub-national level interest such as regional, export or sectorial issues could be potential helpful factors for mobilizing and enabling national environment.

When in 2013 the Belt and Road Initiative (BRI) gained momentum, Chinese SOEs strategically adapted their business strategy and policy narrative to the BRI. In the case of SCGG, ‘Electricity infrastructure construction has become one of the most active sectors to promote the Belt and Road Initiative’ (CHINA DAILY, 2018). According to SASAC, forty-two central SOEs have participated in in nearly 1,700 BRI projects by establishing joint ventures, making direct investments or becoming shareholders. In the case of the energy sector, the 13th Five-Year Plan for Electricity Power Development encourages companies explicitly to implement the initiative and actively promote international cooperation in power equipment, technology, standards, and engineering services. Overall, the Belt and Road Initiative provided companies such as SGCC a somewhat standardized set narrative of international discourse, regardless the variation in implementation. It brought the possibility of both coherence and autonomy of both private and public business actors in China. Just as in the case as Sampson (2016) analysed the ‘synchronization’ mode of SGCC in domestic politics, the same logic applies for its activities abroad.

While the efficiency of Chinese diplomatic support in favour Chinese business interests abroad requires further study, the Chinese state has been increasingly empowering the SOES to become more efficient and better use market dynamics to their advantage. While the government and approval agencies of the state do not determine where to make the investments, the modes of interaction between government and company evolved also alongside the increased international engagement of China. Beyond the commercial acquisitions, SGCC has also approached the institutionalized international cooperation mechanisms, such as the ‘international capacity cooperation’, thereby helping the company to expand its strategic alignment with China’s economic policy objectives overseas. In 2019, SGCC celebrated the Borosus-Samanoud and Samanoud-Banha transmission lines of Egypt's EETC 500 kV power transmission project as first international productive capacity cooperation project between China and Egypt with a contracted value of $ 758 million (SGCC, 2018). Therefore, SGCC engaged with the overall Chinese policy mechanisms and instruments available for diplomatic support outlined in Chapter 1, including anchoring its business to established strategic partnerships; economic cooperation (infrastructure cooperation) and diplomacy in soft-power domains (e.g. corporate social responsibility initiatives to the broader interest of Chinese cultural diplomacy).

One of the most important factors impacting on SGCC business politics is the least well expressed – the politization of its presence as Chinese SOE abroad resulting in part from fears of the erosions of state sovereignty either to foreign actors. In terms of political engagement, what impacts on the SGCC business abroad is the increasing politization of grid security when it comes to the participation of foreign and mostly Chinese-origin companies. Short-term, the mechanisms of influence of the firm to increase its market opportunities and mitigate reputational risk particularly in developed economies remains relatively limited. Mostly importantly, the shifts in domestic politics (e.g. change of party or president in the administration).

Long-term, SGCC's determination to occupy key spaces in international policy, international cooperation and by driving its own initiative (GEICO) will gradually progress its standing abroad. Its embeddedness in the domestic sector in China as the major actor for sectoral policy strongly differs from its position abroad. The circumstances under which SGCC matured as a company and its financial disposition for internationalisation may be unique but show the adaptiveness of companies and their ability to drive policy-relevant changes, as demonstrated by the smart grid agenda.

Firms decide to take business issue to the multilateral level and create arenas of interaction where private sector, politicians and diplomats meet and mingle. Apart from its business abroad, the SGCC also stepped up its presence in the international policy arena. As early as 2006, Liu Zhenya proposed the establishment of a transnational mechanism to debate transmission technology:

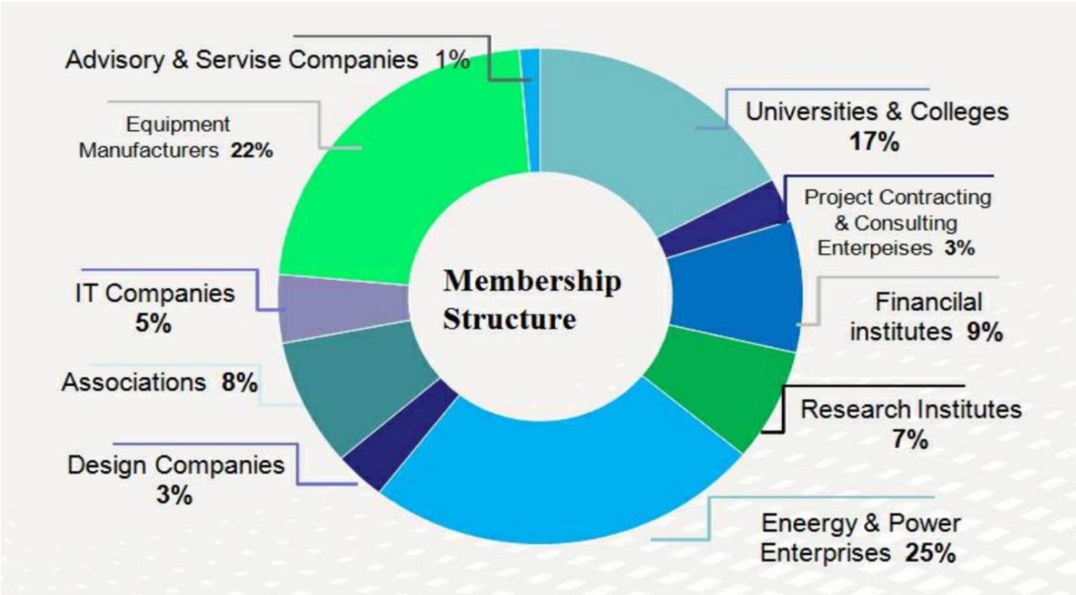
> *Here, I propose to establish an international UHV transmission technology communication mechanism, share experience and knowledge, promote the research and application of UHV transmission technology in various countries, and jointly meet the challenges of sustainable development of the power industry in the new century* (CHINA DAILY, 2006).

Such strategy proved particularly helpful as it enabled SGCC to feed into agenda-setting, as well as engage with different types of elites of the energy sector, both policy but also political elites. This is strategic as it both advances the immediate business interests and the market environment.

It seems only natural therefore, that the SGCC's proactive involvement at the policy level has raised attention. The SGCC has entered the global stage as more than just a company with multiple interests across different continents. One of its ambitious ideas is the Global Energy Interconnection (GEI) initiative, 'a globally interconnected power system, supported by Smart Grid infrastructure, and making optimal use of UHV technology to transmit power over great distances' (GEI, 2018), driven by the SGCC's chairman Liu Zhenya. The ambitious goal was to connect electricity systems of nations and brand them as transcontinental 'supergrids' with the capacity of exchanging energy across borders and oceans. The final purpose of the vision of 'interconnectivity', promoted as 'clean energy transition' is both as a sales instrument for the transmission lines over long distances, as well as technology provider for the lines.

SGCC recognized that technical information was an asset to influence the policymakers across national environments. The Global Energy Interconnection Development and Cooperation Organisation (GEIDCO) was launched as a joint effort of dozens of equipment manufacturers, energy corporations, business associations, and civil society groups.

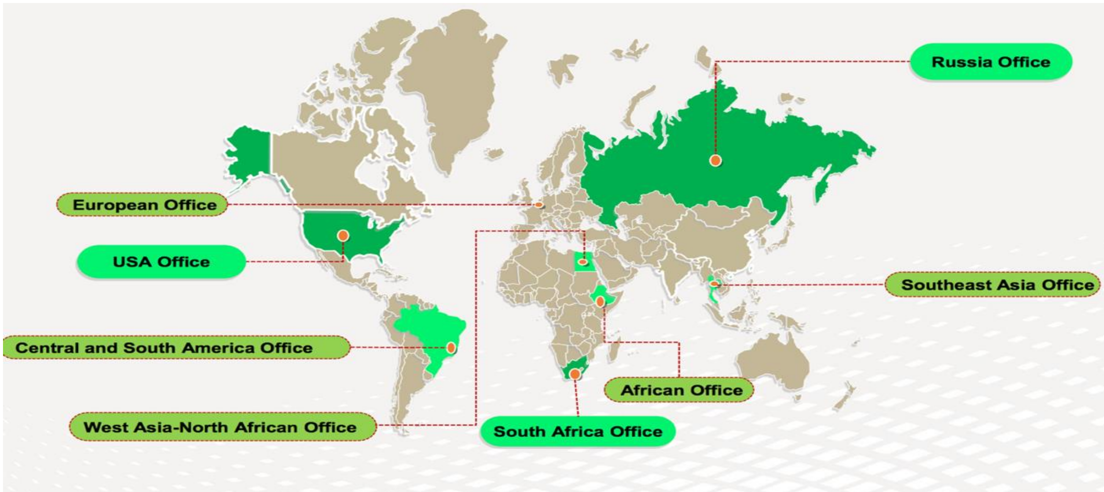
Figure 5.12 - Membership structure of GEIDCO



Retrieved from: GEIDCO Website, 2018

In this regard, the membership structure transcended not only geographical levels but also sectoral boundaries across different manufacturing needs. According to the GEIDCO, it has 312 members across 42 countries in 5 continents and different offices globally.

Figure 5.13 - GEIDCO offices worldwide in 2017



Retrieved from: GEIDCO, 2017

It is no coincidence that this initiative has developed in the global arena. The Chinese government has adopted GEI as part of a national strategy to push forward renewable energy development. Internationally, President Xi Jinping introduced GEI at the General Assembly of the United Nations in September 2015. In this regard, the national level alone provides only a partial understanding of companies' larger picture and the extent of their projected development. The understanding of the SGCC as a relevant policy actor with its own network is one of these examples.

In the same month of President Xi's visit, United Nations Secretary General Ban Ki Moon met with Liu Zhenya at UN headquarters, where he said that the UN would help to facilitate this vision and the establishment of new arenas and policy spaces. In the case of Brazil, in 2017, the Minister of Mines and Energy visited the GEIDCO and signed a joint declaration of technical cooperation intent. The initiative is thereby presented as a practical solution to complex global issues and challenges, such as climate change and energy matrix diversification: 'The Global Energy Interconnection is 'Smart Grid + UHV Grid + Clean Energy'; it is an infrastructure platform on which clean energy can be developed, transmitted, and used massively worldwide' (GEICO, 2017). Literature such as Schneider (2009) assume that lobbying is too costly for the average firm to undertake individually. But SGCC is not the average firm: it has the necessary funding and long-term vision to pool both interests and resources to political outputs.

Business politics of the multinational company are not purely the product of internal corporate dynamics. The web below summarizes the functionally differentiated elements of a well networked internationalisation approach within the powerful relationships that constitute the social, political, and economic relations of SGCC. Taken together, the organizational and substantive international engagement provides a glance into the complex structure of norms and relations guiding the company in the policy arena. Its push towards collective action in the international policy arena, the use of UHV as a vehicle for consolidating its market share and the thirst for event stronger internationalisation will set the tone for SGCC's state business relations in the coming future.

Figure 5.14 - internationalisation ambitions

Retrieved from: SGCC 2011 CSR Report

The analysis of SGCC business politics in the context of internationalisation is selective by focusing on the federal level. Until the end of 2017, SGCC had successfully achieved to establish its 2011 launched objectives for its corporate internationalization. The company had fruitfully invested and operated national and regional backbone energy networks in the Philippines, Brazil, Portugal, Australia, Italy and Greece with a high volume of overseas assets. It had achieved to spearhead international cooperation on energy cooperation, undertook trainings of energy staff and experts across different countries (capacity cooperation) and had turned into a major stakeholder in the electrical equipment manufacturing. With all its efforts, the firm had not only improved its asset portfolio, but also globalized it.

SGCC used its market power to impact on standardization and anchored Chinese national standards in UHV into the international system. As a state-owned company, SGCC also brought positive return to the institutional standing of Chinese state actors, including SASAC and the National Development and Reform Commission, in the context of the Foreign Investment Department. In terms of foreign policy exposure, successful projects abroad were anchored to the Chinese foreign agenda and image projection of the country abroad. Similarly, the standardization allowed the leapfrogging and the increase of China’s image and credibility in the electricity and grid equipment manufacturing sector, as the company provided expertise and knowledge. In terms of international capacity cooperation, SGCC allowed China to be situated as a knowledge-broker by bringing foreign personal to China for training and industry-related qualification.

When businesses perceive long-term challenges or regular obstacles, political action may become critical. However, what can be noted from this chapter is that in the context of MNCs, the privileged access does not always guarantee returns from politically sensitive assets, as the case of the utility sector shows. While this dissertation follows the overall understanding of Schneider’s portfolio analysis of business investment in politics, what weighs in the case of SGCC business politics in China are less the role of elections and campaign contributions, but ‘policy’ lobbying, personal and policy networks and business associations. In the case of its presence as MNC abroad, factors such as institutional and sectorial determinants in the host context, including personal and policy networks and business associations, but also contextual factors such as the bilateral relations result in the configurations of SGCC’s preferences.

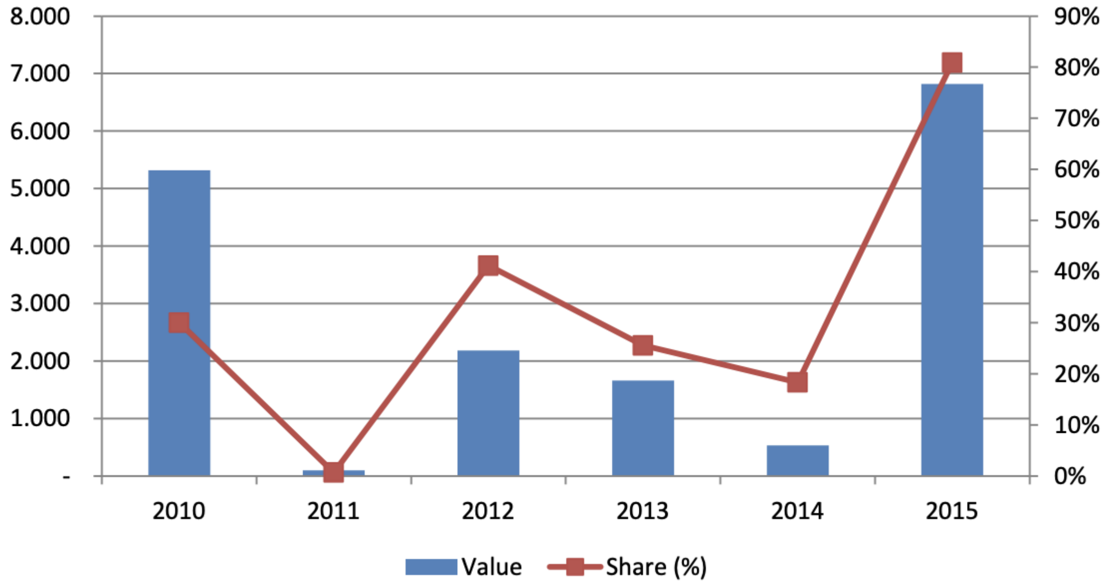
6 BUSINESS POLITICS IN BRAZIL'S ENERGY SECTOR: THE CASE OF SGCC

The energy sector has been the main target of investments by Chinese companies in Latin America and the Caribbean. This chapter analyses the processes underlying the market entry and consolidation of the SGCC in Brazil. While in China, the SGCC was able to pursue its industrial and internationalisation agenda with relative autonomy, while confined to the state-business system. The company possessed the expertise and technology and turned them internationally competitive by building a brand name and set standards in the industry. In Brazil, where its institutional embeddedness is weaker, it relied on a comparative economic advantage, such as a low-cost bidding strategy, knowledge exchange, on-time delivery and diplomatic support. This chapter shows how the firm was able to incrementally build on existing strengths and industrial capabilities to participate in the Brazilian energy sector. It concludes that SGCC's business politics in Brazil were business-oriented, contradicting studies claiming state-driven and political motivations.

6.1 Market entry

In the general panorama of blossoming Brazil-China relations, with Brazil's trade integration with China deepening significantly in the 2000s, the two countries had grown to become closer partners in bilateral and multilateral dialogues, including BRICS. According to Hiratuka (2018) the volume of Chinese investments announced in infrastructure is around US$ 16.6 billion between 2010 and 2015, with great fluctuations over the years. The highest volume peaked in the year of 2015 (almost US$ 7 billion), with the participation of the announced investments reaching approximately 80% due to the investments of energy SOEs, including the SGCC.

Figure 6.1 - Chinese investments announced in Infrastructure in Brazil. Value of transactions in US $ million and share (%) in the total



Retrieved from: Hiratuka, 2018

The increasing willingness of the Brazilian government to engage with its economic partner contributed to the quality of relations and a political willingness to facilitate bilateral interactions and feed into the increasing business, investment, and economic cooperation. In other words, the window of opportunity was wide open. This became evident when former President Lula visited China in 2009 and emphasized Brazil wanted '*China to buy from the Brazilian market, on the basis of quality and value aggregation…Brazil would invest a lot in the production of high technology goods'* (CHINA DAILY, 2009). Other, similar high-level statements matched the increasing willingness of Chinese companies to 'go global' just like the SGCC. From the perspective of the Brazilian government, the diversification of foreign capital was viewed as necessary and the government actively courted foreign direct investment as an instrument for development.

The connecting thread between the SGCC and Brazil was the overall outlook of the Brazilian energy sector. As outlined in the previous chapters, the first decade of the 2000s, Brazil's energy sector suffered a lack of resources and was eager to attract foreign capital to be invested. At that time, Brazil's electric power sector was dominated by state companies and their privatization implied the availability of new assets for those interested to enter the market. Drawing on federal changes to the regulatory structure of the electric power sector in the 1990s, public auctions permitted the entry of foreign companies into the transmission segment, including companies from Spain, Italy, and Colombia. Overall, this guaranteed a profitable outlook for companies investing in the sector. The first technical exchanges at the working level between Brazilian and Chinese energy sector staff suggested the possibility of developing projects and channelling investments.

In the overall context of Brazil-China relations, the bilateral state-business relations were influenced by mutually reinforcing interests. State Grid was looking into long-term investments abroad, and the territorial extension of Brazil shares similarities with China in terms of electric power transmission. Most energy in Brazil is supplied by hydropower plants, which require high-power transmission infrastructure to guarantee energy supplies and loss. While the government had worked continuously to expand the segment to keep pace with the expansion of the generation segment (ANEEL, 2013), investment opportunities not only with the expansion but also with expiring concessions of existing transmission lines offered an attractive market for companies.

At the same time, the Brazilian government had started to look into ways to technologically upgrade the energy sector. In 2010, the Brazilian Ministry of Mines and Energy created a Working Group to analyze and identify actions necessary to subsidize the establishment of public policies for the implementation of a Brazilian Smart Grid Program, seeking to evaluate the state of the art of smart grid programs in Brazil and other countries; proposal to adapt the regulations and general rules of public electricity distribution services; sources of funds for financing and incentives for the production of equipment in the country; and the regulation of new possibilities of market access (MME, 2010).

As SGCC became more prominent as actor with policy-input in China, it simultaneously expanded its role in multilateral for a and international cooperation to use and build its influence. Its attractiveness to interested partners abroad were based on its ability to have made the UHV feasible, demonstration and operating projects in China and abroad (e.g. Philippines) and the ability to overcome the operational difficulties of operating large grid structures with long distances. It possessed significant knowledge in terms of the technological process,[40] relevant regulatory aspects and had been active in standard-setting abroad.

With its overseas investments, the SGCC was not just following in the footsteps of other major companies in going global. From the SGCC's headquarters' perspective, investment in Brazil's transmission sector would allow the company to further mature its UHV technologies by coupling the investments with the technological advantages SGCC could provide. This was advantageous because it allowed the company to combine State Council R&D guidelines, international competitiveness, and the possibility of developing the domestic industry. The SGCC had seized the opportunity to align its corporate interests with the government's macro-economic agenda[41]. In other words, exporting its technological development strategy already applied at a national level would create an opportunity for the company to 'go global', building on its experience in the Philippines while seeking a stronger market position in China itself. With the opportunity for technological development, technology transfer via bringing equipment and engineering technology, knowledge, and skills was anchored to the overall discourse of the market entry and industrial development opportunities of the transmission segment.

[40] The company's research structure had consolidated a vast portfolio of technologies and solutions ranging from commercially feasible UHV technology; smart grids and the electric mobility segment.

[41] The alignment of corporate discourse and macro-economic and industrial policy agenda happens both with HQ and the subsidiaries. This is evident in the speech of a senior Xuji manager during the Industrial Internet Industry Alliance event in 2017, when she explicitly relates the subsidiary's goals to the overall industry plan: 'Our Xuji Group is an important unit in the national grid electrical equipment sector. The electrical equipment sector is also a very important equipment sector in China Manufacturing 2025. Our goal is to build a complete industrial chain with innovative power by 2020.' (CHINA INTERNET ALLIANCE, 2017). In the context of the China Manufacturing 2025, considerable attention has been paid to the Belt and Road Initiative as an opportunity for the power equipment manufacturing industry to 'going out', based on infrastructure and capacity cooperation in the field of energy. Interviewees of China's energy sector associated SGCC's activities in Brazil with the energy cooperation in the Belt and Road. While this does not represent an official version or foreign policy narrative of the Chinese state, it demonstrates the reproduction of state-guided ideas and an unifying ideology, as well as a source of legitimacy of corporate goals. While this applies particularly applies to SOEs, such as the SGCC, it should be understood that private companies of Chinese origin equally interact with the economic values and concept developed by the Chinese state. This in turn can help to the companies to justify their investment drive, technology or market choice.

Overall, State Grid is included in the group of Chinese companies that took advantage of a conjuncture based on two convergent aspects: on the one hand, China's government's policy to promote the internationalisation of the economy coinciding with the period of privatisation in Brazil, and on the other hand, the interest and strategies of the main companies in beginning the internationalisation process. The SGCC pursued its internationalisation with the same speed with which it engaged with its consolidation in China's energy sector. When pursuing an ambitious agenda, however, it was well aware of the challenges it may face. As one Chinese official described:

> *What works in China, does not necessarily work in the approach to Latin America. The way Chinese firms approach the Brazilian market is not only adding on their domestic knowledge in China, but also being shaped by the political system in Brazi*l (Interview with official of the Chinese Ministry of Foreign Affairs, 2016).

Unlike in other countries it invested in, State Grid arrived in Brazil already stronger and better organised, because it incorporated in 2010 as State Grid Brazil Holding S.A. (SGBH), which is a privately held company incorporated on April 28, 2010 with the main objective of participation in other companies. This company is a subsidiary of Top View Grid Investment Limited with a 0.0001% interest and International Grid Holdings Limited (IGHL) with a 99.999% interest. These companies are subsidiaries of the SGCC. Overall, this investment was the first outside Asia, and it differed from the SGCC's other investments abroad, such as in the Philippines, Australia, and Portugal, where the country bought stakes in the electricity grid.

Although SGBH acts as a private company in Brazil, it is bound to its Chinese SOE headquarters, and in terms of organisational structure, the company is bound to the control mechanisms of the Chinese state. For example, this implies reporting measures for central SOEs abroad. From an organisational point of view, State Grid brought the management organisation to the Chinese culture of organisational culture and conditioned indirectly by the state-party structure and its mechanisms in terms of control of corporate activities abroad. This has been affirmed by authors such as Warner et al (2004) who understand that in the case of SOEs, headquarters control the subsidiaries through personnel assignment and reporting measures to the parent company.

This must be seen in the wider context of the difficulties of assessing the organisational context of Chinese companies abroad, because there is little knowledge of the firm-specific processes underlining the firm's political strategy (SHAFFER AND HILLMAN, 2000). This was also confirmed by CEO Cai Hongxian in a media interview in 2013, in which he admitted the lack of proximity with the Brazilian market environment. SGCC would bring a small number of Chinese employees to '*adapt Chinese culture to the Brazilian way of business*' (ENERGY BOARD ROOM, 2013). This observation goes in line with sociological studies debating headquarter-subsidiary relations and the degree of independence when it comes to internalizing ideas and practices from the headquarters (KOSTOVA AND ROTH 2002, p. 230).

The Chinese characteristics are taken into the corporate governance, including aspects of the corporate party organisation. As observed in other studies, such as Schüler and Schüller-Zhou (2013), who refer to the institutional environment of the Chinese companies, specific cultural patterns and aspects of behaviour and ideas, such as hierarchy and authority central to China's traditional culture, influenced by Confucian ideology, advocating obedience to authority and hierarchy for the overall aim of harmony. In the case of SGCC, it is found that the firm promotes Chinese values and cultural characteristics, as expressed in its corporate responsibility programmes. As a consequence, the corporate interests and state interests show correlations in terms of softpower and projected image.

In general, the relations between the SOE and the subsidiary are shaped by control from the headquarters. [42] From a business point of view, SGCC brings with it the whole strategy of the Chinese government. The definition of the strategy goes through the definition of the Chinese government, with a comparatively clear understanding of seeking strategic assets and opportunities (e.g., mature technologies and managerial skills). This means that the corporate environment is also more susceptible to political and economic pressures resulting from the diversified actor in China and bilaterally. Furthermore, perceived obstacles reveal that the initial '*administration and operation of the company spent a difficult time to adapt to Brazilian policy. Only the assessment*

[42] A series of studies look into the relations between subsidiary and Chinese parent company from an institutional perspective, including Marchand, 2017 and Schüler-Zhou & Schüller, 2013.

of the environmental license took more than a year and a half and labor and tax policies are very different from China' (CHINA DAILY, 2015).

In terms of decision-making concerning investments and acquisitions, all decisions are made at Chinese headquarters:

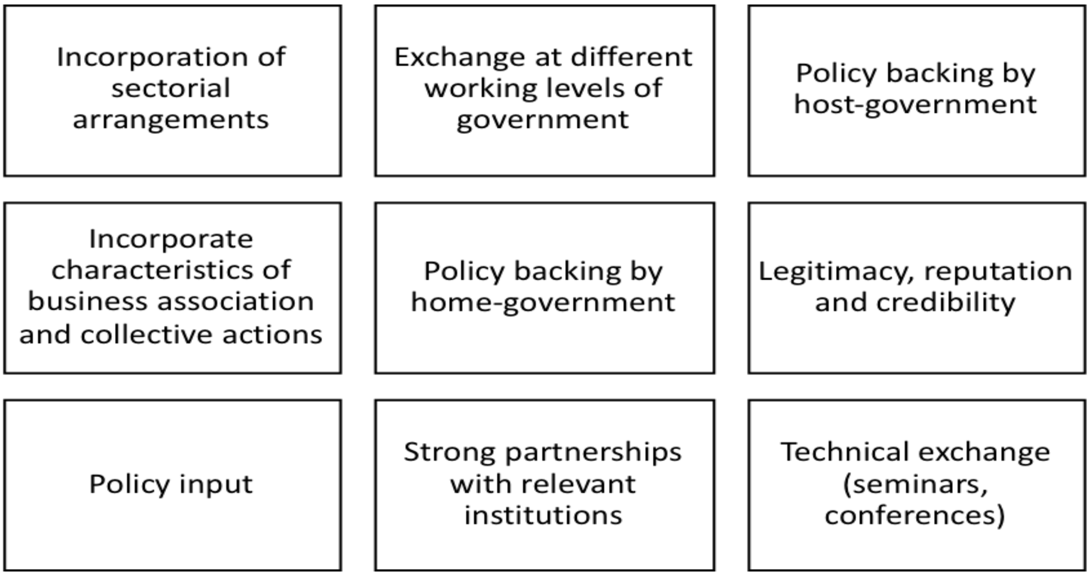
> *Cai explained that all acquisition operations in Brazil are conducted and decided by a special team at the group's headquarters in Beijing. The Brazilian holding only assists in providing information to the holding company* (VALOR, 10.10.2016).

In terms of high-ranking Chinese staff, regardless of the formal separation of government and enterprise functions, central SOEs such as the SGCC have retained vice-ministerial ranks as remnants of their institutional history as industrial ministries under central planning, thereby enabling their management to engage on an equal level with some of the government bodies that supervise them in China's domestic context (SAMPSON, 2016, p. 66).

For the company's operations, this implies that even though there may be a private business logic in terms of operational strategy, there is a strong formal link to the bureaucratic structure of the Chinese state. Such domestic positioning gives the company a comparative advantage since it can not only assess administrative and government structures, but also easily assess the foreign policy and diplomacy support structures, increasing the resources available to the company and becoming a facilitating factor in providing privileged access in the host government and decision-makers through targeted bilateral encounters and high-level political support. However, this does not entail that the support comes automatically, nor that the company represents Chinese foreign policy.

Additionally, the transmission sector in Brazil is a highly regulated one: the power to shape outcomes of policies, as well legislative dynamics concerning immediate firm interest, is rather limited. The statement above reflects the fact that the political agency of a company cannot be understood without understanding what different levels and forms of engagement make themselves available. The following figure lists a range of options the company may engage in including formal and informal contact with stakeholders, different timing and momentum for cooperation and institution building, reactive or proactive behaviour, an issue-by-issue-based engagement or a more long-term agenda.

Figure 6.2 - Engagement opportunities for companies



Retrieved from: Own elaboration

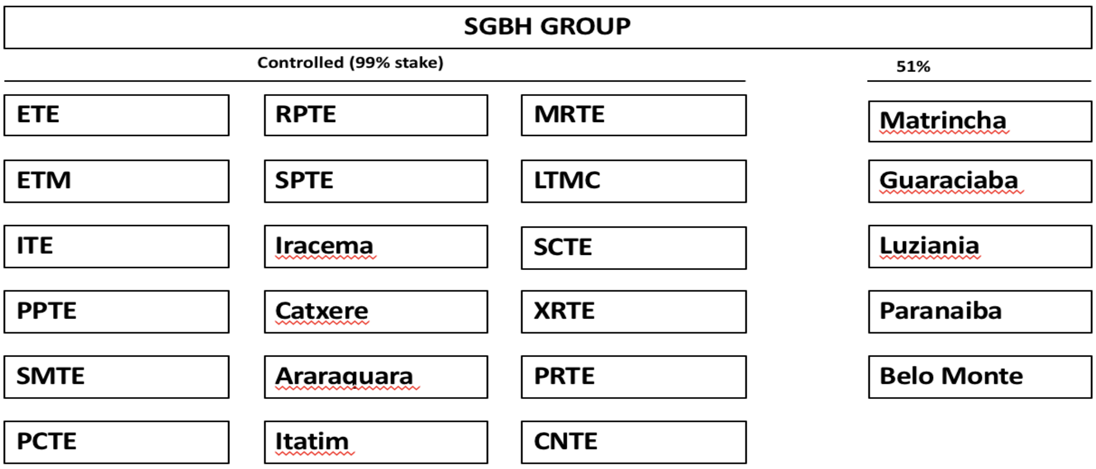
Despite the obstacles foreign companies may face in Brazil, the SGCC understood the opportunities afforded by the Brazilian power market with its market-based electricity price policies and more liberal outlook. In other words, it opened the opportunity for the SGCC to have a higher return of investment while similarly gaining experience with a complex transmission system like Brazil's, which still demonstrated some geographical similarity with the domestic environment the SGCC was familiar with and held a monopoly position in.

When the director of the ANEEL returned from a trip to China in late 2010 where he had participated in the Shanghai Expo, he pointed to the increasing dialogue with State Grid: 'The group is already talking with national [Brazilian] companies. And they can have market entry though the production of equipment (O TEMPO, 2010). Also in 2010, SGBH undertook its first investment in Brazil by acquiring seven indebted energy transmission companies that belonged to the Spanish group Actividades de Construcción y Serviços and another company from the Plena Transmissora group for $989 million USD, resulting in the increased capitalization and investment ability of the firms. Since its beginning, the SGCC has been clear about its long-term intentions in

Brazil. Plena was controlled by a group of Spanish companies, namely Isolux, Elecnor, Abengoa, and Cobra.

These companies were eager to sell their assets, because they had been suffering from the financial crisis and SGCC had the advantage of financial ability. In this case, the SGCC demonstrated that the company has both political capital and drive to ensure its interests, positively impacting its operations abroad where the company lacked market and institutional experience. Beginning in 2010, the company has grown through acquisitions and participation in auctions and today, with 21 concessionaries in its Brazilian portfolio, the company into an influential player in the market. The gradual expansion of SGCC in the transmission segment by participating in ANEEL auctions and greenfield projects in the field. Today, the SGCC has a vast structure in Brazil, as shown in Figure 6.2:

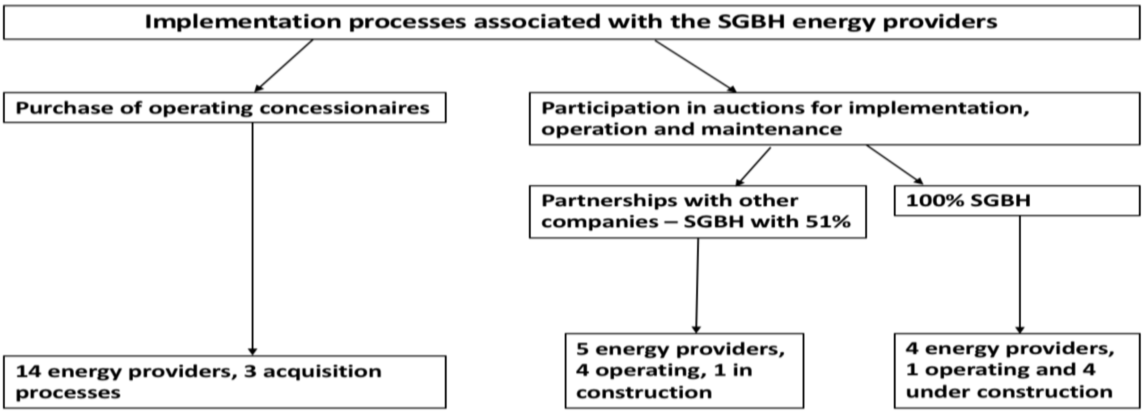
Figure 6.3 - State Grid Brazil Holding S.A.'s structure in Brazil



Retrieved from: State Grid corporate presentation, 2017

In the decade of its presence in Brazil, SGCC engaged in several public auctions. Auctions are won by the company bidding the lowest annual remuneration. Revenues of the transmission sector usually long as the projects last several decades. To offer a bid, financial resources for suppliers, EPC companies and other pre-auction related issues are required. One of the SGCC's effectiveness relies on the presence of deep-pocketed access to state funding (Xu, 2016).

Figure 6.4 - State Grid Brazil Holding S.A.'s business strategy in Brazil



Retrieved from: SGBH corporate presentation, 2017

Overall, following its market entry, SGHB engaged in the following businesses:

Table 6.1 - Key corporate developments of SGBH

Date	Subsidiary	Stake	Local Partner	Seller	Entry mode
06/21/2010	SGBH-E	100%	-	-	-
06/21/2010	SGBH-T	100%	-	-	-
12/15/2010	ETEE	100%	-	Plena	acquisition
12/15/2010	ETIM	100%	-	Plena	acquisition
12/15/2010	ITE	100%	-	Plena	acquisition
12/15/2010	RPTE	100%	-	Plena	acquisition
12/15/2010	CPTE	100%	-	Plena	acquisition
12/15/2010	SMTE	100%	-	Plena	acquisition
12/15/2010	SPTE	100%	-		acquisition
12/14/2012	Araraquara	100%		CYMI, Lintran	acquisition
12/14/2012	Catxere	100%	-	CYMI, Lintran	acquisition
12/14/2012	PPTE	100%	-	CYMI, Lintran	acquisition
12/14/2012	Itahim	100%	-	CYMI, Lintran	acquisition
12/14/2012	Iracema	100%	-	CYMI, Lintran	acquisition
11/18/2013	MRTE	100%	-	Public auction	greenfield
07/01/2015	ACTE	100%	-	CME, Tecneira	acquisition
07/01/2015	LTMC	100%	-	Cobra	acquisition
08/07/2015	XRTE	100%	-	Public auction	greenfield
04/27/2016	CNTE	100%	-	Public auction	greenfield
04/27/2016	PRTE	100%	--	Public auction	greenfield
09/29/2011	Luziania	51%	Furnas	Public auction	greenfield
03/14/2012	Guaraciba	51%	Copel	Public auction	greenfield
03/14/2012	Matrincha	51%	Copel	Public auction	greenfield
12/21/2012	Paranaiba	51%	Furnas Copel	Public auction	greenfield
03/20/2014	Belo Monte	51%	Furnas Eletronorte	Public auction	greenfield
12/07/2015	Montes Claros	100%	-	Cobra	acquisition
12/07/2015	Atlantica	100%	-	Pro-CME	acquisition
12/07/2015	Belo Monte II	100%	-	Public Auction	greenfield
24/04/2016	Lotes C&O in the auction 013/2015	100%	-	Public Auction	greenfield

Retrieved from: State Grid corporate presentation, 2017

As the above table states, SGCC focused on both greenfield and acquisitions with a controlling majority of shares. SGCC also integrated the processes in the sector (power generation, transmission and distribution). In 2011, the SGCC also debuted in the transmission auctions. Resulting from the approval of the Luziânia-Niquelândia Consortium in the ANEEL Transmission Auction 06/2011, held in 2011, Luziânia-Niquelândia Transmissora SA is the concessionaire responsible for implementing the Luziânia 500/230 kV and Niquelândia 230/69 kV, which are both located in the State of Goiás. The Consortium was formed between State Grid and Furnas, a Brazilian mixed economy company subsidiary of Eletrobras operating in the high and extra-high voltage energy generation and transmission segment. This success was celebrated by both partners: *'We have had the opportunity to win the auction, which is extremely symbolic because it is the premise of a very important partnership for Brazil and China and can serve for enterprises here and abroad'* (BRACIER, 2011).

As described in Chapter 3, the Brazilian energy sector underwent institutional changes that culminated in changes in the regulatory framework in 2004, with privatisations impacting the federal and state operators in the power market (Vianna, 2004). Several challenges had to be met by SGHB: services offered by State Grid had to be cheaper and fit the specifics of the Brazilian electrical system. In the Brazilian context, companies such as the SGCC are confronted by a set of decisions: for example, if and how to exert influence – direct or indirectly, reactively or proactively, formally or informally. The choice of tool in terms of business politics is directly related to the ends the tool has to meet, because different choices can, for example, generate technical and political support, including for complex policy issues, as well as the possibilities for obtaining better access and shortcuts. Interviews with industry experts revealed the different reasons for stepping into business politics. For example,

> *For technical matters, it is easiest to work on working-level, where technical expertise is being generated. It is important to create a base to support future business activities. It is not about lobbying a certain technology or technical requirement in or not, rather it is about how to create an environment that is open to change and that understands the potential of generating a competitive advantage and better technological efficiency* (INTERVIEW, SGCC employee, 2016).

Another form of engagement refers to the relationship to class entities, covering wide-ranging topics of the affiliated entities.[43] In this regard, they can have impact at the executive and legislative levels. SGBH is member of the Brazilian Association of Infrastructure and Base Industries (Associação Brasileira da Infraestrutura e Indústrias de Base – ABDIB) at the Brazilian Association of Transmission Companies of Electric Power (ABRATE). The participation in business associations brings access to strategic information for companies (e.g., influence on laws, regulations, and decrees; incentive mechanisms; credit lines; technical standardisation; opportunity for market development; identification of business opportunities; risks of opportunities; market studies and trends; and networking) and also implies the level of access the company generates through its representation, as confirmed by a SGCC employee:

> *We look into the associations mainly with the understanding that there are different positions in the associations that are strategic, including the presence in different working groups or technical commissions. It is here where we can advance strategic areas to business development.*

Other forms of specific engagement in the context of interest group with a policy objective, may refer also to broader topics, including Chinese investment or the overall climate of bilateral relations. By analysing the interaction between MNCs and multiple government institutions we develop an understanding about how firms target their political strategies at different branches of government when seeking more favourable solutions. The SGCC targets its resources at the institution that is key in the policy-making process. This process in the case of SGCC in Brazil, however, is very discrete.

In guiding and non-obligatory documents by the Chinese state, such as MOFCOM, Chinese firms are encouraged to develop and consolidate their relations with the government in Brazil. The table below presents selected extracts of the orienting guidelines concerning government relations, media relations and Chinese culture. Most importantly, it affirms that political connections matter for firms, but that the home country does not provide them with clear guidance on how they should go about doing so.

[43] Interview with interview expert, 2018.

Table 6.2 - Foreign Investment Cooperation Country (Region) Guide for Brazil

On government relations and relations with the parliament	6.1 Dealing with the relationship between the government and the parliament. At present, the economic departments related to the federal government mainly include the Ministry of Finance, the Ministry of Planning and Budget and Management, the Ministry of Development Industry and Foreign Trade, the Export Investment Promotion Bureau, and the Central Bank. Chinese companies should pay attention to establishing good relations with local governments. Direct contact based on business to establish business relationships and information channels. It is necessary to treat people with courtesy, be honest and keep promises, and win the credibility and respect of the officials. On the other hand, Chinese companies must make an appointment in advance when they are working with the Brazilian government, so that they are fully prepared to avoid unnecessary troubles, resulting in delays in time and economic losses. At the same time, the Brazilian parliament has played an important role in national legislation and economic and social development planning. Chinese companies must learn to communicate with the parliament, seek the understanding of parliamentarians, and try to get the support of parliamentarians in major investment decisions.	6.1 处理好与政府和议会的关系 目前，联邦政府中与经济有关的部门主要有：财政部、计划预算和管 理部、发展工业和外贸部、出口投资促进局、中央银行等。中国企业与当 地政府交往应注意建立良好关系。根据业务开展直接联络，建立业务关系 和信息渠道。要以礼待人，诚信守诺，赢得办事官员的信誉和尊重。 但 另一方面，中国企业在与巴西政府办事时一定要提前预约，做好充分准备， 以免出现不必要的麻烦，造成时间上的延误和经济损失。 同时，巴西议会在国家立法、制定经济和社会发展规划等方面发挥重 要影响。中国企业要学会与议会沟通，争取议员的理解，在重大投资决策 方面尽量取得议员的支持。
On media relations	6.7 Understand the Dealing with the Media The Brazilian media is now generally affirming the achievements of China's economic construction. However, it lacks an understanding of the social and political changes and progress brought about by China's reform and opening up, and has little knowledge of some of China's basic policies. Therefore, Chinese companies should adopt attitudes and skills in dealing with local mainstream media: (1) Should be low-key, and do not take the initiative to approach the local mainstream media. (2) If the local media has misrepresented China and has adversely affected Chinese companies, the responsible person of the relevant department should be asked to clarify the facts and seek justice, and save the impact, but don't take it for granted. (3) If the Chinese enterprises do something wrong, the local media should expose this. China should actively communicate and exchange as soon as possible to resolve conflicts in advance so as not to expand the adverse effects. (4) If the media interviews Chinese enterprises in order to positively promote China-Brazil cooperation, Chinese enterprises should introduce the facts of China-Brazil cooperation and mutual benefit and common development and the broad areas of cooperation between the two countries.	6.7 懂得与媒体打交道 巴西媒体现在普遍肯定中国经济建设的成就，但对中国改革开放带来 的社会、政治等方面的变化和进步缺乏了解，对中国一些基本政策一知半 解。因此中国企业在应对当地主流媒体中应该采取的态度和技巧： （1）应低调处事，没事不要主动接近当地主流媒体。 （2）如果当地媒体对中国有失实报道，给中国企业造成不良影响， 应找有关部门负责人澄清事实讨回公道，挽回影响，但不要得理不让人。 （3）如果中国企业确实做错了事，当地媒体要对此曝光，中方应尽 早积极沟通和交流，提前化解矛盾，以免扩大不良影响。 （4）如果媒体为了正面宣传中巴合作而采访中国企业，中国企业应 介绍中巴合作互补双赢共同发展的事实和两国合作的广阔领域。
Spreading Chinese traditional culture	6.9 Dissemination of Chinese Traditional Culture After the State Grid Corporation entered the Brazilian market, it actively carried out social welfare activities, especially helping slum children	6.9 传播中国传统文化 国家电网公司进入巴西市场后，积极开展社会公益活动，特别是帮

	to form cultural trips - slum symphony orchestras, and holding "CMB Cultural Month" and other cultural activities, giving back to the community. At the same time, the spread of Chinese culture has also enhanced the image of Chinese-funded enterprises in the local area, which has not only won the title of the best enterprise in the Brazilian power industry, but also won the "Best Practice Award for Social Responsibility Management" of the United Nations Compact Organization. The comprehensive strength in Brazil and the respect and recognition of the community and the power peers.	助贫民窟孩子组建"文化之旅-贫民窟交响乐团"、举办"中巴文化月"等文 化活动，在回馈社会的同时，传播了中国文化，也提升了中资企业在当地 的形象，使该公司不仅两度荣获巴西电力行业最佳企业称号，还获得了联 合国契约组织"社会责任管理最佳实践奖"，显示出在巴西的综合实力和 社会各界及电力同行对其的尊重和认可。

Retrieved from: MOFCOM, 2017

The analysis of business politics helps draw attention to the difficulties in assessing the ways firms relate to home and host governments and how the choices of political strategies are developed. Other than commonly assumed, political participation does not necessarily occur in the political processes of parliaments and law-making mechanisms. Rather, it can be developed through the consolidation of an agenda such as technology and topics related to social responsibility, thereby exercising an effect on the building of public opinion concerning the company and its market activities.

2012 marked an important year in SGBH's corporate history. The company bought electricity transmission assets in Brazil from Spain's ACS for $531 million and assumed debt of $411 million, taking over high-voltage electricity transmission assets from the company. With this deal, SGBH confirmed the aggressive strategy it chose to pursue in its market entry. While many had welcomed SGBH's market entry, the public perception of the SGCC as a Chinese state-owned company was scrutinized by public opinion in terms of the intentions behind the company's strategy.[44] The ability to leverage funds and access to funds via drawing on headquarters, banks, and financial markets gave SGHB a competitive edge. With its market entry in Brazil, State Grid had to develop its image and build a strong network centred on its business structure. Since the beginning, SGBH has sought to consolidate the positive impact of its business practices.[45] This is dates back for for CSR guidelines provided by SASAC in 2008 to further encourage Chinese companies to address shortcomings both domestically and abroad. The guiding vision behind SGBH CSR practices in Brazil is outlined in both

[44] Interview with employee of the Brazilian National Confederation of Industries, 2015
[45] Interview with SGCC representative, 2016.

annual CSR Report. According to the 2014 CSR Report, SGCC is committed to the following guidelines in Brazil:

Figure 6.5 - CSR commitments of SGCC in Brazil

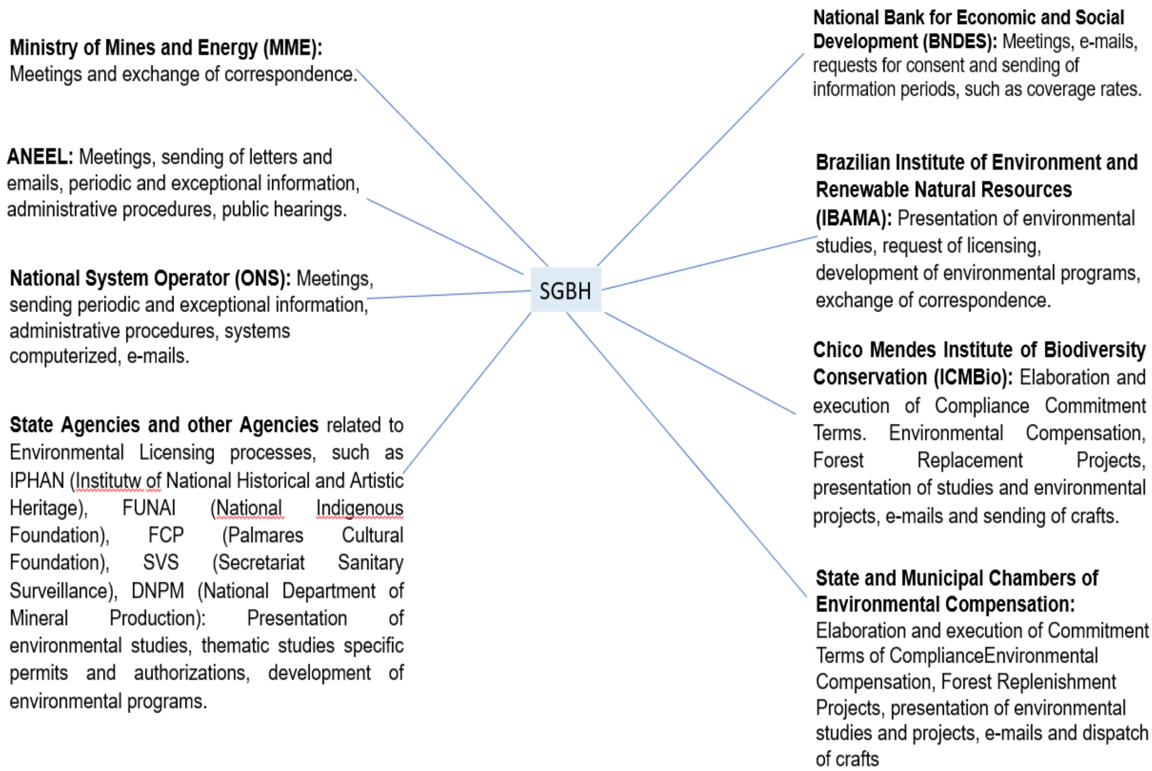
- **Stick to sustainable and harmonious development**: SGBH complies with local laws and regulations, respects local religious practices and national culture taking long-term localized development as its strategic objective. It's oriented to people and strives to build an international team with mutual integration, complementation and promotion among Chinese and Brazilian personnel.The company also protects employees' interests, cares for their development and has completed the construction of production office building and the second phase of integrated control center.
- **Boost cooperation among stakeholders:** The company has strengthened the exchanges of visits with senior officials from the Brazilian Ministry of Mines and Energy, ANEEL, ONS, and EPE. The company has also promoted technical communication and cooperation with industrial counterparts and participated in the bidding and construction of the transmission greenfield concession projects to take root in Brazil and stick to long-term development.
- **Participate in social welfare undertaking**: The company actively participates in social welfare activities and fulfils its social responsibility. Relying on the 'tax incentives' policy, SGCC invested BRI3.4 million to sponsor social responsibility programs. The company serves the local community by organizing social welfare activities, including 'Cultural Exploration- Symphony of Male' program, Rio Tour of International Youth Table Tennis, 'Sino-Brazil Culture Month', 'Rio de Janeiro Four Seasons Long-distance Race' and so on

Retrieved from: SGCC 2014 CSR Report

In this case study, the way SGCC understands CSR, shows the company`s ability to comprehend and respond both to headquarter expectations, media and institutional pressure in the host context, as well as potential risks associated with projects and ongoing operations in the context of its activities in the transmission sector.

A map of SGBH major institutional CSR stakeholders in Brazil focus on state entities, which require reporting or assessment, as for example in the case of IBAMA and environmental assessment procedures of infrastructure projects. In this regard, CSR becomes an inherent part of business politics as it immediately impacts on the public perception of the company both by society, government and wider politics. This has also been perceived by senior SGBH staff publicly reemphasizes the commitment undertaken by the company to stay in Brazil and act as a responsible actor as part of its non-market strategy.

Figure 6.5 - CSR actors



Retrieved from: Own elaboration, SGBH Sustainability Report, 2017

Lastly, CSR and the social commitment the company undertakes demonstrates the ability of the company to bridge cultural differences between headquarters and subsidiary. Size and ownership form of SGCC make CSR a compulsory element, while the sectoral characteristics of the power sector add on to potential environmental and social risks. Both the political and economic system in Brazil, where a comprehensive legislation on CSR-relevant aspects (social, labour and environment) protects and requires company reporting. As one former employee noted: '*The SGCC brings patents, human capital, patents, technologies, intellectual property rights, brands and a consolidated reputation as experienced operator in China. Reputation in Brazil is key, because it defines the perception of us as actors in the business environment.*'

6.2 Consolidation

From the beginning, SGBH demonstrated strong interest in disputing the concession to build the line that would transmit the 11,223 megawatts (MW) of power that would be generated by the Belo Monte hydroelectric plant for the rest of Brazil and was a greenfield investment. In its corporate discourse, technology and its development are building blocks of the SGCC's corporate culture and while the market was awaiting the announcement of EPE on the design and other technical details of this line – to be auctioned in 2012 and still in the design phase – State Grid sought partnerships with Brazilian (state and private) and international companies for generation projects of any source, be it hydroelectric, wind, biomass, or solar. Such strategic alliances were decisive for the company's success in Brazil.

The search for partners involved projects in both Brazil and other Latin American countries, including Copel, AES, Cemig, Alupar, Eletronorte, and the Rede group. With Eletrobras, an MoU was signed to develop joint projects. With the ONS, a memorandum provided for technology exchange and the working philosophy of State Grid.

However, the search for partners was not without resistance. Challenges from industry actors were present in the public discourse, voicing fears of a 'denationalisation' of the Brazilian equipment industry. MNCs in Brazil face a business sector divided between an outward-looking approach (e.g. agrobusiness and companies related to foreign capital) and the a more-domestic focused (e.g. national industry benefitting from local content requirements). This applied to SGCC when having to navigate its reputation and overall image in the media. For State Grid, however, the major complexity lay in the large number of operators, which made it difficult to coordinate and verify the entire system interconnected by the ONS. It is necessary to always renew equipment that sometimes belongs to different operators. In addition to the natural complexity of operating a large interconnected system, the existence of several companies may lead older equipment to conflict with newer machinery.

Moreover, the import of equipment from China would lose its competitiveness due to the high cost of freight, customs duties, and taxes (VALOR ECONOMICO, 2011b). The same concerns raised by powerful industry actors concerning national content requirements of equipment also appeared in terms of the workforce, whereby the company was quick to affirm that Chinese employees would only be hired for specific technological knowledge owned by the firm. In terms of equipment manufacturing, the company made publicly clear that it would use different suppliers, including local companies and other MNCs and not engage in unfair competition.

In the case of the transmission line of Belo Monte, the company affirmed that only those products that are not produced in Brazil will be imported: by negotiation with the suppliers, all necessary equipment and that are manufactured in Brazil, will be purchased from the Brazilian industry. According to Eletrobras, the equipment that is not yet entirely manufactured in Brazil, '*will have more than 60% of degree of nationalization'* (DCI, 2014). The fact that SGCC held the majority in its project had the advantage that it was able to select the suppliers and slowly introduce its equipment to the Brazilian market.

The case of Neoenergia demonstrates that not all business intentions turn out successfully. In 2012, the Spanish company Iberdrola was negotiating with State Grid to sell its stake in the Neonergia holding company, which controls three electricity distributors and a generator park in Brazil. The Brazilian government was against 'denationalising' Neoenergia (VALOR ECONOMICO, 2012f). Facing strong resistance from the Brazilian government concerning the sale of the 39% stake that Iberdrola has in Neoenergia to the SGCC, State Grid has decided to 're-evaluate' its intention to acquire the stake.

The company said in a note that the decision was made with the parent company in China and '*does not represent a change in the company's long-term investment plans in Brazil*.' The note continued, 'S*tate Grid continues to act as a Brazilian company, respecting the country's culture and laws, acting transparently, flexibly and reinforcing its commitment to work in partnership with other companies and with the government*.' The Neoenergia case included negotiations between the Brazilian and Spanish governments, with their respective ministers of industry and foreign trade of negotiating to achieve a result that was beneficial for both sides (VALOR ECONOMICO, 2012g). Shortly after, Iberdrola confirmed that it was not considering the sale of its stake; the

Chinese side had made many informal proposals, but no formal proposals were closed (VALOR ECONOMICO, 2012h).

When Copel sought new business partners, SGHB reached out with several proposals (VALOR ECONOMICO, 2012c). The 2012 consortium signed by Copel and SGHB initiated their entry in the transmission segment, with an initial offering of R$126 million for the construction and operation of Lot A, negotiated in auction nº 02 of 2012, referring to the following high-voltage projects: SE 500 kV Paranaite; SE Claudia 500 kV; SE Paranatinga 500 kV; Lot500 kV Paranaíta – Cláudia, CD; Lot 500 kV Cláudia – Paranatinga, CD; and LT Paranatinga – Ribeirãozinho 500kV, CD (Aneel, 2012), as well as R$73 million for Lot B, including the following projects: SE Marimbondo II 500 kV; Lot 500 kV Ribeirãozinho – Rio Verde Norte, C3, CS; and LT 500 kV North Green River – Marimbondo II, CD (Aneel, 2012).

These projects focused on the regions of the states Mato Grosso, Goiás, and Minas Gerais, and on substations of 500 kV capacity and high-voltage capacity of 500 kV (Aneel, 2012). This partnership with Copel meant a new step towards consolidating its presence in the Brazilian market. In a third venture, auction no. 07/2012 – Lot G was acquired in a consortium with Copel Geração de Energia S.A. and Furnas Centrais Elétricas S.A., with a proposal of R$100 million targeting the transmission lines 500 kV Barreiras II – Rio das Éguas, Rio das Éguas – Luziânia, and Luziânia – Pirapora 2 (Aneel, 2012).

In March 2012, the ANEEL announced transmission auctions. In total, eight transmission lines were offered comprising a total of 1,709 kilometres and seven substations with 1,710 megavolt-amperes (MVA) of power. The groups enabled for the auction were Teles Pires Transmission Consortium (Eletronorte, Chesf, Cteep, and Taesa), Guaraciaba (Copel and State Grid), Marimbondo (Alupar, Furnas, and Eletrosul), Paranaita (Bimetal and Engeglobal), Sino-Copelian (Copel, State Grid), and Sudoeste Goiano Transmissora (Celg and FR Incorporadora).

The following six states received reinforcement in their transmission networks: Amazonas, Bahia, Mato Grosso, Goiás, Minas Gerais, and Rio de Janeiro. The total amount of RAP, defined by the ANEEL for all lots, was limited to R$363.9 million. This amount was reduced as the dispute between companies increased VALOR ECONOMICO, 2012a).

In the Guaraciaba consortium, Copel and State Grid took Lot B of the auction with a discount of 36.96% in relation to the maximum annual revenue allowed by the government in the project (R$115.93 million). As a result, the consortium was awarded a substation and two 600-km transmission lines that will pass through cities in the states of Mato Grosso, Goiás, and Minas Gerais. The purpose of these lines is to drain the energy generated by the Teles Pires and Colider mills (VALOR ECONOMICO, 2012b).

The success of the consortium between SGBH and Copel was stirred up by national industry worries, specifically the alarm of Brazilian aluminium manufacturers that the two stretches of Sections A and B of the Teles Pires line would demand about 50,000 tons of aluminium cables, which is equivalent to about 30% of the current market in Brazil. There was no national content requirement, so strong competition from imported products could threaten the national plants (VALOR, 2012). This was expressed directly by an industry representative: '*If the Chinese state-owned company imports cables from China, it will seriously affect domestic production* (VALOR, 2012). SGBH sought to downplay this statement in its public statements, emphasising the role of local equipment manufacturing: *'We do not worry about importing material from China. We want to encourage the local market and work with state-of-the-art technology projects'* (VALOR ECONOMICO, 2012e).

In other words, in China's portfolio in Brazil, in terms of both projects and strategic cooperation areas, State Grid has become an important player whose performance not only impacts policymaking in Brazil, but also exercises strong impact on public discourse concerning the energy sector, which is one of Brazil's most strategic economic and high politicised sectors with different political arenas. The energy sector is a potential determining factor in political elections (e.g.in the year 2001 when the country suffered energy shortcuts).

It seems only natural that SGBH works from the premise of engaging in political discourse and media only when necessary. This shows similarities to the study by Hansen and Mitchel (2002) which confirmed that foreign-owned firms are less likely to engage in public lobbing and seek to maintain a low profile. This thus was confirmed by a company employee: '*A company is seldom a direct political actor, and we seek in no way to be exposed.' Rather, the ingredient for business success in the country is 'discretion and right positioning'.*

This shows the differences in the firm behaviour in different institutional settings (JACKSON AND DEEG, 2008), as also confirmed by the employee: *'Our headquarters have their standing in China, but here we act as a private company*. *This means that we are bound to normal compliance and ethical behaviour. It is not interesting for us to be directly involved in politics*.[46] The company is dependent on good relations with policymakers and regulators: '*Foreigners and new players need regulatory stability, and we have an agency that will trade (almost) whole in a year, and in the election year* (EXAME, 2018).

Governmental agencies other than the privatization agency can influence via formal institutions, in the case of SGCC, ANEEL was a fundamental actor when it came to guarantee regulatory stability. Informal institutions, on the other hand, such as media can exert an impact on public opinion and general business climate and perception of the firm in the country. SGCC had already learned from its internationalisation in the Philippines that public and political opinion had to be carefully managed to avoid business risks. In the context of the formal and informal conversations with the company employees and industry experts, the following motivations for engaging in political agency were identified:

Figure 6.6 - Reasons for stepping into business politics

Reasons for stepping into business politics	Instil overall favourable discourse on technical issue for competitive advantage
	Navigate for compliance, licensing and other regulatory interactions with federal and state agencies
	Maintain good relations with policy makers and regulators
	General environment of political activity of companies in the sector
	Counter negative publicity and political opposition
	Information input

Retrieved from: Own elaboration

[46] Interview, 12.03.2018

While the figure above specifically looked into the relevant factors for SGCC and Chinese firms in general, the reasons also apply for other foreign MNCs in Brazil. Needing to engage with industry-level policy, companies such as SGCC can define the quality to which they engage and whether their engagement is proactive or as a reaction to the sectoral or general policy environment. What positions the SGCC as a legitimate actor is its vast experience in successfully operating 800 kV DC systems, including construction and maintenance under difficult conditions.

The lessons of having corporatised in Brazil in 2010 and expanding substantially in the transmission segment has granted SGHB the ability and cultural understanding necessary to navigate its strategic environment. The steps of its expansion in the Brazilian market were closely coordinated by the domestic and overseas teams of the company's international business 'units to monitor market dynamics, conduct in-depth competition analysis, accurately build financial models, and scientifically formulate bidding strategies' (CHINA SECURITIES NETWORK, 2016).

As for the company's political involvement, the benefits of such engagement always vary. While for the U.S. context Schuler and Rehbein have affirmed that a firm needs both the 'will and ability to become politically involved' (1997, p. 126), this is also true in the context of Chinese central SOEs. One SGBH employee also confirmed this: *'As a company, we have an array of opportunities, but that doesn't mean we employ the means. In the last years, the Operation Carwash (Lava Jato) increased the level of scrutiny on companies and we choose very carefully on how to proceed.'*

The partnership with Furnas further consolidated SGBH's presence in the Brazilian market. In August 2012, Furnas considered embarking with Chinese companies on the due transmission auctions (VALOR ECONOMICO, 2012i). This was specifically relevant for SGBH`s planned participation in the auctions of the transmission lines that will start from the Belo Monte Dam. With the first auction of the Belo Monte lines – which offered those scheduled to connect with the northeast – scheduled for 2012, and the second auction of the north-southeast interconnection expected to take place in 2013, the partnerships were at stake for a successful bidding of the project.

In 2012, SGBH's business development was at full speed, focusing on large projects as well as new technologies, and intending to participate in solar and wind energy projects (VALOR ECONOMICO, 2012e). While the market had been awaiting EPE`s publication of the design and other technical details of this line, which was to be auctioned in 2012 and was still in the design phase, State Grid sought partnerships in the local market to consolidate its business (VALOR ECONOMICO, 2013). For the auction, State Grid studied partnerships with the Eletrobras group, with whom it already had an agreement to exchange experiences, as well as with other state-owned companies. In its public discourse, State Grid emphasised a possible increase of investments in Brazil: larger than the initially promised $5 billion, but it all depended on the bidding process. One SGBH employee said, 'The Brazilian government has asked us for a plan and we have come up with an idea, but that number is not fixed' (VALOR ECONOMICO, 2012j).

The company bid 38% below the ceiling for the Belo Monte transmission contract and 40% below the ceiling in the Teles Pires River auction. The biggest success was when State Grid won the auction to build the Belo Monte line, the nation's largest transmission line. Part of the work was to be done by the Chinese, along with the Brazilian companies Furnas and Eletronorte. As mentioned before, teaming up with local companies leverages benefits for State Grid, because it improves its knowledge of the local market, regulations, and other issues, and may result in the expansion of firm influence and network. Such learning processes are invaluable for the survival of the company in the local market.

The consortium called Belo Monte Transmissão de Energia (BMTE), formed by SGBH (51%) and Brazilian companies Furnas Central Electric S.A. (24.5%) and the North Central Electric S.A. Brazil (Eletronorte) (24.5%), bid with a proposal that was 38% lower than the government ceiling (Alvarenga, 2014). The contenders did not match such a competitive offering. The consortium was to construct a transmission line of approximately 2,100 km for the energy generated by the Belo Monte Dam in the state of Para.

When it was announced in 2011 that Brazil would adopt the company's UHV-DC technology to transmit electricity from the Belo Monte Dam in the Amazon River Basin over 2,500 km to Rio de Janeiro in a project jointly conducted between the SGCC and Eletrobras, it was clear that State Grid had initiated a process of convincing the Brazilian government of the viability of UHV-DC technology as an important leverage point for optimising the electricity system. This points to several issues.

It has to be remembered that at the time of SGCC's market entry in Brazil, the international market for UHV equipment was relatively small. This implies that the market building also had to work on a technical level by introducing technological development and benefits into the Brazilian context. First, tactically speaking, State Grid had to convince Brazilian sectoral authorities to adopt the UHV technology as one of the requirements in the transmission auctions to come. The EPE had to be convinced that this technology would be advantageous to Brazil and contribute to the optimisation of the Brazilian system. On a technical level, State Grid had to introduce change and opportunities at a working level that was still far from the political level in order to generate a perceived demand.

The EPE maintained a productive relationship with SGCC throughout the years in seminars and technical exchanges in China with the state-funded electrical research institution CEPEL. This was also confirmed by SGBH staff:

> *State Grid maintained contact with the research institutions in Brazil and exchanged information, facilitated research visit of Brazilian staff to China and drawing on the experiences and information obtained in China, the possibility of introducing new technologies to the auctions became reality.*

Given the company's knowledge base and the technological and organisational trajectories that had been built and followed over time, its added value was the application of state-of-the-art transmission technology, and this was used as a differential factor in the negotiation with Brazilian government authorities. To establish an enabling environment through contacts, meetings, or conferences gives a firm the opportunity to browse for relevant technological knowledge without mobilising substantial human or financial resources.

Moreover, informal technology transfer enables firms to access tacit knowledge surrounding formalised technological knowledge that may actually be needed in order to integrate scientific knowledge into the firm's business intentions. Moreover, such interactions may facilitate the attraction of talented researchers from academia who may both contribute to the quality of internal research efforts and act as 'gatekeepers' to bridge the firm's research activities with academic science (ROSENKOPF AND NERKAR, 2001).

Targeted business politics are used to establish unique intangible assets (i.e., firm-specific technology and knowledge) held by the firm and consolidate its competitive advantage in the country. Adaption of the firm is not uniform itself, however, and even by drawing on internationally and locally available resources, it may experience difficulties in dealing with different national actors. In this case, the argument that UHV transmission lines and other technological solutions could improve Brazil's transmission segment was used in tandem with the SGCC's general business interests in Brazil, which are useful for coalition building with relevant industry actors, as well as public relations.

This has also been confirmed by interviews conducted during the research. The statement below shows what actions the company took to further consolidate itself:

> *We used expertise and technological exchange, as we possess all the expertise, specifically in the field of engineering technology, which is in constant contact and exchange with China, has personnel coming to Brazil to provide consultancy and training. Thus we drew on our equipment technology that was developed in China, meaning equipment, software, technological solutions that we brought to the country, imported or brought the knowledge on how this could be developed in Brazil. The Brazilian equipment manufacturers also have their Chinese affiliates, so they make this import what has been developed in China.*

In other words, business politics courting technology development can help to anchor specific technological capabilities and knowledge in favour of business.

In 2013, SGHB submitted its first project alone with an initial offering of R$11 million for the concession of construction bids of the Marechal Rondon substation between the States of São Paulo and Mato Grosso do Sul with a capacity between 440 and 138 kV (ANEEL, 2013). Later in 2013, State Grid also evaluated distributor acquisition opportunities. Hongxian, however, has claimed that the Rede group and the Eletrobras distributors are not the most interesting assets for the company. The company is still in the process of learning in Brazil and does not want to take large risks. The ideal is to acquire distributors with balanced financial economic situations and good levels of service quality (VALOR ECONOMICO, 2013).

State Grid has also supported the coming of other Chinese conglomerate companies to Brazil. The establishment of the transmission technology requires complementary actors in the supply chain for equipment and engineering services. This is in keeping with the wish of China's highest political institutions to not only create but also export indigenous innovation.

The SGCC's subsidiary Nari Group Corporation, which produces smart grid equipment, opened a factory in Brazil that provides solutions for the transmission industry.[47] Nari is the largest wholesale supplier of electric power equipment in China and is an active player in the global power industry dedicated to providing technologies, products, services, and solutions for customers in other infrastructure-related fields such as industrial control, energy, railway transportation. Nari owns overs 36 branches in China and is active in over 300 overseas. In 2014, it had over 20,000 employees and RMB $48 billion in assets, in 2014. The company's facility in Sao Paulo State, in a city named Sorocaba, from which it distributes its equipment across Brazil and into other Latin American countries. Another subsidiary is Xuji Group, which acquired 51% of energy metermaker Nansen and will invest another $20 million in its Minas Gerais plant (VALOR ECONOMICO, 2013).

Beginning in 2013, the Chinese government has publicly declared its support of SGBH in Brazil and its efforts to develop one goal: to contribute to a more competitive and efficient energy sector. Senior leaders of both Chinese and Brazilian governments have noted the benefits State Grid can bring to Brazil on several occasions. At the third meeting of the COSBAN held in Canton on November 6, 2013 and attended by Brazilian Vice President Michel Temer, and Chinese Deputy Prime Minister of the State Council Wang Yang, the minutes gave the SGCC high-level exposure:

> *46. Brazil and China agreed to promote the exchange of technology for the transmission of large blocks of electricity, especially in ultra-high voltage, bearing in mind that Brazil is preparing a bid for the Belo Monte mill and that China has the most advanced technology in the world in this field. The Brazilian side reiterated that the Electrical Research Center, CEPEL, is implanting an ultra-voltage laboratory. This, in addition to the prospect that the electric market in Brazil will double in 15 years, could serve as an*

[47] Interview with researcher from NARI, 2016.

> *additional incentive for investments of more Chinese companies in hydroelectric plants, based on the successful example of the State Grid (*Brazil-China High-Level Commission for Coordination and Cooperation, 2013). [48]

To efficiently anchor SOE investment in the host context, state-state level is the preferred playing field, but it presents its challenges. In the course of its corporate history in Brazil, SGHB has received high-level support by agencies and entities of the Chinese government, as well as working and technical level exchanges. This, however, does not necessarily present unique feature of SGCC or Chinese foreign policy, as many countries provide support in aid to their companies abroad. [49]

The company grew to use its entire network to generate competitive advantage. In July 2014, Chinese President Xi Jinping and his Brazilian counterpart, Dilma Rousseff, witnessed the signing between Chinese and Brazilian companies. Thus, State Grid found its way into the Joint Statement between the Federative Republic of Brazil and the People's Republic of China on the State Visit of President Xi Jinping to Brazil and the Deepening of the Brazil-China Global Strategic Partnership – Brasilia, July 17, 2014:

> *17. The two Heads of State highlighted the great potential for cooperation in the areas of energy and mining. They reaffirmed the importance attached to the presence of the Chinese companies China National Offshore Oil Corporation (CNOOC) and China National Petroleum Corporation (CNPC) in the consortium responsible for the development of the Libra oilfield and positively welcomed State Grid Corporation's investments in the construction and operation of transmission lines in Brazil.*

On that same occasion, a cooperation agreement between Eletrobras and SGCC was signed, reinforcing the overall opportunities on cooperation regarding 'Smart Grids'.

In May 2014, Chinese Prime Minister Li Keqiang and Brazilian President Dilma Rousseff launched the cornerstone of the project, which is one of the largest works in Brazil to expand and strengthen the national electricity system. With the Belo Monte pipeline, Brazil will have the first transmission line in Latin America in DC at the ultra-high voltage level. This high voltage only has precedents in China, where State Grid

[48] Brazil-China High-Level Commission for Coordination and Cooperation, 2013.

[49] Further research could be conducted on the differences between how host-governments relate to their own MNCs and their subsidiaries abroad. Differences in state-support, in terms of commercial diplomacy and advocacy support.

lines already exist in 800 kV UAT (Ultra High Voltage). Given China's ability to draw on its experience in its own large domestic market with diverging local conditions, this project offered State Grid credibility as well as market share. High-level attention further reinforced that this project would have to perform satisfactorily. In 2015, SGBH bought the operational transmission lines of Montes Claros from the Spanish company Cobra and the Atlantic line of the Portuguese company Pro-CME. In May of that same year, China's Prime Minister Li Keqiang signed a $53 billion investment package and over 35 bilateral agreements.

During his visit in Brazil, he met with SGCC leaders, demonstrating the official policy backing by high-level government leaders and the strong ties the company enjoys. For example, at the 2015 inauguration ceremony of Brazil's Belo Monte Hydropower UHV Transmission Project, Chinese Premier Li Keqiang, who was visiting the country, and Brazilian President Dilma Rousseff were both present. SGCC Chairman Liu Zhenya and Eletrobras CEO Costa were also present at the ceremony.

As the SGCC's first overseas UHV DC transmission project, this marked an important breakthrough in China's 'Going Global' strategy for its UHV technologies, as well as a new milestone in the power cooperation between China and Brazil. Winning this auction of the so-called second Belo Monte bipolar will provide energy from the Xingu River in the state of Pará to the southeast region of the municipality of Nova Iguaçu of the state of Rio de Janeiro. The tender involved a single batch of 2,550 km of transmission lines and 7,800 MW of installed capacity in two substations. Upon winning this auction, an SGCC executive stated,

> *Thus, Brazil began to implement this technology here in Brazil in partnership with established local companies, together with Furnas and Eletrobrás. To make this feasible and not create commercial, cultural and organizational barriers, State Grid worked with companies of Brazil. Already in the second moment, with the technology almost consolidated, State Grid showed its ability to master the technology, entered the second auction alone and won.*

That same year the company was awarded a contract to build and operate a second transmission line as part of Brazil's massive Belo Monte hydroelectric power complex. State Grid's goal had been to also build the second line in partnership with Brazilian companies, but the company was unable to sign an agreement with any partners until the July auction. The project was to use ultra-high-voltage technology to transmit both

AC and DC circuits of 800 kV. The Belo Monte case affirms the relevance of diplomatic intervention and technical support constituting soft policy instruments to promote inward and outward investment.

6.3 Between Brazil and China: The company as a local and a global actor

State Grid's degree of political standing provides it with the chance to access coordinated political support outside of China's domestic control structures. Furthermore, it is able to engage in collective national business representation through the Chinese Embassy, where issues with companies are articulated (CHINESE EMBASSY, 2011). Home government and contact with other national companies can create a strong platform for interest representation (diplomatic pressure, piggybacking on further collective actor pressures). But apart from the structure provided by the Chinese state, Chinese companies, including SOEs, are competitors, as the case of the bid of China Three Gorges (CTG) bid against SGCC for the hydro-electric plant Sao Manuel in Para State demonstrates. CTG won the and was joined by EDP Brazil and Furnas for the construction of the hydroelectric power plant, which will have an installed capacity of 700 MW (BRASIL DE FATO, 2017).

This shows that it is possible to draw upon a network-based support framework, which may focus on certain issues or difficulties, and also create an enabling environment in which relations can be conducted and facilitated by developing shared approaches and strategies. Such strategies might be particularly relevant in the case of host countries with strong state intervention in markets, as is the case in Brazil. In the end, the case of the SGCC shows how important the home state is in providing influential support to guarantee a continuous, smooth investment climate.

It is worth noting that the SGCC has bid below the government-set ceiling in auctions for large transmission contracts. As described in Chapter 3, the government auctions require a substantial financial commitment and risk predisposition. According to Whately (2018), to engage big-scale projects, the firm requires the ability to mobilize sums in a short time frame and engage in different forms of risk mitigation. With its large corporate structure, the SGCC has the power to mobilise large sums rather quickly. Such financial and political buffer provides the SGCC with a competitive advantage compared to other state-owned and private enterprises. In such projects, revenues may only return a significant amount of time later. While bidding below the ceiling, the return of the project is also subject to the avoidance of social and environmental risks that can easily impact the project's profitability. This makes the need for risk mitigation and political support for such investments even higher.

While FDI and MNCs have always been subject to populist rhetoric and diverging political opinions, both in home and host countries, the SGCC has successfully navigated this terrain. It further aimed at consolidated a vertical market integration, expanding into the generation segment. Diversifying its assets, in January 2017 the SGCC completed the acquisition of a 54.64% stake in the largest private utility, CPFL Energia S.A., with 23.6% from Camargo Correa SA, 29.4% from the pension fund Previ, and 15.1% from Bonaire Participacoes (pension funds Fundacao CESP, Sabesprev, Sistel, and Petros). At the time of the acquisition, CPFL Energia held 14.3% in the distribution segment and an installed capacity of 3,192 MW. Just as in the case of the acquisition of the Spanish companies, the control holders of CPFL lacked financial capacity and had to engage in debt reduction.

When State Grid decided to invest in CPFL, it also decided to establish two holdings and two lines of action: one would be exclusively for the transmission segment, and the other would be exclusively for distribution and renewable energy, which is CPFL-renewable. After that, two companies were organised, one being State Grid Holding based in Rio de Janeiro, and the other being State Grid Brazil Power with headquarters in Campinas and responsible for distribution (CPFL) and renewables.

Up to 2018, the SGCC has been at the forefront of the Chinese enterprises in Brazil in terms of volume of investment, asset acquisition, and public exposure. Burdens, benefits, and risks all had to be redistributed and carefully negotiated during the nearly nine years of the company's presence in Brazil. As a foreign investor, the SGCC was initially in strong position vis-à-vis Brazil before investing, because Brazil was actively seeking to attract inward FDI. Conversely, as an SOE, the SGCC has been less vulnerable since the investment was made, and Brazil guaranteed reliable business and regulatory environment.

With this diverse set of engagement in Brazil, the company can shape the content and direction of foreign policy in the energy area via critical information and expertise, facilitate policymaking input, and encourage cooperation at different levels. A major issue of contention in the debate is the notion that companies have become significant in international relations. This is certainly the case for SGCC: '*Internationally speaking, we have been engaging even at UN-Level. This feeds directly into our role and position in Brazil, provides us with legitimacy and credibility to share our mission and values. We relate to a wide range of institutions.'*

Finally, it is also possible to anchor both the role of Brazil and UHV within a larger picture. The SGCC launched GEI, which has already been anchored to the wider actions of the Brazilian MOFA, as well as the wider context of BRICS' engagement. Furthermore, the GEICO initiative has been anchored into bilateral as well multilateral policy agendas such as BRICS'. In the case of China's foreign policy support, apart from the Chinese embassy in the country, a handful of government agencies have lent a helping hand to the State Grid's business activities abroad.

In the end, this indicates that national institutions in both home and host countries strongly impact the way firms navigate their market strategies. The SGCC has acted as a resourceful policy entrepreneur by deploying risk, using agenda setting, and strategically using different negotiating tactics (diplomatic, bilateral) in order to consolidate its market position. Briefly comparing the SGCC's presence in China to its presence in Brazil allows for the generation of a more detailed approach when it comes to the firm's political engagement.

There are multiple reasons for companies to engage in business politics, some of which are driven by business opportunities, but some of which are not. The following table summarizes the institutional settings impacting on SGCC and its subsidiary SGBH in our study:

Table 6.3 - Institutional settings impacting on SGCC

	Brazil	**China**
State-business relations	State-business relations are shaped by federal government. For foreign MNCs, relations are rather formal.	State-business relations are shaped by strong party - state presence at provincial and central level. Relations are rather informal.
Sector characteristics impacting on SGCC	Strongly regulated, with presence of strong state.	Energy sector is strongly regulated. Central government's guidance over this specific industry as a strategically important sector of the country's economy is subject to substantial interference by central state firms
Business – market interaction impacting on SGCC	Country protects its domestic markets in order to make sure that the national industry benefits from increasing demand. Firm has CSR framework in place; alliances with local companies to avoid risk.	Key player in the market. The clout of central SOEs extends deep into the national economy.
Business government interaction of SGCCC	Traditional mechanisms of governmental relations and formal political relations with formal government agencies and institutions are of high relevance for private actors. Business association relevant actors due to lack of company's local knowledge and network.	Nomenklatura: relationship between government and business organisations; political connections (executive and legislative connections); networks and appointments to government positions, parties, and regulatory agencies; and participation in policymaking due to governments' strong reliance on firm expertise in a specific area.
internationalisation context of SGCC	SGCC present in bilateral state-state relations, receives diplomatic attention both by home and host context. Diplomatic support for key projects (e.g. Belo Monte) with high-level participation. In Brazil, where its institutional embeddedness was weak, it depended on comparative economic advantage, such as low-cost bidding, technology knowledge transfer, and comparative political advantage, such as diplomatic support.	The company developed the ability to pursue its industrial and internationalisation agenda with relative autonomy, albeit confined to the state-business relations. Overall, a pro-business development approach and policy support that is aimed at internationalisation pursue the overall objective of moving up the value chain. Within this dynamic of domestic and international arrangements, domestic policy support for outward FDI draws on competitive political advantage, comparative economic advantage, and a comparative symbolic and economic diplomacy advantage, as Alden and Hughes (2009) has demonstrated.
Overall features of business politics of SGCC	Provision of empirical evidence and expert knowledge (Quiet politics approach by Keller, 2018); High-level endorsement of home country; low-bidding strategy.	Mainly pressuring through conflict expansion and increasing the salience (Noisy politics approach by Keller, 2018).

Retrieved from: Own elaboration

Benefitting from strong state support, even though the SGCC's position may be unique, the chapter demonstrates that SOEs are able to develop their economic importance and are willed to invest resources to ensure their interests are best represented and make informed strategic decisions. As the SGCC's case shows, the company operates as a global and local actor, adopts global strategies for value creation, and simultaneously engages in local interest representation by maintaining strategic engagement relevant to the subsidiary interests with local institutions, associations, and relevant actors. While in the host context, the company is embedded in the formal regulatory and sector relations, it relies on its informal embeddedness in the Chinese state system to advance its business interests. As a result, the case study shows that the firm is able to incrementally build on existing institutional strengths and industrial capabilities to participate in the Brazilian energy sector, while simultaneously consolidating its domestic position in China.

7 CONCLUSIONS

This concluding chapter pulls together all the insights from the dissertation to understand how business politics are used by state-owned companies in the context of internationalisation. The changing character of business-state relations is important to an understanding of the international political economy. As Vogel (1996, p.158) observes, '*business does enjoy substantial political influence in every capitalist society; however, the variations in its influence—both over time and across different countries—are equally important.'*

This dissertation is concerned with the internationalisation processes between 'state-permeated economies' (Noelke, 2014), and particularly the role of state-owned multinationals. The main objective of the dissertation is to analyse the political logic of state-business relations in the internationalisation process of a Chinese central-level SOE (i.e., the SGCC) to Brazil. The case of State Grid in Brazil enables the understanding of the role of political resources in the home context and in entering and operating in a local market. The case is also theoretically relevant, because it provides the analysis of the resources employed by the company at three levels: the domestic and host countries, the sectoral, and the organisational level. These three levels cover much of the company's policy range and enable interaction between the three levels within the context of internationalisation.

Emerging countries' SOEs are increasingly internationalising and have expanded their global presence (Cuervo-Cazurra et al., 2014), impacting the organisational structure, business endeavours, and scope of firms. In this dissertation, I elaborate on an approach of indirect business politics based on SOEs' engagement in terms of advocacy relevant to their business interests. In this regard, throughout the dissertation, business politics are understood as a way of directly or indirectly leveraging interests. Since internationalisation was focused on as a process across home and host contexts, two specific arenas of potential corporate political action were scrutinised: the electricity industry and the internationalisation policy, and the related state-driven support structures.

The case shows differences and similarities in the way economic coordination impacts on state-business relations. As Verbeke and Kano (2015, p.15) note, `*institutions do* *matter in internalization theory; they can affect additional costs of doing business abroad, and they determine individual firms' historical paths of capability development*. Different from other countries where business politics would focus on parliament and congresses, in the case of SGCC`s presence in both Brazil and China, the political systems of both countries result on different ways the firm choose to build its relationships with key decision-makers. In the case of China, the fragmented relations between central and provincial state, as well as party - state structures, give room for a system of sophisticated inter-personal relations, where the high-ranking SOE staff is able to secure resources, knowledge and preferential treatment, as well as provides sectorial expert knowledge. In the case of Brazil, the SGBH as the SGCC subsidiary has to navigate within a country politically characterized by the pre-dominance of the central-level decision-making structures.

7.1 Summary of findings

Empirically, this dissertation contributes to understandings of the interaction between markets and state and regulatory bodies in Brazil and China. In particular, there are very few empirical studies of Chinese company internationalisation to Latin America and the role of the different policy environments relevant to the firm. When it comes to the significance of political connectedness for SOE internationalisation, the political dimension of SOE internationalisation is more implied than outspoken: the unchallenged role of the state in determining investments is often presumed by the literature and portrays a one-sided and homogenous understanding of the state and its actors. One of the key conceptual contributions of this study is to place the idea of business politics, by focusing on a single case study rather than on macro studies of different SOE typologies. While this can be a potential limitation for further comparability, it makes it possible to capture the specific features of the case. Given these provisions, six main conclusions can be drawn.

First, the relations between China and Brazil move within a window of complexity and are overall state-driven. The Chinese state follows certain ideas and ideologies that help the short-term/long-term economic interests through foreign policy and diplomacy, including incentives for internationalisation, global competitiveness, and industrial cooperation. According to the same logic, diplomatic relations to Brazil are embedded in strategic interests and in ideational concepts. For Brazil, China became a relevant partner in the beginning of the 2000s, and ever since, both countries have engaged in bilateral relations that provide a vital entry path and favourable environment for Chinese companies with interest in the country.

This highlights the importance of market craft for shaping the business environment, including networking, negotiations, and bilateral activities such as trade and investment promotion, S&T cooperation, and advocacy for domestic business. Several activities developed by public actors between home and host countries can be encouraging factors for facilitating and promoting business. As seen in the course of the study, both Brazil and China make use of commercial diplomacy and, likewise, firms navigate and profit from these engagements.

Second, at an organisational level, the political logics a company adopts may vary distinctively. The choices of which tools and mechanisms and direct or indirect approaches the company chooses are not only consequential, but they reflect the different institutional and national systems. The institutional conditions impact the business politics, because they are sources of legitimacy, authority, and identity. In certain circumstances, therefore, companies may choose direct access to legislature/parliament, whereas in other cases business associations may be more effective in driving interests forward.

When engaging in the regulatory process, MNCs face two related decisions: whether to engage reactively or proactively, and how to exert influence on decision-making processes. In this context, business politics can be understood by examining company development, changes in the market and ownership structure and situation, the political environment, and how these issues together contribute to the development of the decision-making processes. Thus, this study goes beyond the negotiations of MNC entry in a foreign country to examine the consolidation of the company as a process. This is also necessary as according to Verbeke and Kano (2015), institutions do not function in isolation but in a multi-layered system with interacting microlevel actions, firm-level strategies, and macrolevel policies coexist and interact.

Third, the 2001 blackout of Brazil's electricity network led to the government introducing new investment opportunities and opening doors for foreign enterprises. With the PT government entering administration in the following year, further reforms were introduced targeting the improvement of the transmission and generation segments. This allowed foreign companies to enter the market, among them Spanish MNCs. In the case of China, corporatist state-business with the domain of the state and the proximity to the state-driven business (SOES or mixed ownership forms), an authoritarian and interdependent decentralised governance structure between local and central governments, market control, and businesses' need to main intimate relationships to the state explain how firms navigate the electricity sector.

Thus, differences in the logic of state-business systems function may explain why companies choose different paths to navigate their interests. For example, the embeddedness of industrial capabilities in China implies that central government policies encourage the emulation of advanced R&D capabilities belonging to foreign enterprises by applying technology transfer, targeted research, development, and available funding. In terms of technology transfer, it should be also mentioned that market access in the energy sector is a distinctive feature between China and Brazil, because in China market access for foreign companies in certain sectors is bound to joint development agreements of firm products (technology transfer) and is more regulated than in Brazil. Firms such as the SGCC have benefitted from such policies, enabling them to participate less than a decade after their creation.

Building up such engineering capabilities is vital for firms in the energy sector, as shown by the case of the SGCC in Chapter 5. Companies such as the SGCC were able to operate very quickly from the technological frontier and could therefore speed up their competitiveness and industrial upgrading in the industry supply sector. While the industrial upgrading was encouraged by authorities, fierce competition within China demonstrated the firm's need to develop political logics and foresight. Such knowledge may be helpful for understanding the dynamics of other Chinese companies in Brazil. Energy firms tend to have highly specific assets and are therefore more likely to lobby along industry lines (Alt et al. 1999).

In the case of the present study, the tools of industrial policy (regulatory policy, subsidies, funding for R&D, etc.) were all disputed by the energy firms in China's domestic environment. Energy firms are also capital-intensive and highly technical, meaning that their size and expertise provide them with informational resources and the ability to articulate their interests. This is also relevant when energy sector firms in Brazil engage in the class entity associations relevant to their sectorial activities and develop close ties to state entities.

Fourth, this dissertation makes a contribution to comparative understandings of Chinese state industry by demonstrating the policy process that Chinese SOEs engage in, showing that state ownership and SOE autonomy are related but not synonymous. The SGCC is bound to the structures of the Chinese state with state ministries and companies competing against each other and with hierarchy being a central element crossing formal and informal structures. The regulatory strength and policy gridlock are further fuelled by SOEs' autonomous internationalisation efforts, and in practice, these efforts are translated by the SGCC's drive to break into international markets by relying both on formal institutional behaviour and informal practices that actively govern state-market interactions, particularly in the context of the internationalisation of SOEs.

The internationalisation of China's most strategic sectors, particularly in the energy field, is rooted domestically in the interplay of deliberate central government guidance and by large, central state-owned enterprises (SOEs) based on motives that are not necessarily aligned with those of the central government (Sampson, 2016). The interplay of the domestic institutional actors; the role of individual relations, including the high administrative rank; excellent political connections; and increasing political and financial autonomy all determine SOEs' embeddedness in China's state-business relations inside and outside the country. However, the degree to which the state's administrative entities and public sector interlock varies largely.

Fifth, the business politics employed by the SOE in this case study vary across contexts. Firm internationalisation involves different layers of interest and power between political actors, whether in the domestic or external spheres of a state. With firm-specific advantages differing from the standard analysis of ownership advantages applied to western firms, MNCs from emerging economies challenge conventional international business and political economy approaches (Ramamurti, 2009).

Ongoing debates are intended to understand the aspects of emerging multinational corporations` strategies. The SGCC, successor to both the integrated power sector monopolist SPCC and its governmental predecessor MEP, was founded on 29 December 2002. Since its emergence, State Grid has been closely interrelated with the state and party structures of China and should be particularly well-suited for the purpose of examining business politics in the internationalisation process.

Similarities with other cases of SOE internationalisation can be drawn, as for example in Meidan (2016) in his case study on the Chinese oil industry. While the oil SOEs have become major investors in the global upstream and established a presence in global refining and oil trading, the oil sector is state-dominated. The relation between state and SOE balances between the majority stake of the state, and intervention such as price setting, provision of diplomatic support and influence over commercial decisions, while on the other hand, the company holds technical expertise and market insights valuable for policy-making (Meidan, 2016). This case proves true for SGCC.

As seen throughout the dissertation, SGCC is a conglomerate firm with multiple subsidiaries, business units, and different specialisations. This allowed the firm to develop and quickly advance research and engineering capabilities within its own company. It possessed the financial backing as well as the human and technical capital necessary to establish the required capabilities to bring forward the firm vision and navigate the opportunities and constraints of the party state. The SGCC expanded its organisational boundaries and developed the resources to maintain its status quo and establish itself beyond the set boundaries of the industrial plan established by the central government.

The research shows that while the SGCC acts with a commercial logic abroad, the vision, ideas, and domestic ideology of China's party state guide its long-term interests. For example, the SGCC has not just entered the global stage as a company with multiple interests across different continents. One of its ambitious ideas is the GEI initiative, 'a globally interconnected power system, supported by Smart Grid infrastructure, and making optimal use of UHV technology to transmit power over great distances' (GEI, 2018), which is being driven by SGCC Chairman Liu Zhenya. In this context the GEIDCO was launched via the cooperation of dozens of equipment manufacturers, energy corporations, business associations, and civil society groups.

Overall, such company engagement follows the logic of occupying the windows of opportunities in the global economy and building on the networked strength of Chinese industrial actors and state resources. Similar efforts can be seen in the context of standardisation in that since 2012 the company has also further stepped up its engagement in the international associations (leading posts, including chairs as (vice) presidents, and leaders of working groups) relevant to firm advocacy. Such engagement steps in the place where traditionally industrialised companies ensure their dominance in standardisation to keep international standard development closely aligned with domestic priorities. It has to be kept in mind that certification bodies function as nongovernmental organizations of private governance matters with a strong impact on national economies. Here, SGCC engaged in institutionalized mechanisms of corporate interaction with the possibility to impact the rules of product development and the market behaviour of other economic actors.

Sixth, when it comes to the consolidation of the SGCC through its subsidiary in Brazil, political bargaining mainly takes place on two stages, namely the economic diplomacy stage and the technological level. The diplomacy stage encompasses economic diplomacy efforts involving the efforts of formal state players and other stakeholders responsible for promoting or attracting FDI. This calls for the specific importance of state-level bargaining and bureaucratic impact on firm internationalisation and presence in markets abroad.

This is evident in the state support given to the SGCC during government visits to Brazil and in consultations and policy documents, demonstrating that the state-business relationships of the SGCC in China externalise as the company becomes a multinational operating company and draws on state support to open new opportunities. In general, while direct interest politics may be a more straightforward approach, MNCs may be able to amplify their influence more discreetly by asking interest groups and home governments for help. Rather than assuming implicit lobbying activity targeting specific bills in Senate or Congress, the ways in which a company can negotiate its activities is more diverse.

On the technical level, the comparative advantage the SGCC generated itself in the Chinese domestic market provides it with the right capabilities to engage with the needs of the Brazilian transmission segment. Like other MNCs in the country, SGBH maintains a low profile and publicly stresses its long-term interests in Brazil. Generally, the more technical the issue, the less relevant and observable it will be to the public. In Brazil, the technical discussions relevant to regulatory issues are mostly had in technical committees or working groups of associations. State Grid Brazil Holding S.A. is a member of those industry associations and participates in the available fora. What differs from SGBH's commercial goals in Brazil is that in China the SGCC assumes a higher bargaining power due its industry position. In Brazil, it has also successfully employed UHV rhetoric as an additional benefit of having the SGCC operate the transmission lines.

In the end, it is the combination of political and technological vanguard which positioned the SGCC, reacting to regulatory activity by explaining the company's position, providing seminars and other presentations, responding to requests for information, displaying technical expertise, and participating in interest groups (a normal activity for companies in the sector). For example, sharing technical expertise with the EPE and other institutions created a playing field at the working level by partnering with CEPEL, the ONS, and the EPE on smart metering and high-voltage technology. The strong interests of the company in the transmission assets became evident when the company bid far below the ceiling at the Belo Monte auctions.

With such large-scale contracts, the company publicly re-emphasised its commitment to improving the Brazilian transmission sector. It also reflects the fact that Chinese investment in the energy infrastructure does not go without tension, because the ideological and geopolitical concerns concerning Chinese investment have been raised several times by national industry, as well as by political and legislative actors.

In Brazil, the company acts as a private actor but can build on competitive advantages provided by state support offered by the Chinese government as well as investment attraction as promoted by the Brazilian government. While this does not guarantee

SGBH privileged treatment at auctions for transmission, the Chinese state's backing, for example, can provide a better starting position. However, SGBH's investment intentions have not always been favoured by the Brazilian state.

It is widely presumed that companies pay attention to non-market issues such as the political sphere because this can benefit business procedures (e.g., benefitting from certain opportunities or leveraging resources to the company's advantage) or involve reactions to government-related threats. In addition, there are normative presumptions that business interests may or may not be in the direct public interest; businesses spend high resources to have political leverage, and that political leverage is in their direct favour.

In summary, the research for this dissertation concentrated on two middle-income countries that have both experienced significant changes throughout the past two decades. The example of this case study is neither representative of all SOEs nor of all emerging MNCs, which face different issues and have different support structures. That said, the study only provides a specific case of how MNCs engage in internationalisation in both the home and host environments.

The empirical observations challenge the theoretical propositions on the formation of business preferences and business interest representation at a fundamental level: SOEs can be actors with their own specific agendas while acting within the home state policy and political structures and feeling the systemic pressures of the domestic policy environment. In this regard, similarities to empirical research on other cases of SOE i internationalisation can be drawn.

For example, Högselius (2009) in the case of the Swedish Vattenfall suggests that internationalisation requires both institutional and entrepreneurial capabilities. The company had to develop the ability to push for corporatization and adjust organizationally to international norms. Similar to SGCC, the strength of Vattenfall in its internationalisation efforts were its technology and R& D capabilities, less the business ability. To strengthen its embeddedness in the host context, Vattenfall had to reinforce its entrepreneurial abilities and develop new competencies to be competitive in the host country environment.

7.2 Contribution of study

Dynamics of corporate politics are multifaceted. This dissertation gave the reader a better understanding of how emerging SOEs operate across countries and the challenges and choices they face. It portrayed SOEs as actors in the state-business relations, which act with a certain degree of autonomy while confined to the boundaries of the state. This study brings the studies on business politics and political firm activity in the context of the internationalisation of larger businesses. In both home and host context, companies engage in strategic environments, including relations to the government, regulatory stakeholders, CSR and others, which require a thoughtful approach for long term organizational success. However, how companies play their game in these strategic environments may significantly differ.

Business politics involves capital, knowledge, ideas and value systems. The study contributed to assessing the embeddedness of emerging MNCs in two different institutional settings and political systems. It enabled to understand that companies learn fast and able to adapt their embeddedness for the purpose of better organizational success. It showed how interests can be pursued despite divergent industrial legacies and governmental resource.

Under the conditions of globalization, emerging MNCs are catching up fast. This study further contributes to understanding political origins of corporate decisions and industrial upgrading in emerging economies through the lenses of technology innovation and international competition. It emphasises that internationalisation may not suffice to become a global leader in the power supply industry. Rather, standardization and influencing global standards by actively joining international associations as well as occupying strategic positions in these organizations shows the sophisticated business politics approach behind the firm activities.

Empirically, this study contributes to a rich literature on Chinese investment abroad. As a topic, China has attracted the attention of both research and policymaking for a series of reasons. The increase of Chinese engagement abroad had risen over the past two decades and since then, a series of issues have emerged, including Chinese interest in natural resources, economic dependency, heavy subsidiaries of Chinese export and products, etc. A closer look at the outward Chinese development framework puts its geographical outreach into perspective. The under Chinese President Xi Jinping 2014 announced Belt and Road Initiative (BRI) takes an unprecedented stance at outlining a development initiative spanning up to 70 countries across Asia, Africa and Europe, promoting trade and investment, particularly in infrastructure. Bilateral cooperation mechanisms include Memorandum of Understandings (MoU), implementation plans and roadmaps. In this and other regional formal or informal cooperation initiatives, China has particularly channelled cooperation towards the infrastructure sector.

Studies on Latin America are less prevalent, this study fills this gap by contributing to understanding Brazil-China relations. In the case of Latin America, traditional challenges concerning infrastructure investment, mainly commitment of massive resources, long term planning and capital allocation, or the need for a clear regulatory framework (VALDERREY& MONTOYA, 2015), call for firm-level studies to understand the underlying business logics of firm engagement.

7.3 Avenues for future research

Concerning future avenues of research, as Keller (2018) has demonstrated, business impact needs to be studied in its institutional and issue-specific context. Under the conditions of globalisation, the business politics of the present case study of China and Brazil points to the national systemic characteristics impacting MNCs within these systems, including a variety of capitalism, legislation, and regulation of the electricity industry, as well as the political environment.

Business politics – a way of directly or indirectly leveraging corporate interests – were the enabling non-market and non-economic components that made the SGCC's market entry possible by drawing on commercial diplomacy, the promotion of technical knowledge, partnerships with local companies as suppliers of local knowledge, and an indirect approach in the Brazilian institutional environment. This differs fundamentally from the SGCC's positioning in China and demonstrates the learning process the company is undergoing as it becomes established in Brazil.

In the end, it is relevant to ask, consonant with Strange (1996), if the case of the SGCC in Brazil offers an analysis of state-state or state-business relations. Dynamics of state-owned enterprise internationalisation are tied to the interplay between business politics and state in both recipient and home countries, pointing to the need for SOEs to best exploit and build their institutional comparative and competitive advantages across multiple environments and public actors.

As an institutional actor, the SGCC is entangled in the complex structure of state ownership administration, incentive structures, sectorial policy regulations, and internationalisation procedures, while simultaneously pursuing its own agenda and policy preferences. As a private actor, the company follows the market rules in Brazil and is able to draw on competitive advantages from home.

Lastly, given the characteristics of state-business relations in both Brazil and China, one of the remaining questions is: how predictable is firm behaviour in different institutional settings? This points to the need for further studies to understand why firms adopt certain political and non-market behaviour. The internationalisation context offers a rich theoretical and empirical starting point for such studies and enables to understand the different economic, cognitive or organizational elements impacting on the way and on the reason business politics are pursued by firms. As the institutional frameworks provided by the state to support companies abroad tend to grow, state-business relations in internationalisation offer a puzzling picture as to how a company coordinates its participation in the international economy.

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APPENDIX

Interviews in Brazil and China

2015	Interview with a smart grid researcher at the State Grid Energy Research Institute.	Brazil
2015	Interview with China-Brazil expert	Brazil
2015	Interview with representative of the Presidency of the Republic	Brazil
2015	Interview with National Confederation of Industry Representative	Brazil
2016	Interview with representative from State Grid Energy Research Institute	China
2016	Interview with researcher from NARI	China
2016	Interview with representative of SGCC	China
2016	Interview with official at the State-owned Assets Supervision and Administration Commission	China
2016	Interview with energy policy researcher	China
2016	Interview with official at the National Energy Administration	China
2016	Interview with official of the Chinese Ministry of Foreign Affairs	China
2016	Interview with representative of SGCC	China
2016	Interview with official at the State-owned Assets Supervision and Administration Commission	China
2017	Interview with member of Brazilian congress, member of China Working Group	Brazil
2017	Interview with a transmission expert, University of Sao Paulo	Brazil
2017	Interview with China-Latin America expert, Peking University	China
2017	Interview with China-Latin America expert, Chinese Academy of Social Science	China
2017	Interview with former employee, NDRC Department of Foreign Investment	China
2017	Interview with investment lawyer – overseas expansion	China
2017	Interview with energy strategy expert	China
2017	Interview with representative of Brazilian Ministry of Industry	Brazil
2018	Interview with representative of Brazilian Ministry of Science, Technology and Innovation	Brazil
2018	Interview with representative of Brazilian Ministry of Foreign Affairs	Brazil
2018	Interview with former Brazilian Minister of Foreign Affairs	Brazil
2018	Interview with ANEEL employee	Brazil
2018	Interview with China-LAC expert, Sichuan International Studies University	China
2018	Interview with former Brazilian ambassador to China	Brazil
2018	Interview with employee of China-Brazil Business Council	Brazil
2018	Interview with industry expert	Brazil
2018	Interview with former employee of Chinese Embassy to Brazil	China
2018	Interview with representative of Brazilian Embassy to China	Brazil
2018	Interview with former employee of Brazilian Ministry of Mines and Energy	Brazil

2018	Interview with representative of Brazilian Export Promotion Agency APEX	Brazil
2018	Interview with representative of Brazilian Ministry of Planning	Brazil

APPENDIX II - Major policies and regulations guiding and governing the overseas development of Chinese companies

Date	Issuer	Title
2002	Ministry of Foreign Trade and Economic Cooperation (MFTEC)	Comprehensive Evaluation Measures for the Performance of Overseas Investments (Trial)
2002	MFTEC, State Administration of Foreign Exchange (SAFE)	Interim Measures for Joint Annual Inspection of Overseas Investment
2004	Ministry of Commerce (MOFCOM)	Measures for the Administration of Training of Workers Dispatched Overseas
2004	MOFCOM	Reporting System for Investment and Operation Obstacles in Foreign Countries
2005	MOFCOM	Notice of the State Administration of Foreign Exchange Regarding Adjustment to the Administration of Financing Guarantee from Domestic Banks for Enterprises with Foreign Investment
2005	State Administration of Work Safety (SAWS), Ministry of Foreign Affairs (MFA), MOFCOM, State-owned Assets Supervision and Administration Commission (SASAC)	Notice of the State Administration of Work Safety, Ministry of Foreign Affairs, Ministry of Commerce, State-owned Assets Supervision and Administration Commission on Improving Work Safety Supervision of Overseas Chinese Enterprises
2005	General Office of the State Council	Opinions on Strengthening the Security and Protection of Overseas Chinese Enterprises and Staff
2007	MOFCOM, Ministry of Finance, People’s Bank of China, All-China Federation of Industry and Commerce (ACFIC)	Opinions of the Ministry of Commerce, the Ministry of Finance, the People’s Bank of China and All-China Federation of Industry and Commerce on Encouraging and Guiding Overseas Investment and Cooperation by Private Enterprises
2007	State Forestry Administration (SFA), MOFCOM	Guidelines on Sustainable Forest Cultivation for Chinese Enterprises Overseas
2008	MOFCOM, MFA, SASAC	Notice of the Ministry of Commerce, Ministry of Foreign Affairs, State-owned Assets Supervision and Administration Commission on Further Regulating Overseas Investment and Cooperation of Chinese Enterprises
2008	State Council	Administrative Rules for Overseas Contracting

2009	SFA, MOFCOM	Guidelines on Sustainable Operation and Utilization of Overseas Forests by Chinese Enterprises
2009	MOFCOM, Ministry of Housing and Urban-Rural Development (MOHURD)	Measures for the Administration of Overseas Contracting Qualification
2009	MOFCOM, China Export and Credit Insurance Corporation	Notice on Strengthening Risk Prevention in Overseas Economic and Trade Cooperation Zones
2010	MOFCOM, MFA, National Development and Reform Commission (NDRC), Ministry of Public Security (MPS), SASAC, SAWS, ACFIC	Provisions on the Security Management of Overseas Chinese Institutions and Staff
2010	MOFCOM	Overseas Security Risk Warning and Information Notification System in Overseas Investment and Cooperation
2011	MOFCOM, MFA, SASAC, ACFIC	Guidelines on Security Management of Overseas Chinese Enterprises (Institutions) and Staff
2011	SASAC	Interim Measures for the Administration of Overseas Stateowned Property Rights of Central Enterprises
2012	SASAC	Interim Measures for the Supervision and Administration of Overseas Assets of Central Enterprises
2012	China Banking Regulatory Commission	Green Credit Policy
2012	MOFCOM, International Communication Office of the CPC Central Committee, MFA, NDRC, SASAC, National Bureau of Corruption Prevention, ACFIC	Opinions on Corporate Culture Development of Chinese Enterprises Overseas
2012	SASAC	Interim Measures for the Supervision and Administration of Overseas Investment of Central Enterprises
2013	MOFCOM, SAWS, MFA, NDRC, MOHURD, SASAC	Notice of the Ministry of Commerce, State Administration of Work Safety, Ministry of Foreign Affairs, National Development and Reform Commission, Ministry of Housing and UrbanRural Development, State-owned Assets Supervision and Administration

		Commission on General Inspection of Work Safety Governance of Chinese Enterprises Overseas
2013	MOFCOM, Ministry of Environmental Protection	Guidelines on Environmental Protection in Overseas Investment and Cooperation
2013	SASAC	Interim Measures for Emergency Management of Central Enterprises
2013	MOFCOM, MFA, MOHURD, National Health and Family Planning Commission, SASAC, SAWS	Provisions on Responding to and Addressing Security Incidents in Overseas Investment and Cooperation
2013	MOFCOM, MFA, MPS, MOHURD, General Administration of Customs, State Administration of Taxation, State Administration for Industry and Commerce, General Administration of Quality Supervision, Inspection and Quarantine, SAFE	Trial Measures for Negative Credit Record in Overseas Investment, Cooperation and Foreign Trade
2013	MOFCOM	Notice of the Ministry of Commerce on Strengthening the Categorized Administration of Chinese Personnel Dispatched Overseas for Overseas Investment and Cooperation
2014	MOFCOM	Guidelines on Intellectual Property Right of Overseas Enterprises
2014	MOFCOM	Measures for the Administration of Overseas Investment
2015	NDRC, MFA, MOFCOM	Vision and Proposed Actions Outlined on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road