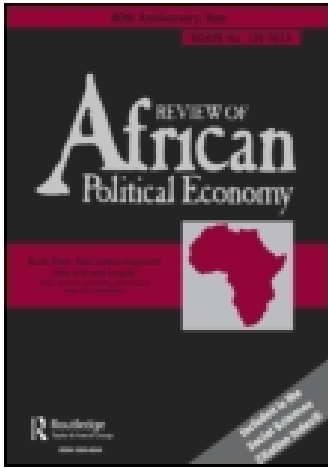


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Emerging powers, state capitalism and the oil sector in Africa

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The global development landscape is rapidly changing with the acceleration of the economies of emerging countries and this has important implications for sub-Saharan Africa (SSA). Notably, these emerging partners share a broad comparative advantage in their outward engagement. They are able to access large pools of finance and capital reserves and they also uphold a version of the Developmental State Model that encourages a statist approach to business. This state capitalism is increasingly coming to the fore, particularly in the aftermath of the global financial crisis and the evident intellectual collapse of neoliberalism as a sustainable economic model.

Keywords: state capitalism; oil; emerging powers

[Pouvoirs émergents, capitalisme d'État et le secteur pétrolier en Afrique.] Le paysage mondial du développement change rapidement avec l'accélération des économies des pays émergents et ceci a des implications importantes pour l'Afrique subsaharienne (ASS). En particulier, ces partenaires émergents partagent un avantage comparatif large dans leur engagement vers l'extérieur. Ces pays ont accès à des sources de financement mutualisées et des réserves de capital importantes, et ils maintiennent aussi une version du modèle d'État développementaliste qui encourage une approche étatique des affaires. Ce capitalisme d'État revient sur le devant de la scène, en particulier à la suite de la crise financière mondiale et l'effondrement manifeste au niveau intellectuel du néolibéralisme comme un modèle économique durable.

Mots-clés : capitalisme de l'État ; pétrole ; pouvoirs émergents

The global development landscape is rapidly changing with the acceleration of the economies of emerging countries and this has important implications for sub-Saharan Africa (SSA). As part of the broader structural process, Africa's partnerships are diversifying, with significant increases in trade, investment, aid, etc, from a host of emerging partners such as Brazil, China, India, South Korea and Turkey. However, the extent of these new developments is often obscured by a focus on the 'old' relations of the ex-colonial powers and the United States that has largely dominated Africa's international relations since independence (see Taylor 2010).

Obviously very few of these emerging partners are 'new' in Africa. Most in fact have a long history of engagement with the continent. Thus the notion of 'emerging partners' needs to be conceptualised. Broadly, the term captures two key characteristics: they are considered 'emerging' economies in the global context; and their economic relations with SSA have been largely marginal until the 10 years or so, but are rising fast and expected to grow. Crucially, these 'emerging partners' are also countries which (with the exception of South

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Korea) do not belong to the club of traditional aid donors – the OECD Development Assistance Committee (DAC).

The increasing diversity of trading partners brings with it ostensibly new dimensions. Each wave of countries engaging with the continent effects a new array of products, capital goods, technology, know-how and development experience. Notably, these emerging partners share a broad comparative advantage in their outward engagement as companies from these countries are often able to access large pools of finance and capital reserves (mostly through state incentives and subsidised support). They also uphold a broadly statist approach to business that enables private enterprise *and* mercantile commerce. This state capitalism is increasingly coming to the fore, particularly in the aftermath of the global financial crisis.

State capitalism

In recent times, the global economy has seen a partial revival of the state's role in the economy, even whilst – paradoxically – neoliberalism remains the global hegemonic project. Dirigisme is most obvious in some of the emerging economies outside of the capitalist heartland. State capitalism may be defined as a mode of production that is 'capitalist' in the connotation of the presence of wage labour, extraction of profits and market relations, but which is distinctive in that there is a chief owner in the state, a degree of central planning of production and/or investment and national goals expressed through long-run economic development. For Grinder and Hagel, the core of the state capitalist class system is located in the finance capitalists running the state-created central banking cartel and the commanding heights of the industrial economy most closely clustered around finance capital (Grinder and Hagel 1977, 59–79). For economies outside of China, this is an attractive definition of the class relations and linkages to the state capitalism practised in places such as Brazil, India, South Korea, etc.

The phenomenon of state capitalism's supposed rise has stimulated an excited debate in the heartland regarding the possible rejection – or at least modification – of the free market gospel which has been so assiduously promoted as *the* generic economic solution. One leading proponent in the debate, Ian Bremmer, has averred that 'the state's heavy hand in the economy is signaling a strategic rejection of free-market doctrine' (Bremmer 2009, 40), whilst others seem to believe that such a digression from the mantra of neoliberalism will lead to global contradictions. For instance, one source has argued that 'state capitalism and resource nationalism are set to become two of the main economic issues of our time', implying a potential future clash (Lyons 2007). Bremmer also subscribes to the belief that an immense struggle between state capitalists such as China and Russia and free-market capitalists like the United States, European Union, Japan and Canada is likely to stake out the future (Bremmer 2010). Emblematically, a summit organised by Harvard Business School which brought together chief executives from some of the world's leading corporations, identified state capitalism as among the 10 most significant threats to market capitalism (Bower, Leonard, and Paine 2011).

Typically, *The Economist* ran a special issue on 'The rise of state capitalism', complete with a picture of Lenin holding a cigar (*The Economist* (London), 21 January 2012), absurdly suggesting that any deviation from neoliberal orthodoxy leads straight to revolution. *The Economist* went on to darkly warn that 'Ensuring that trade is fair is harder when some companies enjoy the support, overt or covert, of a national government', conveniently forgetting the massive subsidies, tariff and non-tariff barriers plus innumerable other support that contemporary Western governments provide to their national companies. Of

course, *The Economist* gets it all wrong in portraying state capitalism as a step towards socialism. As Lenin (1977, 440) wrote:

Socialism is inconceivable without large-scale capitalist engineering based on the latest discoveries of modern science. It is inconceivable without planned state organisation, which keeps tens of millions of people to the strictest observance of a unified standard in production and distribution . . . At the same time socialism is inconceivable unless the proletariat is the ruler of the state.¹

This is hardly the case in any emerging country that practises elements of state capitalism today.

Returning to *The Economist* and its attack on state capitalism and the evils of public support, as Chomsky (2005) noted:

Concentrated private power strongly resists exposure to market forces, unless it's confident it can win in the competition. That goes back centuries... Protectionist devices, such as those of NAFTA and the WTO, are only a fraction of the means by which the wealthy and powerful protect themselves from market forces. In fact, the core of the 'new economy' is based on the principle that cost and risk should be socialised, and profit privatised (often after decades in the dynamic state sector).

As economic history demonstrates, that is precisely what was involved in the British adoption of 'free trade' in the nineteenth century, once a global commercial empire had been constructed using a vigorous form of mercantilism, often using military might as enforcement. Only once competitors (such as the Indian textile trade) had been eliminated and market advantage established, did the British elites then convert to the benefits of laissez-faire. Prior to this, mercantilism reigned whereby 'the Mercantile System was a system of state-regulated exploitation through trade which played a highly important rule in the adolescence of capitalist industry' (Dobb 1964, 209). Indeed the advice to follow pure 'free market' policies was 'contrary to the lessons of virtually the whole of economic history since the Industrial Revolution . . . every country which . . . moved into . . . strong sustained growth . . . has done so in outright violation of pure, free-market principles' (Ormerod 1994, 63).

This is all curiously forgotten in the West when advancing 'free markets' as the development policy of choice (indeed, necessity) for Africa.

Yet contrary to *The Economist* and its hysteria, state capitalism is hardly revolutionary. Instead, it 'represents an effort to correct or overcome inadequacies in the functioning of the private sector, for the society, rather than an effort to transform social relations of production within the society (that is, class relations)' (Duvall and Freeman 1981, 104). The state capitalist model(s) provide subsidies, privileges and other interventions in the market to favoured classes. Such an economy consumes resources or factors at a higher and more intensive rate than would be possible if large private corporations were covering the input costs themselves. It is also largely more capital-intensive, and more contingent on scientific-technical expertise and labour, certainly than would be economical if all investment expenditure on R&D were shouldered by the corporate recipients. But these and other factors give the model(s) a powerfully competitive edge, particularly with regard to granting late capitalism somewhat of an advantage when contending with more mature economies. In the West, dominated as it is by neoliberalism, the debate regarding state capitalism habitually transmits strong negative undertones (Haber 2002; Kang 2002). In this discourse, state intervention in the economy is, by definition, abusive and distortionary.

What is interesting about this debate with regard to the emerging powers is that the current critical discourse flattens out the diversity of different state capitalist models. In fact, other than phenomenal economic performance, the emerging powers have considerable differences between them, not least with regard to the question of governance. Clearly, China and Russia practise an authoritarian top-down form of government (even if only aspirationally) whilst states such as Brazil, India, South Korea etc. are more or less established liberal democracies, with an attendant political culture. And although the state plays an important role in the national political economy in these countries, they all differ in their particular models of state-business exchanges. As a result, we must talk of variations of state capitalism.

In their work on varieties of state capitalisms, Aldo Musacchio and Sergio Lazzarini (2012) propose a stylised distinction between two broad, general forms of state capitalism that may be observed in the emerging powers. The first model is the Leviathan as a majority investor, where state-owned enterprises (SOEs), development banks, state-owned holding companies are common, maybe dominant. The second model is the Leviathan as a minority investor where minority investments by development banks, pension funds, sovereign wealth funds and the state itself predominate. These two organisational modes of state capitalism vary across time and space, but what is important is that they offer up alternative economic prototypes that have a powerful attraction in Africa where three decades of neo-liberal restructuring lays exhausted and, after the global economic crisis and the palpable empirical rise of states that practise state capitalism, Western prescriptions for development ring hollow.

Neoliberalism's resilience

However, here we need some caution before celebrating the actual end of neoliberalism. Whilst the financial crisis has certainly raised consciousness of the ethics regarding financial accountability and state regulation and the wisdom of increased control of the global economy, the actual philosophical underpinnings of neoliberalism remain largely intact, even whilst state capitalist models appear attractive. David Harvey's argument that neoliberalism must be seen as a class project, camouflaged by a neoliberal rhetoric about individual rights and freedom and personal responsibility being exemplified in privatisation and the free market is apposite here (Harvey 2009). In restoring capitalist class power, neoliberalism has been reasonably successful and current state responses to the ongoing global crisis, particularly in the West, are likely to persist in this achievement. The mass bailouts for example may be seen as a demonstration of state power protecting financial institutions at all costs, and resolving the crisis – but for the capitalist class only (*ibid.*).

Actual structural change in terms of governance or developmental policies has not really transpired. Instead, a problem-solving attitude dominates, focused on 'fixing' rather than replacing the status quo. This may also be said to characterise current ongoing debates on questions of global governance, which are 'Essentially problem-solving activities committed to promoting the smooth functioning of the inter-state system [and have] the effect of assisting the reproduction of the very structures which many political actors regard as unjust' (Linklater 1998, 21). For many analysts, this is precisely what has happened. Chakravarty and Schiller (2010, 685) for instance argue that the unreformed international financial institutions (IFIs) 'continue their emphasis on neoliberal austerity, the policy that helped to foster the crisis in the first place', as they concentrate on trying to put the broken fragments back together again. Yet fundamentally this is about retaining privilege:

It must be stressed that the beneficiaries of the political means in a market oriented economy are dependent on the existence of the economic means in order to survive and prosper ... In view of the dependence of the political means on the economic means, the optimal strategy for the political class to pursue will not be to maximize short-term returns, but rather to promote as productive a system as possible, consistent with the preservation of its exploitative position within that system. (Grinder and Hagel 1977, 67)

It is quite obvious that the state capitalist emerging economies are structurally integrated into the ongoing world order under the hegemony of neoliberal capitalism. They do not represent a different or alternative order, other than one where these *arrivistes* are incorporated as notional equals. The BRICS concept itself was, as Desai (2007, 785) points out:

... more than a narrative about the sources of new growth in the world economy: it was a directive to first world political and corporate leaders about where new opportunities lay and another to third world political and corporate leaders about the conditions – mainly consistency of neo-liberal policy – they must secure if the fruits foreseen were to be theirs.

Any cultural or historical differences that may exist between the BRICS and the ‘traditional’ powers plays but a secondary role in determining their basic posture and interests, which in itself is shaped and constructed by the necessities of capital. This should be palpably obvious. After all, in the evolutionary development of Western capitalism, all manner of national differences have been acculturated into accepting certain norms and standards (most notably why ‘the West’ includes Japan).

Indeed, the global marketisation and commodification project is likely to receive a boost from the way the emerging economies are being incorporated into the capitalist world market, particularly states such as China. In the West the neoliberal policy framework remains dominant. The severe austerity packages being imposed in and by the heartland demonstrates this. Yet the rise of the emerging economies may be seen as significant steps forward in the broadening of global capitalism, intensifying the creation of a system of global circuits of capital accumulation. In this process, national states have an evolving but continuing role in which they are oriented and supported by ever more inter-locked networks of global institutions (Cammack 2006). The global expansion of economic interests from these state capitalist economies continues to intensify the global commodification process. But whatever conflicts and debates that may emerge between the BRICS and the capitalist heartland are of an inter-capitalist nature, within the broader hegemonic order. As Tucker (1893, 75) notes, ‘the State [still] exists mainly to do the will of capital and secure it all the privileges it demands.’

Conceptually, competition is nothing other than the inner nature of capital, its essential character, appearing in and realized as the reciprocal interaction of many capitals with one another, the inner tendency [presents itself] as external necessity. Capital exists and can only exist as many capitals, and its self-determination therefore appears as their reciprocal interaction with one another. (Marx 1973, 414–415)

Marx’s analysis demonstrates that capital exists as private discrete centres of accumulation but which are driven by inter-capitalist competition. This is why, in its quest to expand and reproduce, capital is continuously opening up new spaces for profitability – and why investment banks such as Goldman Sachs are eager to identify and promote these new centres of accumulation and investment.

Yet it cannot be denied that post-crisis and in tandem with the rise of the emerging powers, alternative governance and developmental models *are* at least being debated.

Despite neoliberalism being hegemonic in recent decades, the variegated nature of actually existing capitalisms under conditions of free market orthodoxy belies any one strict application of an ideal type. Varied in institutional form and spatially differentiated, ‘neoliberalism’ in fact is refracted in different forms, such as the welfare-centred continental European model or the Asian state capitalism which integrate capital, the state and subordinated labour (O’Brien and Williams 2004, 130). This existing space with regard to policy has been arguably amplified post-crisis.

Emerging powers, who are widely seen to have brought inflation under control, developed greater trade and financial linkages among themselves (which then contributed to their buoyancy as a group), and diversified their productive bases and export profiles appear as alternative models to the much-resented Northern-inspired economic projects. Recognition of how the financial crisis played out differentially across the globe and the relative resilience of the emerging powers’ economies in comparison to the North’s has had a powerful effect on some thinking within Africa and where best the continent’s future lies in terms of strategic engagement. This is then tied to a rethinking vis-à-vis Africa’s continued traditional ties to the North even if this is, at minimum, a realisation that other worlds exist beyond the North–South axis. An interesting milieu is thus established as the context for the ongoing resurgence of interest in the continent.

Africa’s oil extraction and state capitalist corporations

Africa has now emerged as a major site for competition between various oil corporations from diverse nations (see Clarke 2008; Ghazvinian 2007; Yates 2012). A number of these corporations come from states operating varieties of the state capitalist model. Whilst this is not solely a race between Chinese and American corporations, competitive dynamics are heavily influenced by the roles and activities of actors from these two states, as well as other emerging powers (Frynas and Paulo 2007, 230). Policy-makers in various states have identified African oil as vital to their respective nations’ national interests and so are actively encouraging their oil corporations (be they private or state-owned) to enter into the African markets (see Carmody 2011; Southall and Melber 2009). This is obviously easier to do for state capitalist nations which own significant equity in the national oil corporations.

However, unlike the colonial Scramble for Africa, African agency is far more present in the contemporary rush for Africa’s oil, creating an environment which is more challenging for the oil companies to secure contracts (Arnold 2009). Many African governments are quite proactive in their roles within today’s context and whilst we might agree that the nineteenth century Scramble ‘was driven and dictated by European colonial interests’, currently ‘African leaders act in the role of decision-makers’ (Frynas and Paulo 2007, 235). Whilst it is true that many African states are rich in oil but lack sufficient capital to exploit these resources and thus create formative conditions whereby African elites might be seen as dependent upon external actors to facilitate exploitation (Goel 2004, 482), the ability of the government to negotiate favourable contracts should not be discounted. Of course, the determination of extant elites to maintain the status quo as compradors in charge of rentier states, reproducing dependence on the collection of externally realised oil rents means that hope for any progressivism from that direction is probably misplaced (see Turner 1980).

Many oil-rich African governments are quite skilful in playing the oil game – albeit for the benefit of the incumbent elites, rather than the broad masses, in what has been dubbed

the ‘dirty politics of African oil’ (Shaxson 2007). In Angola for example, the state-owned oil company, Sonangol, is:

... an entity that can articulate state interests in the oil sector with comparative prowess, bringing together its scarce human resources and enabling success in negotiations and joint ventures as well as access to oil-backed loans: in short, Sonangol. Insulated from the rest of the state apparatus and the incompetence of the civil service, conversant in the languages of high finance, business contracts and oil technology, Sonangol is a strange marriage of the latest expertise and market savvy with the narrow enrichment goals of a failed state leadership, and it works. (Soares de Oliveira 2007, 610–611)

This reality is one in which oil corporations of whatever national origin must navigate – albeit it appears that some are more skilled at doing so than others.

Currently, more than 70% of world oil reserves and an even greater percentage of the residual reserves of ‘easy oil’ are controlled by national oil companies. State-owned national oil companies have progressively enlarged their share of the world’s oil resources, as well as expanding into and developing major gas fields. These national oil companies are powerful organisations operating within the state capitalism model whilst increasingly leveraging greater managerial autonomy and decision-making powers. This is primarily because these corporations are ever more demanded by the state to generate profits and operate on a commercially viable platform. In doing so, many of the national oil corporations are reinventing themselves away from being state-dominated, bureaucratic objects often enmeshed into wider patronage systems of political favours and appointments and that have relied on a constructed domestic monopolistic position answerable only to the government of the day. The broad move is towards at least partially privatised entities with resultant changes in their corporate and managerial procedures. This obviously varies from country to country, corporation to corporation, but what is apparent is that these national oil corporations have been well placed to take advantage of the post-1990s deepening of globalisation, where sole access to oil reserves in newly emergent oilfields has made state-owned corporations from the South important actors in the oil market.

Known as the ‘Seven Sisters’, Anglo-Persian Oil (now BP), Gulf Oil, Standard Oil of California (SoCal), Texaco (now Chevron), Royal Dutch Shell, Standard Oil of New Jersey (Esso) and Standard Oil of New York (now ExxonMobil) dominated the global petroleum industry from the mid 1940s to the 1970s (Sampson 1975). This has dramatically changed and global production is now increasingly organised by state-owned companies from developing countries who have increasingly started to engage in overseas investment. This process began with the creation of the Organisation of the Petroleum Exporting Countries (OPEC) and a wave of nationalisations across the post-colonial world.

This growth of state-owned oil companies has accentuated competition in the oil industry, particularly as companies headquartered in developing economies are now more aggressively seeking out overseas investment activity. As a result, a number of the national oil corporations have enlarged their businesses globally, diversifying their geographic field of operations and also developing greater downstream capabilities, such as developing petrochemical industries, investing in refineries and improving their distribution capacities to access the global market more exactly. A privileged access to capital and technology are key dynamics behind these endeavours and are, as remarked above, intrinsic to some aspects of the state capitalist model. In Africa, these dynamics are being played out with the ongoing activities of national oil corporations from some of the emerging powers.

This process is taking place within the wider context where globally, at least 80% of oil reserves are under the control of national governments, whilst fully three-quarters of the 20 largest oil companies are state-owned. Just as there are varieties of state capitalism, there are varieties of national oil corporations. Crudely, they can be divided into those that have a steady and reliable source of capital and those that lack this. The first type generally operate pretty much as the publicly traded private oil companies do, seeking crude oil on the global market and keeping most of the income post-tax and other diversions (such as paying out dividends to the government or shareholders the royalties). Companies such as CNOOC (China), Petrobras (Brazil), Petronas (Malaysia), Sonangol (Angola) and Sonatrach may be included in this group, able to source finance to develop their own projects without having to incur loans or attract investors.

Furthermore, state-owned oil companies are subject to quite different commercial models than many privately owned companies, which dominate the West's oil industry. Being state-owned, they possess comparatively limited short-term profit constraints, are able to draw on reserves and production outputs over the rate of return, enjoy the benefits of being part of a bigger state-supported framework and generally have the benefit of limited regulation, in comparison to their Western counterparts. The classic, but by no means unique, example of these ongoing developments is the role of Chinese oil companies in Africa.

Chinese national oil corporations

China's oil industry has experienced significant restructuring as domestic needs have become ever more pressing (Andrews-Speed, Dow, and Gao 2000). The Chinese government rationalised most state-owned fuel operations in 1998, placing them under the regulatory oversight of the State Energy Administration. In the oil sector specifically, Beijing restructured two firms, namely the CNPC and Sinopec, both of which emerged as vertically integrated oil and petrochemical corporations with interests that stretched across the whole value chain. CNPC, which had mostly been involved in the exploration of oil and gas fields, production (the upstream aspect of the industry) soon accounted for 66% of China's oil and gas output and 42% of its refining capacity. Sinopec, which had formerly focused on refining and delivery, made up 23% of oil output, 11% of gas output, and 54% of refining capacity (Nolan and Zhang 2002, 21). Both companies are now major players in the world oil industry, more or less involved in all aspects of exploration and production. CNOOC, incorporated in 1982, conducts offshore exploration and production operations (see Jaffe and Lewis 2002). All three companies continue to be state owned, although the administrative functions of CNPC and Sinopec have been divided from their business-management tasks.

The State Petroleum and Chemical Industry Bureau was established under the State Economic and Trade Commission to assume the administration functions of CNPC and Sinopec. Reflecting a relative openness to policy advice, the CIIS regularly brings academics together with business, military, and government leaders to devise strategies for the country; as a result, 'Beijing has been encouraging representatives of state-controlled companies to secure exploration and supply agreements with states that produce oil, gas, and other resources' (Zweig and Bi Jianhai 2005, 27).

According to Zha Daojiong (2006, 182), 'It is hard to tell whether a particular overseas oil or gas venture is the result of the Chinese government directing its state-owned energy company or the domestic energy industry seeking diplomatic assistance from the government, since for over a decade China has lacked a central ministerial agency overseeing the industry.'

This dilemma further reflects the heterogeneity of contemporary China and the need for caution in talking of a ‘Chinese strategy’ in Africa, especially with respect to sensitive areas such as energy. At best, we can say that there are certain tactics associated with China’s national oil companies and their activities in Africa; obvious examples are the acquisition of foreign-energy resources via long-term contracts and of equity investments overseas in order to circumvent overreliance on the open global oil market through either actually acquiring stakes in Africa’s oilfields or safeguarding access. Africa is a prime site because, according to CICIR’s Chen Fengying, ‘China confronts foreign competition. Chinese companies must go to places for oil where [US] and European companies are not present’ (*Washington Post*, 22 December 2004). Indeed, this is a central aspect of the national oil companies’ strategy in Africa. Entering markets from which Western oil corporations are excluded (such as that of Sudan) is another important tactic. Still another is to ‘link access to acreage [with] state-backed financial deals, where[by] acreage is provided in return for soft credit used to purchase Chinese goods and services’ (Tjønneland *et al.* 2006, 30). This approach has been used in a number of African countries, including Angola and Nigeria. Forming strategic alliances with the national oil companies of Angola, Nigeria, and Sudan in order to gain access to oilfields has also worked for Chinese corporations, as has outbidding competitors, though the latter ‘is a risky strategy, as it requires the oil price to remain high for the investments to be profitable’ (Tjønneland *et al.* 2006, 30).

Arguably, Chinese companies saw the opportunities in Africa before other actors did (see Taylor 2009). The latter’s concern over the scale of China’s activities on the continent reflects the general ambivalence of many Western commentators about the rise of post-Maoist China as well as of other developing nations such as India: ‘On the one hand, the desire to exploit the vast market that is developing in China is irresistible to global capitalists. On the other, they fear not only [China’s] economic power, but the political and military might that is rapidly growing with it’ (Weil 2006, 23). The literature on modern China aimed at popular audiences echoes such fears; compare, for instance, James McGregor’s *One billion customers* (2005) to *The gathering threat* by Bill Gertz and Constantine Menges (2005) and *The coming China wars* by Peter Navarro (2006). As the title suggests, the topic of Western confusion is central to Hugo De Burgh’s *China: friend or foe?* (2006).

Criticism by Western sources is perhaps compounded by the very nature of the national oil companies. Because they are state owned, they are able to expand their activities in Africa even at the risk of paying over the odds in order to outbid competitors. Consider the description by one analyst of such manoeuvres:

Chinese [national oil companies] . . . are not primarily answerable to public shareholders with short time horizons. They are not overwhelmed by fear of failure. Indeed, they have not had to face major commercial crises. Thus they can afford, or think they can afford, to take a more optimistic view of technical, commercial, and political risks. Indeed, close support from the Chinese government may . . . lower the political risk in some countries. This lower level of perceived risk, combined with access to loans from state-owned commercial banks, will result in China’s companies having a lower cost of capital than international oil companies. (Xin Ma and Andrews-Speed 2006, 9)

What this means in practical terms is that state-backed companies may be prepared to evaluate projects that private-owned international oil companies would not touch. However, ‘What is not clear from the outside is which examples of “overbidding” are the result of deliberate strategy and which are the result of inexperience’ (*ibid.*).

It is however clear that China’s national oil companies take the long-term view rather than the short-term view of private Western companies necessitated by considerations of

profits and shareholders (see Taylor 2006). China's corporations who practise such logic have a distinct advantage over their Western competitors.

State capitalism, oil and competition

The methods for pursuing African oil contracts vary between Western and national oil corporations owned by states. This may be said to be observable in three key areas. Firstly, in addition to proposing financial compensation, state-owned corporations may involve their national governments in offering physical developmental support in the form of infrastructure, aid projects and technology transfer. Secondly, most national oil corporations do not have the same sort of political and developmental constraints that Western companies are supposed to conform to, such as environmental standards, labour rights, etc. These are often legal requirements that Western companies must fulfil. Thirdly, many national oil companies have different goals than private Western companies, stemming from the reality that they are nationalised and so do not have private shareholders, at least not in the majority.

Quite often, oil companies from state capitalist systems have lower labour costs, stiff profit margins and rapid project completion. For instance, whereas Western corporations typically require a rate of return of between 15 and 25%, state-owned companies (Chinese corporations are a good example here) may be prepared to work on a tight margin of less than 10%, even lower. The ability of some national oil companies to outbid competitors for African contracts gives them a strong competitive edge. Chinese corporations, for example, are after long-term energy security, contrasted to the short-range goals most Western private companies must meet to satiate shareholders. This long-term perspective *may* also make state-owned firms less risk averse, with political motivations trumping the concerns of private investors.

However, it does appear that on occasions it is the national origin of a company, rather than its ownership status, that is decisive. For example, in 2006 CNOOC's acquisition of a working interest in a deep-water area of the Niger Delta was approved. The deal included the lucrative Akpo oil field, which was discovered in 2000. The Akpo field is said to hold 700 million barrels of crude-oil reserves as well as gas reserves of about 2.5 trillion cubic feet (*This Day*, 9 January 2006). CNOOC also took over the commitments of the original contractor of OPL 246, buying a 45% working interest in the deep-water block for US\$2.3 billion plus an adjustment of US\$424 million for other expenses. The former amount will finance the NNPC's 50% equity stake in OPL 246; CNOOC will then garner 70% of profit oil from the field, while the NNPC takes the remaining 30%, as well as 80% of cost oil. In winning the contract, CNOOC beat India's biggest oil company, the state-owned Oil and Natural Gas Corporation, which had put in a US\$2 billion bid in January 2006 only to see the Indian government blocking the deal on the grounds that it was not commercially feasible. What is interesting here is that the Indian government also deemed OPL 246, which was mired in controversy surrounding the ownership by well-connected former government officials of assets in the billions, too risky.

Unlike 'traditional' Western bidding on oil concessions, the state-owned national corporations may offer more than simple financial inducements. China, for example, is said to pursue the 'Angolan model'. This is where financing arrangements (often backed by China EXIM Bank) links a commodity off-take contract with the delivery of certain infrastructure projects. The neologism is so named because EXIM Bank's first main agreement to deliver on such a premise was with Angola in March 2004 when the first \$2 billion financing package was agreed with Luanda, under which financing was pledged to

support in the construction of Angola's infrastructure in areas such as energy, education, health and transport. This supposed model often lubricates bids as it connects investment with infrastructure loans for either the refurbishment of existing infrastructure that have fallen into abeyance, or for new projects that may not necessarily be viable on strictly private commercial terms – yet nonetheless are vitally needed by the host country concerned. Typically, the Angola model delivers loans at minimal interest rates, sometimes reconciled with natural resource delivery.

Whilst not pursuing the Angola model *per se*, the Indian government has started to set aside finances to establish soft loans to create logistics and infrastructure facilities as a foundation to acquiring mineral assets. Examples would include Eritrea, Ethiopia, the Democratic Republic of Congo, and Ghana, where New Delhi has identified viability in acquiring contracts for fertiliser mineral assets such as potash and rock phosphate. An Indian official was quoted as stating that 'It is very difficult to successfully gain access to overseas mineral assets, particularly in Africa, without long-term bilateral economic engagements. The model adopted by China has been very successful. Chinese companies invest heavily in infrastructure and logistics before gaining concessions for minerals. India needs to adopt a similar approach' (Das 2012). Consequently, in mid 2012 the Indian government proposed to spend \$1 billion between 2012 and 2017 through state-owned fertiliser companies to establish commitments in Africa. Subsequently, the corpus would be augmented to fund mineral asset acquisitions. Though the state-controlled fertiliser companies have no experience in mining, it does demonstrate that the *modus operandi* pursued by China has been deemed to be successful in acquiring leverage in minerals acquisition in Africa and New Delhi plans to pursue a similar strategy. This is only feasible in the context of a broad state capitalist framework and arguably gives those companies operating under these norms a possible competitive edge over the privatised operations found in most Western companies.

Conclusion

It is obvious that appropriating the development opportunities that receipts from natural resources grant is not clear-cut. Africa's past is replete with examples where windfall gains from oil have not been utilised for the common good and in the service of broad-based sustainable development. Furthermore, the reproduction of the continent's dependency on primary commodities is hardly something to be celebrated. As state capitalism is a class project, a continuation – rather than a break – from the past is likely to occur. The state-owned corporations have thus far demonstrated a lack of interest in the governance of the states where they have invested, which is highly redolent of their Western counterparts. In fact, few of the largest national oil companies, particularly from the emerging economies, are committed to relevant international initiatives that might foster best practice, such as the Extractive Industries Transparency Initiative and the Voluntary Principles on Security and Human Rights. As the emerging economies become more and more important and their state-owned corporations make a bigger impact globally, until these companies engage with established international commitments, the impact of these initiatives will be reduced.

On a different note, it is interesting that dirigiste economies are expanding rapidly under conditions of the global hegemony of neoliberalism and the principle of 'open' markets. This is somewhat of a contradiction. Whilst actively supporting and developing national state-owned corporations and encouraging them to go global in the search for investment opportunities and export markets, the state capitalist countries are only able to do so

under the broader umbrella of a liberal trading regime, however imperfect this may be in reality. This explains why the state capitalist emerging economies are not advocating any structural change in the global economy, but rather pushing for their greater incorporation into the world economy, albeit on slightly renegotiated lines where liberalisation is instituted across the board, including in the West. It is this urgency to expose the hypocrisy of the North in its calculated push for free trade in the South – whilst keeping various of its own markets closed to Southern competition – that impels elements in the South to engage with the North rather than confront them. The whole BRICS project is emblematic in this regard. State capitalist models have been remarkably successful in taking full advantage of globalised liberal markets and certainly do not want this edifice crashing down. The contemporary period is characterised by an interesting mix whereby neoliberalism is the hegemonic ideology vis-à-vis economic organisation at the global level, yet space still exists for state capitalist models to flourish. ‘What is above all new about this development is the outward-looking, economically expansionist (rather than protectionist) nature of this new ‘statist’ capitalism with often state-owned or state-controlled multinationals (such as national oil companies) or Sovereign Wealth Funds expanding on a global scale, integrating themselves into transnational circuits of capitalist production and finance, while still to some extent retaining their state-dependent nature’ (Van Apeldoorn and Overbeek 2012, 15). These regimes accept the mantra of liberal globalisation, although they argue that this system is currently heavily weighted in favour of the North and needs redressing. Yet within Africa, the benefits of state support for many emerging economies’ corporations in their strategic engagement with the continent is apparent. Here, it is quite clear that such corporations are beating many of the Western companies at their own game and enjoy support and protection from their home governments in this competition. This has a certain irony to it and accounts for the negative response (and caricaturisation) of state capitalism as being intrinsically wrong-headed and a threat to global order.

The state capitalist countries are engaged in practices that marked out the now established economies when the predecessors of the great Western-based transnational corporations first began commercial operations in Africa. As economic history clearly demonstrates, it was only after these mercantilist operations had captured markets and destroyed potential competitors that the call (in fact, demand – often using force or the threat thereof) for *laissez-faire* became state policy. Using ‘aggressive colonialism and protective legislation, [ensuring commercial supremacy in foreign markets and] industrial predominance’ (Wrightson 2000, 11), the West only slowly came round to the alleged virtues of a liberal order. The modern ‘world market’ was not produced by free market forces: it was a synthetic invention by states established under conditions created by European imperialism. Friedrich List, the nineteenth-century German economist, noted that ‘It is a very common clever device that when anyone has attained the summit of greatness, he kicks away the ladder by which he has climbed up, in order to deprive others of the means of climbing up after him. In this lies the secret of the cosmopolitical doctrine of Adam Smith’ (List 1841, 295–296). List goes on to note that ‘Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away these ladders of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth’ (*ibid.*).

Clearly, critics of state capitalism such as *The Economist* ignore the role of the state in the construction and preservation of the capitalist economy. Neoliberals seem to see the

state merely as a burden on the 'free' operations of the market and a medium for imposing socialism. This view demonstrates willful historical ignorance *and* a class project: 'The de-legitimation of the state is central to the ideological deconstruction of post-colonial nationalism as the state continues to be the locus of resistance to world market subordination . . . The more 'alien' the state can be made to appear the less legitimate is its pretence to represent the nation' (Beckman 1993, 23). It is axiomatic that global capitalism and the nineteenth century Scramble for Africa would *never* have triumphed without the bourgeois state (Rodney 1970).

All capitalist nations have depended on the apparatus of the state to generate and uphold the political and legal environments necessary for capitalism. 'Laissez-faire theories, which always regarded the state as a dysfunctional factor in the conduct of economic affairs [have] reassert[ed] themselves again in the current terminology of globalisation. The facts are, however, that nation states always faced economic challenges and usually overcame them (of course with different degrees of success in different countries and periods)' (Levi-Faur 1997, 171). With regard to the foremost imperialist nation, from which one of the most trenchant critiques of mercantilism came:

The political purpose of [Adam Smith's] the *Wealth of nations* was to attack the mercantilist institutions that the British economy had built up over the previous two hundred years. Yet in proposing institutional change, Smith lacked a dynamic historical analysis. In his attack on these institutions, Smith might have asked why the extent of the world market available to Britain in the late eighteenth century was so uniquely under British control. If Smith had asked this 'big question', he might have been forced to grant credit for Britain's extent of the world market to the very mercantilist institutions he was attacking. [Moreover, he] might have recognised the integral relation between economic and political power in the rise of Britain to international dominance. [Overall], [w]hat the British advocates of laissez-faire neglected to talk about was the role that a system of national power had played in creating conditions for Britain to embark on its dynamic development path . . . They did not bother to ask how Britain had attained th[e] position [of 'workshop of the world'], while they conveniently ignored the ongoing system of national power – the British Empire – that . . . continued to support Britain's position. (Lazonick 1991, 2,3 and 5)

No wonder that List asserted that 'the English were the greatest bullies and good-for-nothing characters in Europe' (List 1841, 386–387)!

Thus as emerging powers with their state capitalist models, outcompete established Western economies in Africa and continue to expand their economic (and concomitantly, political) footprint across Africa, a certain degree of reflexivity on the part of the West and their own historical trajectories should be in order, particularly if the critique hinges on the 'immorality' of state capitalism versus the virtues of the 'free market'.

However, where does that leave Africa? Thus far, the state capitalist model has granted emerging economies – and a number of mineral-rich African countries – accelerated rates of capital accumulation. Yet obviously, this milieu does not necessarily serve the interests of the larger part of the populations of late developing countries. As the latest *Africa progress report* noted:

Extreme disparities in income are slowing the pace of poverty reduction and hampering the development of broad-based economic growth. Disparities in basic life-chances – for health, education and participation in society – are preventing millions of Africans from realising their potential, holding back social and economic progress in the process. Growing inequality and the twin problems of marginalisation and disenfranchisement are threatening the continent's prospects and undermining the very foundations of its recent success. (Africa Progress Panel 2012, 4)

That the report can comment on ‘growing inequality and the twin problems of marginalisation and disenfranchisement’, whilst still asserting Africa’s ‘recent success’ speaks volumes. Success for whom? Policies need to be applied in ways that benefit Africa’s poor, given that ‘development [is] meaningful only in so far as it integrates the masses and serves their interest’ (Amin 1974, 16). As Selwyn (2009, 157) remarks, they need to be integrated into social development programmes, ‘and should be conceptualised not as policies to stabilise capitalism in the long term, but as part of a movement towards socialising the economy under democratic control’. State capitalism as exported to Africa serves the class interests of externally oriented fractions with aspirations to become internationally competitive, accumulate mega-profits and entrench their domestic positions. They are not somehow more ethical or worker-friendly simply because they emanate from the South.

The Indian political economist Amit Bhaduri (2010, 42) argues that a sort of ‘developmental terrorism’ dominates current economic thinking, defined as ‘violence perpetrated on the poor in the name of development by the state primarily in the interest of a corporate aristocracy, approved by the IMF and the World Bank, and a self-serving political class’. This is significant if one seeks to draw out any ‘progressive’ elements from state capitalism. According to Bhaduri (2010, 45–46), three different variants of the neoliberal growth model which is central to the hegemonic economic order can be identified. Firstly:

... some countries with significant deposits of valuable natural resources like oil enter into an implicit political arrangement with the United States (and increasingly with China). They ensure the supply of oil, receive petrodollars in return and recycle them through multinational banks to engage multinational corporations for the development and modernisation of their economies.

In the second variant, ‘massive commercial borrowing from international banks is done by willing national governments for the purpose of development. This is encouraged and usually coordinated by the IMF and the World Bank.’ The third variant, which is what concerns us here ‘injects a strong element of statism in the developmental process’:

In this case, state-led or state-sponsored corporations are created and nurtured to compete with multinationals under active government support, especially in the world market. At the same time the government tries to attract direct foreign investment, either through these corporations, or in areas where the government corporations are not the preferred option for some reason. Nevertheless, the government becomes a ruthless promoter of the corporate entities in search of higher growth.

However, as Bhaduri cautions, ‘the reliance on developmental terrorism by the state on behalf of the corporations is not any less in this third variant of development, and a dictatorial form of government fits it rather naturally’ (*ibid.*, 46). Such realities means that state capitalism should not be confused as being vaguely progressive, even if neoliberalism is (justifiably) critiqued in the process. This is *particularly* so given the rapacious and exploitative nature of the oil industry. Until the situation changes, the role of emerging powers practising state capitalism in the ‘recent success’ of Africa will remain problematic.

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Note

1. Obviously, varieties exist. Mao provided an analysis of state capitalism 'of a new type' in his comments on China in the immediate post-liberation phase, arguing that 'a share of the profits produced by the workers goes to the capitalists, but that is only a small part, about one quarter, of the total. The remaining three quarters are produced for the workers (in the form of the welfare fund), for the state (in the form of income tax) and for expanding productive capacity (a small part of which produces profits for the capitalists). Therefore, this state-capitalist economy of a new type takes on a socialist character to a very great extent and benefits the workers and the state' (Mao 1977, 101).

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