Globalized economy and the Chinese national oil companies

In recent years, with the successful implementation of the Going-Out policy, Chinese state-owned enterprises (SOEs) have made great progress in participating in the global market and competing with international companies. Among the SOEs, two Chinese national oil companies, China Petroleum and Chemical Corporation (Sinopec) and China National Petroleum Corporation (CNPC), were ranked in the global top five companies of 2015, in terms of assets and revenue. The rationale behind the expansion of the cross-border activities of China's national oil companies (NOCs) is mainly China's energy security, prompted by China's resource scarcity and growing energy demand.

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The cross-border activities of Chinese NOCs have raised a debate regarding the role of the state in the transnational activities of national companies. Many scholars contend that Chinese NOCs are of a hybrid type, since they only partly resemble international oil companies (IOCs) that independently conduct cross-border activities; but this article argues that the Chinese government can in fact override all NOC decision-making, and Chinese NOCs can therefore better be characterized as state-owned enterprises. The state retains the authoritative power in managing not only the domestic development of the NOCs, but also their cross-border activities in other respects. It is assumed that these activities are part of China's 'strategic' globalization, whereby the state creates access to energy resources in other countries for the SOEs, and the NOCs help to project power, realizing the state's 'economic' interests. The successful trans-nationalization of Chinese NOCs shows that they are more capable of obtaining oil resources across the global range than international oil companies, but it also demonstrates the success of the Chinese government's control.

From 1934 to 1949, oil production in China was only 2.8 million tonne, while oil import was 28 million tonne. With the successful exploitation of the Karamay and Daqing oil fields in the 1950s, oil production notably increased, making China independent in oil production and establishing national oil strategy. In 1982, the China National Offshore Oil Corporation (MPO), which was responsible for managing oil-related assets, played a critical role in the development of oil and gas production, which was later restructured into CNPC. Moreover, CNPC was assigned to take over the natural gas sector to enhance onshore and offshore oil and gas production. In 1988, the China National Oil and Natural Gas Corporation (MPO) was established to enhance onshore and offshore oil and gas production, making China an oil self-reliant country. In 1955 the Chinese government established its Ministry of Petroleum Industry (MPI), which was responsible for managing oil-related assets, planning national oil and gas strategy, and enacting national oil strategy. In 1982, the China National Offshore Oil Corporation (CNOCO) was established from the offshore assets of MPI. In 1983, the China National Petroleum Corporation (CNPC) was established to take on investment and administrative responsibilities for SOEs. CNPC is responsible for supervising NOCs, establishing corporate regulations, perfecting company structure, adjusting national economic policy, and reforming the NOCs. Currently, CNPC holds around 3.7 billion dollars of assets from its 116 flagship NOCs, including CNPC, Sinopec, and CNOCO. CNPC retains absolute executive control over NOCs' performance and selection of their board members. SASAC exercises its controlling power over allocation of remuneration, assets disposal, and expansion of plans regarding commercial mergers and shareholding acquisitions. NOCs must obtain permission from SASAC before conducting overseas investments, establishing joint ventures or mobilizing assets, activities through which NOCs can achieve the party's political and economic interests.

Since the Chinese government is responsible for ensuring China's energy security, the CPC has institutionalized its control over strategy, board members, and the corporate structure of NOCs. The criteria for leadership positions in NOCs include political reliability within the CPC's political and economic hierarchy, professional working experience related to the oil sector, and it is clear that most China National Petroleum Corporation (CNPC) executives have the dual role of manager in the company and a membership of the CPC. For instance, Wang Yiren was elected as the Chair of the Board of CNPC in 2015, and is also a member of the Central Committee of Discipline Inspection in the CPC, and Zhou Jieqiu served as the directs of CNPC from 2011 to 2015, while simultaneously appointed as a member of the 12th Chinese People's Political Consultative Conference (CPPCC) from 2013 to 2018. CPC’s senior officers must be able to balance the company’s commercial interests and the CPC’s political and economic goals, and even prioritize the latter. In most scenarios, only by complying with CPC protocols and by acting in accordance with CPC interests can NOC board members be promoted and transferred to higher positions.

Concluding remarks

In order to assure China's energy security, the Chinese government has enacted the Going-Out policy, in which NOCs have successfully achieved their trans-nationalization and played a pivotal role in obtaining more oil resources in the Middle East, Africa, Central Asia and Latin America. Moreover, Chinese NOCs remain under the supervision of the Chinese Communist Party. The management of NOCs is institutionalized through entities such as the State Council and the State-owned Assets Supervision and Administration Commission. The Central Organization Department plays a decisive role in appointing NOC board members and this allows the Chinese ruling elite in the oil sector to assure the maximization of its interests. Furthermore, the recent CPC reform and large-scale anti-corruption movement in SOEs, it is without doubt that NOC board members are aware of the CPC’s desires, ensuring the party’s general interests can help them get promoted. This mechanism has effectively concretized the governance of Chinese NOCs.

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