The Internationalization Evolution and Development of China National Petroleum

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Abstract. The rapid development of economy in China gives not only the opportunity, but also put forward higher requirements for China petroleum industry. In this context, China petroleum enterprises began to go out of historical journey since 1990s. Thereby a path, from scratch, small to large and weak to strong, formed with its feature and development stages, which has certain enlightenment significance for China domestic enterprises especially the large state-owned enterprises who have been or are ready to go out.

Introduction

Overseas investment is also called the international investment, which is a kind of cross-border investment business of individuals or units of a country in other countries to obtain more economic benefits than in the domestic. For the oil industry, international investment of a petroleum enterprises keeps relationship with investment destination, which is maybe the other oil companies or oil resource countries. Its objective is more likely to get oil and gas resources or control right of them. Investment mode of petroleum enterprises is a way, method and means to participate in overseas oil exploration, exploitation or technical services or resource trade.

In the early 1980s, China transformed in the oil from a net exporter into a net importer. Since 1993, China National Petroleum Company Limited (hereinafter referred to as the CNPC) launched the hard process for going out. At the end of 2010, overseas oil and gas exploration and production business of CNPC has covered 29 countries around the world, and there are more than 600 teams to provide petroleum engineering and construction services in 55 overseas countries. Only in 2010, CNPC yield of overseas operations reached 86.73m. Tons (fuel-air equivalence), and overseas interest is 44.30 m. Tons (fuel-air equivalence), meanwhile overseas business income accounts for more one-third of the gross income. To understand the internationalization process, it is necessary to research its international business from 1993 to 2012 in order to give some references and enlightenment in internationalization strategies for others enterprises in China.

Theory of Internationalization

Enterprise internationalization is a kind of process to develop themselves from domestic enterprises into multi-national corporation to actively participate in the international division of labor. In fact, internationalization is a two-way process including inward and outward internationalization. The form of outward internationalization mainly refers to the direct or indirect export, technology transfer, foreign contractual arrangements, foreign joint venture, overseas subsidiaries and branch. The activities of inward internationalization include import, buy patents, processing and compensation trades, domestic joint venture, foreign company subsidiaries or branch. The process of internationalization development is an important branch of internationalization research, in which a country or a company develops from inward internationalization to outward internationalization process some of these theories analyze in the national perspective the development process from inward internationalization to outward internationalization of a country. British scholar Dunning (1981) were put forward the famous theory of investment development cycle by researching a country’s international development.
Johnson and Wiedersheim (1975), Root (1994) and others proposed the evolution theory according to the historical development of enterprises mode in international market. This theory thinks that enterprises will not rashly investment resulting in small scale when they do not understand deeply for foreign market. Along with the increasing of experience business enterprise internationalization, overseas investment will also increase accordingly, which requires a higher degree of investment control mode, namely the enterprise mode entering foreign market is changing along with the experiences accumulation of enterprise international business. According to this theory, overseas investment mode is developing in order from indirect export, direct export to licensing or building investment. This theory sees market behavior of enterprises entering into international market as a dynamic process.

The scholars of Nordic Europe would not discuss the inward internationalization stage, only classify the four stages of enterprise internationalization development into outward internationalization, which because this theory is based on the study of Swedish enterprises, so the result is more suitable for the developed countries and cannot fully reflect the special features of the developing countries. Subsequent scholars also do the related research, like what Anderson et al.(1998) gives five stage mode of internationalization.

The CNPC process of Internationalization Development

Since its establishment in 1988, the internationalization development of CNPC as the mainly oil production enterprises, with the changing of domestic demand and supply structure in China, can be divided into three stages, namely initial stage (1988-1997), stable growth stage (1997-2005) and expansion stage (since 2005).

Initial Stage

In 1993, China became a country from a net oil exporter into a net importer. Meanwhile CNPC also began to gradually go out of the country to explore the operation law of international oil market all over the worldwide. At this stage, the company will develop overseas market by making use of competitive advantages based on domestic market. Brand awareness in the overseas boomed during further internationalization and expansion (Gurau, 2002).

At this stage, China has a little dependence on imported oil, so the internationalization goal of CNPC is not to search for oil source, but to know operation mode and pattern in the international oil market, accumulate international experiences, and training and reserve talents with the international vision and experience. At this stage, CNPC lacked the knowledge of experience and resources of overseas expansion and brand promotion, such as market experiences of the target country, good relationship with target country and rivals counter and so on. And there are some market misconducts in degree and step when entering into overseas, meanwhile because small scale and complex structure result in low production, which may be fatal. At this stage, the main strategy is to consolidate the domestic market advantages, and then turn into overseas strategic target market, which is mainly overseas with oil-rich countries. In addition, it lowers the risk of macro environment which of joint venture with local companies of host country by helping enterprises to use their own brands and selling of low-grade products to price advantage, and speeds up the learning process (Anand & Delios,1997; Brouthers & Brouther,2001; Gatignon & Anderson,1988; Kim & Hwang,1992). In 1992, CNPC started the process of foreign direct investment of China oil enterprises by buying Canadian oil reserves. CNPC has obtained the investment abroad and cooperation projects in exploration and development by output of oil services and engineering etc. in Thailand, Canada, Peru, Sultan, Venezuela, Kazakhstan and other countries respectively (Kang yiming, 2004).

The internationalization behaviors of CNPC in this stage mainly try to develop oil and gas in the international market by small projects which is international cooperation mode of exploration and production sharing, licenses and service agreement. All behaviors of CNPC has accumulated a lot of experience, technology and talents for the future.
The Stable Growth Stage

Although the global oil prices have been at an all-time low because of the Asian financial crises in 1997, but CNPC resisted the challenge successfully by the low cost development strategy. At the same time, the State Council reforms price mechanism of crude oil and refined oil, and decided domestic crude oil to be geared to international standards since June 1, 1999 and implement the new refined oil price from June 5th so as to form new price and circulation mechanism. In the domestic and international environment, CNPC began to enter the international oil market. At this stage, CNPC regulate management system and mode of overseas projects and branches by international cooperation and operation of technology services and engineering construction in oil exploration, mining, construction and transportation pipeline in oilfield operations, which further accumulate international talents and experiences to lay the foundation for further expansion and actively participate in international competition.

At this stage, CNPC has made some achievements, such as putting into operation the first overseas oil fields, becoming listed company in the New York Stock Exchange and the Hongkong Stock Exchange, the first acquisition of foreign oil companies and so on, but it also encounters various difficulties. However, all events involved international oil market still help CNPC to establish the position of the big international oil company. The status of CNPC in the world also increased year by year, and has become an important member of the international oil market. A lot of planned international investment significantly delayed for fierce competition in the international oil market. Overall, uncertain and uncontrollable factors is more and more and takes more risks. In addition, oil and gas energy strategic forces showed concurrent in the long-term because of increasingly competition, shrinking profits and increasing market risk. The fierce competition in the industry caused racing between countries and groups and resulted in more difficult to develop international market.

Purchase and acquisition become main way to enter the overseas oil resources market. It, which discover the million tons oilfields in the 3/7 Block of Sultan in 2005, and purchase using 41.8 billion dollars Kazakhstan oil company with huge production capacity, mark the CNPC start of overseas oil and gas business into a large-scale development stage(Xing tongzheng, 2010). The successful acquisition of PK also refresh record of Chinese enterprises overseas, and is so far the biggest overseas single investment projects and the first large firm overall mergers and acquisitions.

Scale Expansion Stage

Since the second half of 2005, the oil import dependency in China is more and more high with rapid economic growth, and at present half of China’s oil consumption come from imports because of increasing demands. CNPC as a major oil production and business units bears the responsibility to search for oil in the world in order to ensure a steady oil supply. In this environment, it is inevitable for CNPC to pursuit scale in the international market to provide a powerful guarantee for China oil supply.

By the early accumulation of capital and technology advantages, CNPC involved in the exploration area with big risks to develop large-scale capital operation so that it can form a complete industrial chain of production and selling integration, then achieve a fully localized export-oriented internationalization. The main problems are the high risk of policy and safety. With oil prices rising, the oil exporting countries have increased control of the cooperation projects respectively that create uncertainties for overseas project profitability, such as the shareholding ratio limit in Venezuela, adjusted percentage of share in Ecuador and so on. In addition, some problems, like low loyalty of local employees, excessive hierarchical organization and low efficiency, are also very prominent. Due to the foreign-related enterprises of overseas oil project are state-owned enterprises with certain gap of salary compared with the similar foreign companies, it restricted talent introduction of overseas projects. After 2005, overseas expansion of China petroleum industry realized the great change in mode of cooperation, and started the implementation of large-scale capital operation to access the market of oil resource countries through mergers and acquisitions. Meanwhile, it also occasionally involved in overseas risk exploration.
Localization is the main strategic action, which includes the localization of marketing, employee and production. The named KUNLUN oil products made in China export to 71 countries and regions with years signed amounted to 30 billion dollars. And in overseas project, there are the Chinese staff of nearly 20000, and foreign employees 78000. That means that localization rate of employee is nearly 80 percent, which takes 21 percent transnational index. However, it needs to pay more attention to low loyalty of local employees and heavy employee-leaving, in particular grass-roots management staff and professionals.

Summary
The overseas investments of CNPC reflect the gradual internationalization process. From the view of mode, it is from the cooperation with lower risk (technology services) to investment with higher risk (exploration, merger and acquisition). For developing stage of overseas investment, it includes three stages: the initial stage, stable growth stage and scale expansion stage. It needs to note that not all enterprises have to go through all the stages, thus CNPC should adjust dynamically the internationalization strategy based on itself resource cultivate, the starting point and process of its internationalization.

References