

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.

Keywords: China National Petroleum; Internationalization; Evolution; Development

1. 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.

At present, transnational operation of CNPC is particularly remarkable with a fairly large and influential system of market coming into shape. Then, it is important to understand what the road is all about and how the internationalization process is. Because CNPC with late dominate position is facing the dual task of marketization and internationalization, its internationalization must have characteristics and different stages of development. 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.

2. 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 eta.(1998) gives five stage mode of internationalization.

Table1: The Five Stage Mode of Internationalization from Anderson Etal (1998)

Internationalization Level	Key features	Enlightenment
Ambitious	Eager to internationalization The goal of internationalization Act on impulse	To understand the decision process Learning in previous experience
Agenda	The motive of action The implementation and practice of policy Tactical action oriented Organizational structure reforming	To review and summarize the dominant logic To understand the rules of the game, technical knowledge and skills With the legal, market knowledge System organizational learning, adaptive learning
Action	The adjustment and reaction according to market first-line demands of the cross regional Awareness of environmental change Sensitivity to external environmental requirements	Culture learning and transplantation Generative learning Reflection and correction based on dominant logic
Internationalization	Formed a close partnership with partners To establish and maintain good relationship with new shareholders Adjusting the structure and configuration of organization, business activities	Mutual cooperation and development Social / business relationships, knowledge, skill Coordination mechanism
Thought transformation	To through experience, observation so as to form "international mentality" Continuous assessment of the mode of thinking and mode of operation	Personal and organizational change in many ways: attitudes, beliefs, feelings, standard of value, ideas, feelings, vision, way of thinking and so on Multiple logic

Obviously, whether the success of an enterprise in international development or not, is the result of interaction of interaction of the internal conditions and external environment.

A successful international enterprise mostly have the following three conditions, ownership advantage (which comes from the specific assets including capital, technology, management, organization, human capital, information in the possession and using), internalization advantage (which can achieve lower production costs and higher profits in overseas investment through the internal transfer of enterprise assets) and location advantage (which must consider what the host or host company has various advantages reflected like natural conditions, economic conditions and social and system advantage when enterprises select overseas market).

3. 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).

3.1 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)

3.1.1 Mission

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.

3.1.2 Main Problems

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.

3.1.3 Strategic Action

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). Major international events of this period is shown in the following table.

Table 2: Internationalization Stage Events of CNPC

1993.3.5	To gain access to exploration in the Bangya of Thailand
1993.7.15	To gain shares partly of North Reanin Oilfield in Canadian and produced the first barrels of crude overseas in China history
1993.10.23	To gain access Seventh Block to exploration services in the Talara Oilfield of Peru
1995.7.25	To gain access Sixth Block to exploration services in the Talara Oilfield of Peru
1995.9.26	To gain access Sixth Block to exploration in the Muglad Basin of Sultan
1997.3.1	To gain access First, Second and Fourth Block to exploration in the Muglad Basin of Sultan
1997.7.29	To gain access Intercampo Block to exploration in the Maracaibo of Venezuela
1997.7.29	To gain access to exploration in the Caracoles Oil Field of the eastern Venezuelan oil areas of Venezuelan
1997.10	To gain 60.3 percent of shares of Aktobe Petroleum Company and its access to exploration and management

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.

3.2 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.

3.2.1 Mission

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.

3.2.2 Main Problems

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.

3.2.3 Strategic Action

Purchasing 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.

Talbe 3: CNPC Events of Stable Growth Stage

1999.7.3	The big new oilfield of Chinese first overseas was formally put into operation with the completed project in Sultan of first, second and fourth Block
2000.4.6	The shares of CNPC began trading on the New York Stock Exchange, next day, starting in the Hongkong Stock Exchange
2002.11.1	TO kick-start infrastructure in the Fula oilfield of Sultan, which is the first wholly-owned developed oilfield of CNPC
2005.4.1	To purchase three oil blocks of Tamtsag Basin in Mongolia, which belong to British SOCO International Co. Ltd.
2005.6.9	To sign a memorandum of investment cooperation with Oman oil company for oil and gas development, downstream project and so on in the future
2005.7.1	Signed an agreement with Australia's Baraka oil company to participate in the development of No.20 oil-gas field in Mauritania coast
2005.8.30	To sign contract of 15 block production sharing with Sultan Government by five companies jointly
2005.10.27	To win the Canadian court verdict and complete the acquisition of all legal procedures for purchasing PK oil company of Kazakhstan spending 41.8 billion dollars
2005.12.7	To sign risk agreement with Libya National Oil Company for exploring offshore 17-4 block

3.3 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.

3.3.1 Mission

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.

3.3.2 Main Problems

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.

3.3.3 Strategic Action

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. The major international events of this stage is shown as follows.

Table 4: CNPC Events of Scale Expansion Stage

2006.7.25	To put officially into operation 3/7 block of Sultan with 1000million tons/year production capacity
2006.10.16	Signed the <Establishment Agreement of Eastern Energy limited Liability Company> with the Russian oil company, and participated in bidding of the exploration and development in Russia
2007.4.5	Put Adar refinery into production successfully in Algeria
2007 7 17	CNPC and Turkmenistan oil company signed a bilateral gas agreement of purchasing and selling, and gas production sharing contract of Amu Darya right bank in Turkmenistan
2008.4.10	Signed gas agreement of selling and purchasing with Qatar Gas Company and Shell Group, contract period of 25 years
2008.6.27	The first gas processing plant of Amu Darya gas project held a foundation and will put into use by the end of 2009
2008.10.5	Signed cooperation agreement and developed jointly Minge Braque Oilfield with Uzbek National Oil and Gas Company
2008.11.17	Signed <Joint Agreement of refinery construction between CNPC and Costa Rica National Oil Company> in Costa Rica
2009.4.16	Signed <the Framework Agreement of cooperation in expanding oil and gas fields and financing of 50 million dollars > with Kazakhstan National Petroleum and Natural Gas Co.
2009.5.18	Started construction of crude oil pipeline between China and Russia within the territory of China from Mohe to Daqing
2009.6.30	Won the bid combined with BP company for operating right of the Rumaila oilfield in the first round of international oil and gas fields in Iraq

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

4. 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.

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