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Essay

China's National Oil Companies Return to the World Stage: Navigating Anticorruption, Low Oil Prices, and the Belt and Road Initiative

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China's National Oil Companies Return to the World Stage: Navigating Anticorruption, Low Oil Prices, and the Belt and Road Initiative

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EXECUTIVE SUMMARY

This essay examines the interplay between the return of China's national oil companies (NOCs) to international mergers and acquisitions and China's Belt and Road Initiative (BRI).

MAIN ARGUMENT

China's NOCs emerged as big buyers of international oil and natural gas assets in the mid-2000s and early 2010s before abruptly curtailing their overseas purchases in 2014–16. This sudden pause in their global acquisitions was largely the result of the collapse in crude oil prices and the targeting of the oil industry by President Xi Jinping's anticorruption campaign. Now that crude prices have stabilized and Xi's crackdown on corruption has moved beyond the oil industry, the NOCs are slowly returning to international mergers and acquisitions. However, this new phase of buying is likely to be characterized by fewer concerns about resource scarcity, more disciplined decision-making, and more partnerships with foreign firms. China's NOCs will look for opportunities to capitalize on BRI to demonstrate that they are supportive of Xi's signature foreign policy initiative. However, most, if not all, of their acquisitions are probably ones they would have made in the absence of this initiative.

POLICY IMPLICATIONS

- China's NOCs are likely to increasingly look to partner with international oil companies in large, high-profile projects. This trend will create opportunities for U.S. and other foreign oil companies to benefit from the NOCs' capital, low-cost supply chains, and ability to attract Chinese banks and construction firms to build related infrastructure, as well as in some cases China's good relations with host-country governments.
- U.S. and other foreign companies can increase their business opportunities in China and third countries by explaining how their activities can advance BRI.
- The fact that Washington is not nearly as enthusiastic about BRI as other foreign governments is unlikely to constrain China's NOCs from doing business with U.S. firms, including through growing imports of U.S. crudes.

China's national oil companies (NOCs) are slowly returning to international mergers and acquisitions (M&A) after spending nearly three years largely sitting on the sidelines. The companies emerged as dominant players in global M&A in the late 2000s and early 2010s, spending $100 billion in 2009–13, before keeping their wallets closed for most of 2014–16, when the value of their purchases totaled less than $10 billion. However, the companies began to cautiously resume international acquisitions in late 2016, with China National Petroleum Corporation (CNPC) signing agreements to return to Iran and the United Arab Emirates (UAE) and China National Offshore Oil Corporation (CNOOC) venturing to Mexico and expanding its presence in Africa.[1]

At first glance, the fact that China's NOCs are resuming international acquisitions at a time when actors throughout the Chinese system are busy rolling out projects under the Belt and Road Initiative (BRI)—President Xi Jinping's signature foreign policy initiative that aims to forge greater connectivity between Asia, the Middle East, parts of Africa, and Europe—may appear to be a recipe for another wave of upstream asset purchases by China's oil majors. After all, the NOCs rank among the pioneers of China's cross-border M&A, first venturing abroad in the early 1990s and accounting for a large portion of overseas investments from the mid-2000s through 2013. They also have a track record of undertaking projects that establish the very type of economic linkages that BRI seeks to create, such as the construction of oil and natural gas pipelines from Kazakhstan, Myanmar, Russia, and Turkmenistan to China.

However, the NOCs are unlikely to repeat their buying binge of the late 2000s and early 2010s. They will probably be more prudent shoppers, acquiring assets at a much slower pace due to the easing of concerns about scarcity that underpinned much of their earlier buying and a determination to avoid past blunders laid bare by the collapse in oil prices and the Xi administration's anticorruption campaign. While the NOCs will almost certainly link any new overseas acquisitions to BRI to demonstrate support for an initiative in which Xi is personally invested and position themselves to tap into the war chests that Chinese financial institutions are setting aside for BRI, most of their new investments will probably be ones they would have made in the absence of the initiative. Moreover, Beijing has other priorities for overseas investments besides facilitating the import of commodities, which makes it likely that state financing for oil and natural gas projects will be reserved for ones of strategic importance.

The first section of this essay explains why China's NOCs largely stopped acquiring upstream assets from 2014 to 2016, why they have resumed buying, and what this new phase of acquisitions will look like. The second section analyzes the interplay between the return to international M&A and BRI. The third section discusses some implications for foreign firms.

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