CHAPTER EIGHT

Overseas Investment: "Going-Out" Not Equal to "Taking-Back"

Since 1990s, China's foreign direct investment (FDI) in resources has attracted great attention both at home and abroad. Besides the growth of investment scale, the relationship between overseas energy investment and "strategic resource" acquisition becomes the greatest sensitive and disputatious issue. Some domestic experts asserted that the foothold of maintaining China's energy security should target at "going out." Foreign countries, especially the western public, generally believe that China is to grab foreign resources through "going-out strategy," criticizing China for directing state-owned enterprises (SOEs) to lock oil fields overseas, to rob resources, and even to make strategic expansion through overseas investment in resources.

China's unfavorable image that overseas investment aims to grab energy resources results, to a large extent, stems from the coincidence in time between China's change into an oil importer and the international community's concern about China's overseas investment. In fact, Chinese oil enterprises made overseas investment much earlier than China's change into an oil importing country, essence of which is to participate in international division of labor and the main purpose of which is to promote enterprise internationalization and enhance international competitiveness. Although China's overseas energy investment is still dominated by SOEs, it is still in its infancy, and their activities are not fundamentally different from other multinational corporations. China's energy enterprises' "going out" is a part of overseas direct investment (ODI) and integration into the world economy, to which the security of China's energy and resource is not much related, that is, "going out" is not equal to "taking back."

In face of high-speed oil consumption, Japan began to implement the strategy of "going out" in 1960s, and it was very similar to the situation in which China's oil demand is growing rapidly and Chinese oil companies are going abroad. However, Japan's "go-out" strategy, characterized by the establishment of oil companies to subsidize overseas development

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plans, finally failed to reach the target in equity oil as a result of high cost in total and low economic efficiency [1]. In order to ease the misinterpreting and misunderstanding of China's overseas energy resources investment, China needs to accelerate the transformation of market economy, push enterprises into the international market, encourage more private enterprises to invest overseas, and strengthen multilateral energy dialogue and cooperation. At the same time, most of international community needs to deepen its understanding of the reality of China's overseas investment, and take the advantage of the opportunities brought about by China's overseas investment, instead of simply blaming China for its rapid expanding of overseas investment.

FAST-GROWING OVERSEAS INVESTMENT IN RESOURCES

Before the reform and opening-up in 1978, China had little overseas investment. Starting from 1990s, enterprises such as PetroChina (CNPC) began to invest in the exploration and development of international energy resources. In recent years, the scale of overseas resource investment of Chinese enterprises has expanded greatly and the geographical distribution has become increasingly widespread. In the fields such as energy and metal minerals, overseas investment of Chinese enterprises involves mergers and acquisitions of oil fields and mines, pipeline construction, refinery projects, equity assets and engineering and technical services, and the investment areas cover Africa, the Middle East, Latin America, Central Asia, Australia, and North America.

In the petroleum system, as early as June, 1986, experts encouraged PetroChina to make cross-border exploration and development. In 1991, PetroChina took international operation as one of the three major strategies. The connotation of internationalized operation is relatively rich, including the introduction of foreign capital to carry out oil and gas exploration and development, the technical and labor services provided overseas by domestic professional technical service companies, and the exploration and development of oil and gas in foreign countries.

In November, 1992, PetroChina established an international company, which was renamed later as International Petroleum Exploration and Development Cooperation Bureau and China Oil and Gas Exploration and Development Company, responsible for domestic and foreign exploration and development and foreign cooperation. In 1993–95, some overseas exploration and development projects were obtained, such as the old fields of Blocks 6 and 7 in Peru and Acheson in Canada, exploration blocks in Papua New Guinea, and six blocks in Sudan. The cross-border exploration and development of China National Offshore Oil Corporation (CNOOC) started earlier. In 1994, it gained 32.5% of the shares of Malacca Oilfield. The equity purchased in 1995 increased 6.93% [2].

Sinopec (China Petroleum Chemical Group) founded International Petroleum Exploration and Development Co., Ltd, in January 2001. In 2000, an exploration project was signed with Iran. In 2001, the Equity Transfer Agreement was signed with the German Company Preussag for the exploration and development project of S2 in Yemen. Sinochem (China Chemical Industry Import and Export Corporation) established the Sinochem Petroleum Exploration and Development Company in May 2002 and signed the Equity Transfer Contract with the Norwegian Petroleum Geology Service Company (PGS), and signed cooperation agreements about two blocks with Ecuador at the end of the year. In addition, some non-oil companies also show increasing interest in cross-border oil and gas exploration and development, such as China North Industries Corp. and CITIC Group.

Since 2003, overseas investment of China's oil companies has gradually expanded to more than 20 countries. In 2004, PetroChina's foreign production reached 30 million tons, the equity oil production reached 16 million tons, and the natural gas production amounted to 2.59 billion cubic meters [3]. In 2006, Sinopec's overseas equity oil output reached 4.52 million tons. In 2016, China's overseas equity oil amounts to 3.1 million barrels per day, nearly five times the total (700,000 barrels per day) in 2009, or more than 25% of domestic demand, equivalent to 40% of crude imports. The three major national oil companies, PetroChina, Sinopec, and CNOOC, account for more than 90% of the total oil production overseas [4].

After the international financial and economic crisis in 2008, China's overseas energy investment entered a new stage of rapid development. The number of overseas energy investment projects (including contracts) increased from 5 in 2005 to 11 in 2008 and 16 in 2009. Investment increased from $6.41 billion in 2005 to $23.06 billion in 2008 and $29.85 billion in 2009. By 2015, more than 20 Chinese oil companies had invested nearly 200 oil and gas projects in 54 countries. In recent years, the decline of international oil price has had a certain impact on overseas investment of PetroChina Company, but it still maintains the momentum of growth. Among them, the oil and gas output of China oil overseas increased from 58 million tons in 2013 to 72.02 million tons in 2015, and the overseas equity output of Sinopec increased from about 30 million tons in 2013 to 38.71 million tons in 2015.

MISINTERPRETATION AND CRITICISM FROM THE INTERNATIONAL COMMUNITY

The rapid growth of China's overseas resources investment has aroused great concern and uneasiness of the international community. In the opinion of some western analysts, China's energy and resource security policy can be interpreted as ensuring supply through upstream investment in overseas energy projects or access to foreign companies' interests and shares. China has been accused of taking strategic measures rather than market means to take resources away from the world market and directing its state-owned companies to control foreign resources. The overseas activities of Chinese resource companies have caused worries such as the possibility of "locking" natural resources supply, "controlling" the world mining industry, and so on [5]. China is believed to perceive ownership as the most important means of controlling world resources and raw materials. "China wants to be an investor, not because it wants to invest, but because it has a strong desire to get resources," said Hal Sirkin of BCG, "Investment is the best way" [6]. In short, in view of those who hold the above view, China's resource policy can be interpreted as a worldwide search for resources or struggle for resources.

The investment of Chinese SOEs in the world has aroused the concern of the international community about the international resource supply and price. The United States is particularly concerned that China's huge oil demand will affect America's energy supply. According to reports by Boston Consulting Group and Wharton Business School, the growing demand for energy from China and India has opened up a worldwide race to ensure access to scarce fossil fuel resources. Michael T. Clare, a professor at the World Institute for Security and Peace, pointed out that "the most prominent of the possible conflicts and instability in this century will be a global scramble for scarce or strategic resources, such as oil, water, natural gas and key industrial minerals" [7]. What's more, there is a call for containment of China's energy threat in the world where resources are very scarce.

As China gradually plays an important role in world resource investment and development, China's overseas investment is often criticized as mercantilism by western public opinion. Duncan Clark, author of *The Empires of Oil*, argues that it sent state-owned oil companies, Sinopec and CNOOC, to invest in hydrocarbon projects around the world, to get energy, and to get oil and liquefied natural gas [8]. Some western analysts feel worried that western companies will suffer from the pain of increasing energy costs. Rick Peters, former head of the Boston Consulting Group's energy division, pointed out that companies in China and India will be able to compete with western oil companies for strategic advantages in their competition with western oil companies, which will give resources owners more options and bargaining space in the same resource project. Baru Barragup, senior partner of the Boston Consulting Group, pointed out that resource owners were becoming increasingly greedy and increasingly demanding in their rights to protect their resources.

In 2005, when CNOOC offered to bid for Unocal, the "China Energy Threat Theory" reached its climax in the United States. The US House of Representatives voted 398 to 15 to pass a resolution that the CNOOC's purchase would threaten US National security. In 2010, Anshan Iron and Steel Group announced that its subsidiary in the United States would build a steel mill worth $175 million in Mississippi. After the announcement, 50 members of the Congressional Steel Association said the Anshan Iron and Steel Group will acquire new steel production technology and information on the US National security facility, about which they write to investigate whether the investment by Anshan is a threat to US National States security.

In Australia, China's investment is also confronted with similar suspicions. Australia has reviewed China's investment through the Foreign Investment Review Committee to ensure that it is in line with Australia's national interests. They want to ensure that investment is in line with their goal of maintaining such a system, and investment and sales decisions are driven by market forces rather than external strategic or political considerations. Australia's political commentator Graeme Dobell points out that through management of foreign investment, Australia is trying to tell China that it must be polite and ready to wait for a long time before it may be allowed to sit down [9].

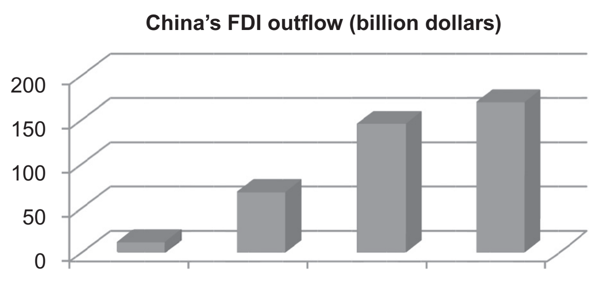
The United States is increasingly uneasy about China's increasingly tight cooperation with countries like Iran, Saudi Arabia, Sudan, and Venezuela. For some time, many analysts feared that China would change the political balance of the Persian Gulf through large-scale oil imports. In 2004, the United States blocked an agreement between Sinopec and Iran to develop oil and gas fields. In 2006, Robert Zoellick, then US Deputy Secretary of State warned China that seeking an energy deal with Iran would risk conflicts with the United States.

Some Western public opinion says China's oil companies are driven by the government aiming at implementing Chinese government's energy acquisition strategy and foreign policy. As it goes that China's companies are fundamentally used as tools of national foreign policy, rather than gaining profits . . . Chinese companies are investing abroad in such a good way as to implement foreign diplomatic policies . . . the investment decisions are made by bureaucrats, political in essence, not in order to get enough investment returns [10]. Political commentator Paul Lin asserts that no country today feels capable of invading China, and China does not take measures to save energy, but in many ways stir up a sense of crisis to stimulate nationalism, with the aim of covering up strategic expansion ambitions with oil diplomacy [11]. An expert at Stanford University stresses that China is not only investing in minerals, oil, and other raw materials but also buying diplomatic loyalty [12].

Evan Bremer, Chairman of Asia-Europe Group, points out that when SOEs make investment out of doors, they are not constrained by shareholder opinion or reputational risk, and as a result they are able to do business in many places with many people in confidential way, which their rivals, private-owned enterprises, cannot. The greatest challenge to world economy is the free market and cross-border companies, as the major economic players shift to a very different competitive model [13].

EXTERNAL REFLECTION OF CHINA'S DOMESTIC ECONOMIC STRUCTURE

The rapid growth of overseas resource investment is a natural result of the fast and steady growth of China's economy over the years, a projection of China's rapidly expanding overseas investment, and the external reflection of China's economic structure. Since the reform and opening up in 1978, China's economy has been growing on average by nearly 10%, with its GDP increasing from 364.52 billion yuan in 1978 to 39.8 trillion yuan in 2010. Since its accession to the World Trade Organization in 2000, China has gradually shifted from the recipient of the major ODI to an important contributor of FDI. According to the Ministry of Commerce, China's ODI increased by 44.6% annually from 2002 to 2011, from $2.7 billion to $74.65 billion, while ODI stock increased from US $29.9 billion to US $424.78 billion [14]. The report of *The United Nations Conference on Trade and Development* (UNCTAD) in 2012 showed that in 2011 the flows and stock of ODI worldwide amounted to $1.69 trillion and $21.17 trillion respectively, of which China accounted for 4.4% and 2% respectively, by the 6th and 13th of the world [15]. In 2013, China's ODI reached 107.84 billion dollars, achieving a continuous growth of 11 years, with an annual growth rate of around 40%. Investment flow and stock in 2013 accounted for 7.6% and 2.5% of the world, respectively. By the end of 2013, China's 15,300 domestic investors had established 25,400 ODI enterprises, distributed in 184 countries around the world, and the total amount of foreign assets was nearly 3 trillion dollars. In 2014, China's ODI flow exceeded that of foreign investment for the first time, becoming the net outflow country of foreign investment. In 2016, China's ODI reached $170.1 billion, with the year-on-year growth up to 44.1%.



China's FDI outflow. *From* 2015 Statistical Bulletin of China's Outward Foreign Direct Investment *and open data from China Ministry of Commerce.*

Despite the rapid growth, China's ODI is still in its infancy. In 2011, China's overseas non-financial direct investment amounted to $60.07 billion, involving 3391 foreign-funded enterprises. At the same time, there were 27,712 foreign-invested enterprises in China, with the non-financial direct investment of $116.01 billion [16]. The profit from overseas investment of China's enterprises is lower than what was expected. About one-third of China's overseas investment companies succeeded, one-third failed, and about 12% and 11% of China's overseas mergers and acquisitions failed in 2009 and 2010, respectively, which is significantly higher than 2% of the

United States and 1% of Britain over the same period. In 2000–13, China's OND was consistently below the world average.

Chinese enterprises are still at a low level in terms of transnational operation at the current stage. Chinese companies, including those in Hong Kong and Macau, only have 6% of international cross-border investment, far below 45% of the United Kingdom in 1914 and 50% in the United States in 1967. The overseas operating income of 272 enterprises of China's top 500 is only 3.46 trillion yuan, and the Transnationality Index (TNI) is only 8.1%, far below the world's 100 top enterprises' average of 64.7%. China's TNI is also significantly lower than that of Russia (54%), India (41%), and Brazil (40%). China's top 100 transnational enterprises and their TNI in 2011 showed that the overseas assets of Sinopec and PetroChina were the top two among the 100 transnational companies, with CNOOC ranking the fourth, while the TNI of the three major oil companies were only 22.56%, 21.83%, and 23.84%, respectively. However, the TNI of British Petroleum, Exxon Mobil, and Total were as high as 84%, 76%, and 76% [17]. In 2012, the average transnational operating index of China's top 100 transnationals was 12.93%, not only far below the average of 62.25% of the world's 100 largest transnational corporations in 2012 but also far below the average of 38.95% of the top 100 enterprises in the developing countries in 2012. In addition, in 2012, among China's top 100 transnational companies, only 6 TNI were more than 30%, and only 20 were more than 20%, while as many as 55 were lower than 10% [18].

The proportion of natural resource investment in China's total foreign investment is declining in general. From 2005 to 2009, although the trading number and trading volume of ODI accounted for 52.7% and 62.41% of the total, the growth rate of ODI in nonresource industry was faster than that of resource enterprises. The trading number of nonresource ODI increased from 2 in 2005 to 34, and the nonresource sector also increased from 2 (transport and chemistry) to 9, including finance, telecommunication, electricity, tourism, real estate, food, etc. The trading volume of ODI in nonresource sector (including finance) increased 37 times, from $490 million in 2005 to $18.87 billion in 2009, while the resource sector's ODI increased only four times, from $8.62 billion in 2005 to $45.02 billion. The proportion of resource-sector trading of ODI in overall ODI fell from 82% in 2005 to 50% in 2009, and the trading volume dropped from 94.6% to 70.5%. According to the 2011 China Foreign Direct Investment Statistics Bulletin, in China's foreign investment stock in 2004–11, the mining industry totaled $66.995 billion, accounting for 15.8% of the total stock of overseas investment, of which the number of foreign investment in mining was $14.446 billion in 2011, accounting for 19.35% of the total overseas investment in the same year. In 2015, mining sector's share in China's ODI dropped sharply to 7.7%, less than one-third of the leasing and commercial services sectors that ranked first.

SOEs, especially enterprises run by central government, remain dominant in China's ODI, but ODI from local and non-SOEs increased significantly. In 2008 and 2009, ODI of China's local enterprises increased by 28% and 54.5%, reaching $6.14 billion and $9.45 billion, respectively. During the Eleventh Five-Year Plan period, the export of China's private enterprises increased by 20% annually. In 2010, the foreign investment by 137 of the top 500 private enterprises reached $6.2 billion, with an increase of 174% from 2009. From 2006 to 2011, in China's ODI stocks, the proportion of SOEs dropped from 81% to 62.7%, while the proportion of non-SOEs increased from 19% to 37.3% [19]. In 2013, China's non-financial ODI was $92.74 billion, of which SOEs fell to 43.9%. At the same time, private enterprises' foreign investment is no longer limited to Africa, Latin America, etc., and gradually expands to BRICS, Europe, Oceania, North America, Japan, South Korea, etc. As the government begins to take more incentive measures, the proportion of local and non-SOEs in ODI will be increasing.

The dominance of SOEs in resource-sector ODI reflects the existing economic structure in China to some extent, and those enterprises also dominate the domestic market. With the deepening of reform and opening-up, private enterprises have greatly developed, but SOEs still dominate China's economy. The number and proportion of SOEs in China's top 500 enterprises decreased from 357 and 71.2% in 2005 to 316 and 63.2% in 2011, and the operating revenue dropped from 86.3% to 82.82%. Enterprises of resource industry also played an important role in China's top 500 enterprises in 2011. Among them, the top of the operating revenue rankings are Sinopec (1.969 trillion yuan), PetroChina (1.721 trillion yuan), State Grid (1.529 trillion yuan), Industrial and Commercial Bank of China, Bank of China, China Mobile, etc. Most profitable enterprises are also from monopolistic industries, such as Industrial and Commercial Bank of China, China Construction Bank, and three major oil companies. The top 10 companies' profits totaled 866.84 billion yuan, accounting for about 40% of the top 500. Because of such domestic economic structure, for quite some time, enterprises with great potential to make overseas investment are often SOEs, especially resource-based enterprises. Therefore, the outstanding status of SOEs in the resource sector is a major feature of current China's economy, and inevitably the overseas investment is marked with such features.

From an international perspective, the initial stage of overseas investment is mainly characterized by resource-based enterprises as the main force. The United States and Japan also experienced a similar process. Overseas investment results from domestic economic development and industrial structure upgrading, without an inevitable connection with whether there is shortage of resources. World history shows that the developed countries mainly focused on resource-based enterprises in the initial stage of overseas investment, mainly because those enterprises from resources and raw material industries were relatively advanced with international competitiveness and comparative advantages. With time passing by and the upgrading of domestic industrial structure, especially the enhancement of international competitiveness of manufacturing industry, overseas investment of these countries is increasingly turning to manufacturing and service industries. Around 1960s, ODI of the United States in developing countries was mainly concentrated in mining industry and developing primary commodities. After 1970s, it gradually shifted to manufacturing industries, such as textiles, cement, household appliances, and chemical industries, etc. Since the 1980s and 1990s, it has been mainly focusing on the high and new technology industry and service such as electronics and telecommunications [20]. In the 1950s and 1960s, Japan's ODI flew mainly into resource-rich countries, such as oil exploitation in Indonesia, iron ore mining in India and Malaysia, and copper mining in Philippines. Japan's manufacturing overseas investment grew at a high rate of 30% annually from 1971 to 1980 after upgrading its domestic economic structure. From the end of 1960s to the end of the 1980s, the proportion of Japanese ODI in manufacturing increased from 12% to 36.4%, while the proportion of mining industry fell from 34.2% to 2% [21].

MOTIVATIONS OF CHINESE OVERSEAS INVESTMENT IN RESOURCES

The energy insecurity caused by the rapid growth of China's energy resource demand and the exacerbating of dependence on external energy created a favorable environment that the government and public support overseas investment by enterprises, which at the same time led to many misreadings and misunderstandings. Overseas energy investment started earlier than China acting as an oil-importing country. Enterprises, as the main investor, would like to intentionally or unintentionally take the advantage of the sayings proposed by the public and the scholars that various "going global" is aimed to protect energy security, in purpose of gaining various beneficial policies and financial supports. In many people's eyes, even if overseas investment does not have much to do with energy security, the three big oil companies as China's enterprises would definitely enjoy the support from the government and the public. However, in order to reduce or eliminate the misreadings and misunderstandings of Chinese energy and foreign policies from the world, the relationship between overseas investment and energy security should be clarified.

The overseas investment of energy enterprises is mainly driven by profits and interests, and is an important step to international operation and integration into the international community. The rights and interests of production that enterprises acquired from overseas, like equity oil, are also mainly sold at the international market rather than being shipped back to China. In 2010, PetroChina obtained 60 million tons of equity oil overseas; yet, only 5 million tons were shipped back to China, accounting for only 2% of the 2.4 tons of crude oil imports in that year and the rest were sold at local or international oil markets [22]. No oil and gas products produced by PetroChina in Azerbaijan and Canada flew back to China [23]. Most of China's overseas oil investment comes from PetroChina, and oil import business mainly belongs to Sinopec. The two major oil companies bear the responsibility for their own profits and losses. There is no such rules that Sinopec must buy the equity oil produced overseas by PetroChina or PetroChina's equity oil must be sold to Sinopec.

The overall background of overseas investment in energy resources is the policy of the internationalization of economy, namely "inviting in" and "going global," that China has implemented since its reform and opening up. "Inviting in" mainly refers to the opening of China's economy to foreign enterprises and foreign investment, especially after China's accession to the World Trade Organization in 2001. China has taken many measures in terms of trade and investment liberalization and made many commitments. "Going global" means getting involved in international market and investment overseas. In the energy resource industry, "internationalization" refers to attract foreign investment into China to explore and develop resources, eliminate or substantially reduce import tariff, open up some fields (such as the sales of oil products) to foreign investments, Chinese enterprises' investment and exploration/development overseas, as well as engineering, technology, and labor services concerned.

The fundamental motivation of overseas investment of China's resource enterprises lies in their self-development. After years of development, the competitiveness of energy enterprises such as the three major oil companies has been enhanced significantly, but compared with the international oil companies like BP Amoco, ExxonMobil, and Shell, there is still a wide gap in terms of internationalization and international competitiveness. In order to build a world-class transnational corporation with international competitiveness, as early as the early 1990s, the three major oil companies successively took international operation as an important development strategy for self-development. With the domestic resource reserves limiting the growth of output and the gradual rise of the domestic wage and other costs, energy enterprises could not achieve scale expansion until they are involved in international market, and only by overseas investment could they find low-cost oil and gas and mineral resources, and expand their share and influence in international energy market. Moreover, transnational investment also helps enterprises improve their own technology and management capacity, accelerate the export of related equipment, technology, and labor service, accumulate experience in international business, and train international management talents.

Dong Xiucheng, a professor from China University of Petroleum, pointed out that whether an enterprise is state-owned, private, or foreign-funded, it definitely aims to achieve its own sustainable development. It is natural for enterprises to have a strategic vision at home, in foreign countries, and even in the whole world. China's overseas oil and gas investment is a part of China's integration into the world economy, Chen stressed. China has been widely integrated into the global economy, so we cannot assume China's oil companies are to limit their investment activities to China. China's state-owned companies expect to achieve international development and share margin interest of oil price. Chinese enterprises believe that by owning equity oil, they can get the price margin between market prices ($60 per barrel) and production costs ($10—$20 per barrel) [24].

At the same time, compared with other enterprises, resource-based SOEs are more competitive and have more advantages in finance and other aspects. A new round of price rise of energy greatly increased the revenue of resource-based enterprises, so they have relatively abundant capital. More and more state-owned energy enterprises rank top 50 in China and top 500 worldwide. Meanwhile, these state-owned resource enterprises received more support from the government in such areas as overseas investment financing, because it is easier for them to obtain loans from State Administration of Foreign Exchange and state-owned banks than non-SOEs.

Horizontally, China's energy enterprises have stronger competitiveness in exploration and development than the enterprises in many developing countries, and even compared with the multinational giants, they still enjoy some competitive advantages in labor cost and other aspects. For example, PetroChina, Sinopec, CNOOC, and Sinochem have a relatively high degree of internationalization, and whether from overseas assets, overseas income, or overseas employees, these four companies are in the forefront of China's internationalized enterprises. These companies also began to possess certain ability to compete at the international market with Exxon Mobil, Shell, and so on. For example, PetroChina and Sinopec ranked 6th and 5th, respectively, among the top 500 enterprises worldwide in 2012, and ranked 81st and 114th in the Brand Value Global 500 [25].

In general, the income and profits from Chinese companies' investment in overseas resources are comparable to those experienced international oil companies. Because the domestic exploration and development became more difficult and more costly and the oil price was not fully integrated into the global market, the profits from some overseas resources' exploration and development projects are obviously higher than those from domestic projects. Although some of the projects seem to have poorer profitability to some multinational companies, for some Chinese energy enterprises, considering labor cost, equipment, technology output, etc., the benefits are considerable, especially in comparison with some domestic exploration and development projects. Some projects, despite the great investment at the initial stage, are beneficial for the international development of the company in the long run.

Comparatively speaking, the entry threshold of the resource industry is lower, which is also an important reason that attract more and more domestic enterprises go to the world as a result of the price rise of raw material. In addition to the traditional three major oil companies which have been actively engaged in overseas oil and gas development, Sinochem also set up specialized companies engaging in overseas oil and gas exploration and development, and CITIC Group and other non-energy enterprises are increasingly keen on this. CITIC Group has made investment in energy in Indonesia, Australia, and Kazakhstan. The Alliance of Synthetic Fuels in Europe (ASFE) has made energy-related investments in France and the United Kingdom, and the energy investment of CIC Energy Corp. in South Africa is mainly concentrated in Kazakhstan and Russia. China National Development Bank and the Export-Import Bank of China also have made investment in mineral projects in the Democratic Republic of Congo.

China's oil companies have begun tightening investment since the international oil price continued to fall in 2014. According to Domestic and Foreign Oil and Gas Industry Development Report in 2016 issued by CNPC Economics & Technology Research Institute, facing with the dropping of oil price, three major oil companies made a sharp cut in the annual investment, with PetroChina, Sinopec, and CNOOC decreasing by 19.5%, 34.4%, and 29.6%, respectively, in 2016.

THE RELATIONSHIP BETWEEN CHINESE GOVERNMENT AND ENTERPRISES

The relationship between government and enterprises is what China's overseas resource investment is mostly criticized, and is also what is most easily misread and misunderstood in the relationship between China and other countries. There are noticeable differences in development stage, cognition, and analytical logic. Overseas investment of Chinese enterprises does have some differences from foreign countries, especially western countries. The SOEs can be taken as an example for some of investment projects with low returns and even losses. Although the above-mentioned phenomenon does exist, it cannot be concluded that China's overseas resource investment is targeted at resource security, and the government instigated SOEs to seize resources abroad.

At present, in China's energy enterprises, SOEs are at the leading and dominant position and have stronger competitiveness and greater desire for overseas expansion. Comparatively speaking, the development of private enterprises is still in the initial stage, and there is a wide gap in terms of the comprehensive strength and international competitiveness compared with the SOEs. Although in recent years the private enterprises actively sought for overseas investment and the active support from the government, the progress and the influence of those projects are limited. In addition, the SOEs occupy the dominant position in many industries, with stronger comprehensive strength than private enterprises, which is the factual reflection of China's economic structure.

Some projects have low returns or even suffer losses, which is taken by the foreign public as the evidence that the enterprises are instigated by the government out of political considerations regardless of the cost. The operations of some Chinese companies, especially SOEs, are often considered as a political act of government when it fails to be interpreted or read by using western logic. For example, when CNOOC bought Unocal Corporation, some westerners thought it was not logical and could not be understood from the market point of view, taking for granted that it is the political attempts or plots of the Chinese government. In terms of overseas investment in resources, although following the logic of western companies, the economic benefits of some projects are poor, but many are profitable compared with domestic projects, or from the perspective of comprehensive cost, market, and long-term development strategy, it caters for the interest of the enterprises and thus has a strong attraction. This is also why more and more enterprises go abroad after many cases of losses.

The Chinese government's support for enterprises is also quite different from what some western analysts assume. Many of these supports are nominal, moral, out of public opinions, and mostly out of protecting the overseas interests of the enterprises. Public support, apart from some misreading and less understanding of the international energy resource market, is mainly motivated by the cognition that Chinese government and the public should support Chinese enterprises. In order to strengthen international competitiveness, domestic enterprises will take various measures to seek actively for the support of government and all parties for their overseas investment, and the enterprises will intentionally and unintentionally emphasize the importance of "going global." Enterprises are happier to embrace their future in face of the similar public opinions in society and the favorable environment for overseas investment by energy companies, as well as various favorable policies and supports. The key point here is that the support from the government and the society is activity sought by themselves, but even if there is no such support, or even if such support is reduced, the domestic enterprises will not stop their steps to go global, because internationalization is the direction of most Chinese enterprises for development and the only way to enhance their international competitiveness. China's state-owned oil companies, though subject to the Chinese government, have made their investment decisions based increasingly on market signals rather than national directives [26].

The interests of resources enterprises or associations are not always consistent with the interests of governments, sometimes even contradictory and conflicting. China's reform and opening-up and social transformation make the interest groups increasingly diversified and play an increasingly important role in the formation of relevant policies. With the promotion of reform measures such as separating government functions from the enterprises, the SOEs, apart from fulfilling some social responsibilities and functions, have increasingly exhibited their profit-seeking feature as an enterprise. Sometimes, some of the market operations of enterprises are even contradictory and in conflict with the macro-control policies of the state. In 2005, some SOEs even took measures to limit crude oil production, reduce imports, and increase exports when the central government managed to maintain the policy of domestic price stability to make China's oil prices lower than that of the international market, which caused oil shortage in some regions. The overseas investment activities of SOEs do not reflect China's coordinated overseas development strategy as what is imagined, but in some cases "hold" or "kidnap" China's foreign policy [27].

The relationship between energy diplomacy and overseas investment by enterprises is also an important point for criticism by foreign public. Though active energy diplomacy increasingly propelled China's overseas investment in energy, and brought new projects and opportunities to the companies involved, it only accounted for a small proportion of their overseas investment projects. In most cases, companies look for investment opportunities and start related negotiations on investment, and then seek for approval from the government for its investment plans, and seek for government funding and support for diplomacy, if needed. Eric Downs of the Brookings Institution in America recognized that the overseas investment of China's state-owned oil companies was fundamentally determined by themselves relying on their own efforts and put their own economic interests before the national [28].

In many developing countries, the government's support for enterprises' overseas investment is widely executed, especially in Asia, such as China, Japan, South Korea, and India, which are largely related to the stages of these countries' development and special cultural concepts in those regions. In the 1970s, the Japanese government targeted at the equity oil accounting for 30% of its oil import, and to achieve this target, established the National Petroleum Organization of Japan and financing enterprises to carry out overseas exploration and development. In 2006, the Japanese government launched a new national energy strategy to raise the target to 40% by 2030 (15% in 2006). Although this goal is not very likely to achieve, a considerable number of scholars in Japan believe that overseas energy investment will help strengthen its energy security. Yoshikazu Kobayashi in Institute of Energy Economics of Japan pointed out that the goal of raising the proportion of equity oil to 40% in total oil imports can improve economic relations with resource countries, and a national flagship company with a strong bargaining capacity and sufficient resistance to risks would become an effective tool to strengthen national energy security [29].

INTERNATIONAL DIALOGUE AND COOPERATION

As an emerging participator in the world market, China's rapid increase in resource investment aroused the international community's concern and criticism, which is understandable to some extent, though many are inconsistent with the facts. Although there are inevitably conflicts of interest and differences in position between China and some foreign countries in the field of energy resources, mutual misinterpretation and misunderstanding is the biggest crux. Strengthening mutual communication and cooperation will greatly help to alleviate the tense relationship.

For the western countries, it is very important to eliminate the worry by better understanding the reality of China's overseas resources investment and avoiding analyzing China's policies simply using western logic. In fact, western professionals have begun to change their opinions thanks to the multilevel dialogues, communication, and cooperation over the years, especially the in-depth research on energy-related policies of China by energy scholars. However, it will take some time to affect government policies and public opinions.

Some American scholars have recognized that China's consideration of Sino—US relationship takes precedence over the acquisition of oil resources of state-owned oil companies. More and more energy experts have come to realize that China's overseas activities are more geo-economic than geopolitical, and China's overseas energy investment is ultimately conducive to increasing world energy supply, promoting market diversification and accelerating competition among producers. Stephen Glain pointed out that China was taking positive actions in improving relationship with the United States. He said that the Chinese government had begun to use free markets to ensure its energy supply. China's oil investment in Iraq clearly showed that China was shifting from asset or resource control to marketization [30].

Dan Rosen in Peterson Institute for International Economics in Washington, DC, argues that some people criticized that China's foreign investment had a national motive, or some geopolitical motives, while he believes that it is purely out of business motivation, and the pursuit of profit. CNOOC's bid for Unocal Corporation is widely viewed by the American public as the Chinese government's attempt of plundering American oil resources, which, in fact, is far from the truth, at least from a certain standpoint. This bid was indeed an attempt, but its sponsor was not the Chinese government. Nor did it aim at plundering American oil resources. CNOOC was misunderstood by the United States as bidding for Unocal with an aim of its oil and gas resources in Asia. CNOOC's bid for Unocal represents China's quest for modernity as a whole [31].

Daniel Yergin believes that China's oil companies are hybrid ones between the well-known international oil companies and the state-owned national oil companies, struggling to become internationalized national oil companies. He further points out that China's oil companies are sometimes described as "tools" of the country, but the most recent research made by the International Energy Agency was quite different from that. The study shows that business motivation is the major driving force for the companies. The business activities of Chinese companies are highly independent. In the words of the International Energy Agency, these companies are controlled, but not operated by the government. As the deepening of internationalization, they are more and more similar to other international oil companies in operation [32].

In terms of market competition, foreigners feel worried that the identity of SOEs of China might have a negative effect on western enterprises, but this influence will weaken with the deepening of China's domestic marketization and the reform of government–enterprise relationship, especially the increasing integration of SOE into the international market. Perhaps, SOEs could enjoy some monopolistic advantages or preferential policies at home, but will more likely follow international rules in the international market, and become more familiar with and adapt to international rules; thus, their activities will be consistent with western multinational corporations. With China's rapid rise in the global energy market, the operation of Chinese energy companies is put under the increasingly close scrutiny. And the development of enterprise's internationalization will in turn push the domestic market to carry out further reform.

From this standpoint, to encourage and support the overseas investment from Chinese enterprises is in line with the long-term interests of western companies. In order to accelerate China's integration into the international community and international market, particularly to make full use of China's great potential of resource market, the international community should welcome and make full use of China's overseas resources investment, rather than restricting it as a threat [33]. Orville Schell pointed out that if the Obama administration and EU officials were unable to balance the relationship between economic exchanges and protection of national security, China's foreign investment would search for other options, and such policies would make Europe and America weaker rather than stronger [34].

For Chinese government and companies, better understanding international market and diluting the relationship between overseas investment of enterprises and energy security will help to alleviate the westerners' doubts and worries about the political intentions of Chinese enterprises' overseas investment and reduce political resistance from various aspects. There are diversified reasons for the foreigners' misreading and misunderstanding of China's overseas energy investment, and to some extent, it is also related to such opinions that "overseas energy investment is to guarantee energy security" and "going global is for bringing back" proposed by some public and scholars in China.

However, with the deepening understanding of the market, more and more industry insiders gradually realize that obtaining overseas resources and yields of rights and interests has quite limited impact on China's energy security. Market analyst Yu Sihe points out that it is a misunderstanding for domestic and international public to believe that Chinese enterprises made overseas investment and obtained petroleum resources just in order to meet the rapid growth of domestic demand and safeguard energy security. Production and reserves overseas are far more meaningful to investors than consumers. Although the country wants to secure energy supply through international cooperation, Chinese energy companies' overseas mergers and increasing reserves and production overseas were just the investment driven by commercial interests, having little to do with national energy security, at least for the time being. No sign showed that the government assigned them a quota of how much equity oil must be shipped back for domestic consumption. In fact, the increase of overseas output of the three major oil companies is intended for investors' interest and has no bearing with ensuring domestic supply [35].

Wang Weihan, Professor in University of International Business and Economics, argues that the misreading that China's oil companies go global and bring back overseas resources results from the lack of basic common sense of the international oil market mechanism and the oil industry [36]. Zhang Kang, a researcher in Sinopec, also stresses that the amount of equity oil has little to do with security guarantee. He points out that among many forms of contracts, the classic yield-sharing contract, which takes equity oil as the returns to investors, is decreasing. In most cases, shareholders get a profit dividend, rather than the equity oil given to you. Even if you were allowed to get equity oil, most of them could not be shipped back directly, but sold in the local market. Even if oil were transported to East Asia, it might not be shipped back to China, just as some of Sultan's crude oil is shipped to East Asia and sold to PetroChina in China Taiwan, and they just sold the processed fuel oil to the mainland China. To sum up, it is a misunderstanding to judge oil security guarantee by the amount of oil and interest China had obtained from foreign countries. In addition, even in face of difficulties about energy security in the future, no matter who transported oil to China, they need to cope with the same problems [37].

DEEPENING DOMESTIC REFORM

Overseas investment is the only way for all enterprises, including resource and nonresource enterprises, SOEs, and private enterprises, to step into internationalization and enhance international competitiveness. It is also an important part of China's economy to improve international competitiveness. According to Thilo Hanemann of Rhodium Group, New York, still few Chinese companies have the skills and experience to become competitive multinationals. He said that Chinese companies were still in a disadvantageous position in terms of technology, human resources, brand, and intangible value, and what they should do now is to catch up [38].

It is proposed that "going global" is not for "bringing back." This statement is not to oppose the energy resources enterprises to go global, but means that the wording is not consistent with facts, and is easier to arouse the misunderstanding of the international community and increase unnecessary political resistance, which in turn is not conducive for the energy enterprises to go global. There is no difference in nature between overseas investment by China's resource enterprises and that by other industries, and enterprises should take into consideration more of market factors such as economy and enterprise competitiveness, instead of pursuit of the so-called energy or resource security regardless of cost.

With the passage of time and the setbacks suffered by some overseas investments, Chinese people's enthusiasm for overseas investment in energy resources gradually faded away. China has paid a growing attention to the economic problems of overseas investment by resource enterprises, especially the losses of some SOEs. The most noticeable case is that China Aviation Oil lost $550 million in Singapore oil futures in 2004. Since then, there have been a growing number of similar reports. At the end of 2009, Sinochem's three major oil and gas projects were reported a loss of $15.26 million. The media disclosed that China Railway Construction Group Co. Ltd. lost 4 billion yuan (about $640 million) in the Saudi Arabian railway project. In June 2010, Sinosteel Corporation's iron ore project in Weld Range, Australia, was delayed and the media did not disclose the losses. In early July 2011, Aluminum Corporation of China announced a loss of 340 million yuan in the bauxite project in Aurukun of Queensland, Australia [39].

There are diverse opinions on the economic sector related to overseas investment of Chinese enterprises. Some 70% of China's overseas investments were profitable or at least suffered no losses, according to a statistics of Ministry of Commerce in 2006, but some scholars believe that about 67% of companies that invest overseas suffered losses or were unprofitable [40]. A report of the World Bank said that one-third of Chinese companies' overseas investment suffer losses [41]. Data from the Fifth Annual Conference on Analysis of International Financial Markets showed that 30% of China's foreign investment companies gained revenues and 70% were in losses. During the 2008 financial crisis, 68 SOEs, including PetroChina, Sinopec, CNOOC, and Sinosteel, lost about $4 billion in overseas business. In 2011, the outbreak of the Libyan war made Chinese investors suffer huge losses. Because most of these enterprises are state-owned, the government often pays the bills when they cannot afford the relevant losses, which aroused widespread domestic criticism.

To solve the above problems, the Chinese government has set out to adjust the foreign investment policies, and the State-owned Assets Supervision and Administration Commission (SASAC) has decided to strengthen the standardization and management of overseas investment to reduce investment risks. On June 27, 2011, the SASAC issued two normative documents—the Interim Measures for the Supervision and Administration of Overseas Investments by Centrally-administered State-owned Enterprises and the Interim Measures for the Administration of State-owned Property Rights of by Centrally-administered State-owned Enterprises, which established the status of the "responsible subject" of the SOEs. The heads of enterprises at all levels who cause losses to state-owned assets due to mismanagement must be held accountable, and those suspected of committing crimes will be handed over to the judicial authority in accordance with the law. In January 2017, the SASAC issued the newly revised Measures for the Supervision and Administration of the Investments by Central Enterprises and Measures for the Supervision and Administration of Overseas Investments by Centrally-administered State-owned Enterprises, which replaced the ones issued in 2006 and in 2012, respectively. The two newly revised administrations formulate more stringent and specific requirements for overseas investment. First, more emphasis should be placed on the main business. In principle, the enterprises are not allowed to be engaged in the overseas investment in non-leading industries. Second, more emphasis should be paid to risk prevention and control of overseas investment. For example, foreign investment is required to actively introduce the intervention of the third party in terms of the ownership structure to guard against risks [42]. The two modes of administration also innovatively proposed providing a negative list of projects invested by enterprises of central government, with investment projects classified into "prohibition" and "special supervision," and the SOEs should not invest in the former, and those listed in the "special supervision" should be reported to SASAC for implementation of the audit procedures by the investors. The projects beyond the negative list are independently decided and self-responsible by the enterprises, and the SASAC should strengthen supervision according to its responsibility.

We should reform the monopoly system, open up the domestic market, establish a sound market mechanism and its related financial markets, and integrate with the international market. The various contradictions and incompatibilities faced by Chinese oil and gas companies in the process of "going global" largely stem from the dislocation of the domestic system and the international oil and gas regulations. China's oil and gas industry operates under a highly monopolized system, which lacks an effective competition mechanism and the related financial markets. In the background of the increasingly obvious financial attribute of oil, if China wants to seek for discourse power and pricing power in the international oil market, it is essential to deeply integrate into the global oil and gas industry and financial trading system. Only by establishing effective market mechanism in China can we understand and apply the international rules more deeply [43].

At the same time, the government should vigorously promote the overseas investment of non-SOEs. With the advantages of low cost and more concern about profits, non-SOEs are relatively easier to be accepted by the investing countries, and the political risks and resistance for them are relatively slim. More and more Chinese people believe that non-SOEs should be given more support in overseas investment. In overseas mergers and acquisitions (M&A), private enterprises have competitive advantages such as scientific decision-making and effective mechanism, and they are faced with less political sensitivity and high probability of success. But at present, the overseas M&A in which private enterprises are involved is limited, and the scale is generally small. In order to achieve more success, the government should formulate corresponding policies to provide venture capital and encourage private enterprises to make transnational investment.

It is often difficult for investors to resist political risks depending on their own efforts, and it is necessary to establish an investment guarantee system with the assistance of the government to protect their own interests and security. Overseas investment guarantee system is effective and important to promote and protect the current international investment. It may include two forms. The first one is the intergovernmental investment protection agreement. The bilateral investment protection treaty, signed by the capital home country and the host country, involves ensuring the fair treatment of the host country against foreign enterprises, without requisitioning and nationalizing foreign capital and exercising foreign exchange controls to foreign investors out of discrimination. At present, China has signed bilateral investment protection agreements with many countries such as Germany, Japan, and Sweden. The second one is foreign investment insurance for capital exporting countries. In order to protect the interests of investors more effectively and reduce risk-related losses, the world's major capital exporting countries have established overseas investment insurance systems. The government should also actively provide related consultation and service, with devotion to operating consulting and intermediary agencies, and setting up overseas investment promotion centers.

Meanwhile, enterprises should further strengthen their cooperation with both international and local companies in the process of overseas investment and strengthen public relations. Overseas energy-related projects entail many investment demands as well as great political and commercial risks. However, Chinese enterprises are not very proficient at cooperating with transnational corporations when expanding overseas. In order to ensure success and reduce investment risk, enterprises should strengthen cooperation with well-known multinational companies or international consortiums, perform joint merger and acquisition, and establish joint ventures with them. On the one hand, it can help to fill the gap of Chinese enterprises in technology, international cooperation experience, and cognition. On the other hand, it can reduce the misgivings about China from western countries, such as the United States and other resource countries, to reduce the investment risks. In addition, enterprises should actively promote the implementation of localization strategy, establish joint ventures with local companies, strive for cooperation with the banks of the resource countries, and accelerate the operation of localization. This can not only lower the threshold and reduce the political risk of entering the markets of the resource countries, but can also take advantages of the local companies and integrate quickly into local society.

In addition, some scholars put forward that enterprises should draw lessons from the past and set up a new concept of "going global." "Going global" is no longer simply the direct acquisition of resources, but the deep involvement in the global division of oil and gas and energy governance as an oil and gas supplier. The "going global" of China's oil and gas enterprises has entered the transition stage from the quantitative to the qualitative, and those enterprises should not blindly pursue the scale of overseas investment projects, but pay attention to the improvement of asset quality and operational capacity, clarify the goal of "going global," and establish scientific systems of risk identification and aversion and performance evaluation [44]. At the same time, enterprises should participate more in global energy governance, undertake corresponding international responsibilities, especially for national oil companies which should establish transparent and supervised operational mechanism, and reduce unreasonable costs, with more people to share the fruits of "going global."

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