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The global impact of Africa on Chinese companies

Chinese national oil

Does Africa have an impact on China in the world? This question is not typically asked in China-Africa research, where the focus has largely been on the reverse: China's economic, political, and developmental influence in Africa. In the thematic area of trade, aid, and development, the choice of this frame of reference is not surprising. China became Africa's largest trading partner in 2009 and continues to develop as an important investor across extractives, agriculture, and manufacturing. For China, however, Africa roughly represented only 4 percent of its total global trade and 3 percent of its total foreign direct investment in 2012. Yet if Chinese economic engagement in Africa is disaggregated, the strategic role Africa has played in the internationalization and global development of Chinese companies is more forthcoming.

Chinese companies represent some of the main drivers of trade and investment between China and Africa. To date, China-Africa research has begun to categorize different Chinese companies in Africa: Chinese state-owned enterprises, private Chinese multinational corporations, and individual entrepreneurs. Chinese state-owned enterprises engaged in oil, gas, mining, and hydropower have received particular attention due to their political and economic strategic links with Beijing. Research has debated the extent to which Chinese state-owned enterprises are unique from American and European multinational corporations, and whether they hold competitive advantages and disadvantages in Africa. Chinese state-owned enterprises are regarded as benefiting from higher levels of political support and aid, trade, and investment linkages. They are also seen as less risk averse due to their need to catch up in competitiveness. Relatedly, unlike their Western competition, they are at a disadvantage in having little experience investing overseas.

This research has both implicitly and explicitly drawn from international business theory, in which multinational corporations are argued to internationalize to exploit

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their resources for profit, such as a particular technology or a brand name, or to acquire resources through foreign investment to improve their competitiveness. China-Africa research initially took a bird's eye view in studying Chinese companies on the African continent, but in-depth case studies of Chinese corporate activity in the DRC, Angola, Zambia, Chad, and other countries have more recently demonstrated the importance of the political economy of the host country in shaping the foreign investments of Chinese companies in Africa and their internationalization and global development.

The experience of Chinese national oil companies in Sudan and South Sudan is one case that demonstrates how Africa has had a global impact on Chinese companies. Sudanese politics, civil wars, and foreign relations influenced the strategies of the China National Petroleum Corporation (CNPC) toward overseas investment and political and security risk management. The violent and unstable politics of oil in Sudan and South Sudan came to both empower and restrict CNPC's global expansion.

In 1995, CNPC, along with many of its subsidiaries, entered Sudan to develop Sudan's oil industry. Until 2005, when the Sudanese government signed the Comprehensive Peace Agreement with the southern rebel group—the Sudan People's Liberation Army/Movement (SPLA/M)—Sudan largely had an empowering influence on the company. Sudan became a significant source of overseas oil reserves and production and generated sizable revenues and profits. Because Sudan was CNPC's first major international venture, it was also critical in enhancing the company's internal organization capabilities. The organizational experience in Sudan helped rectify the company's challenge of steering its largely autonomous and powerful subsidiaries toward following a common corporate strategy. In a similar direction, Sudan allowed CNPC to cultivate an international workforce. It was where corporate executives garnered business skills in international bidding, production sharing agreements, oil service contracts, and managing large-scale overseas projects. Altogether, Sudan acted as a vehicle for CNPC to improve its international competitiveness.

From 2005 onward, Sudan largely had the opposite influence on CNPC's global operations. It represented a vehicle of restriction for the company's global operations due to the consequences of reputational, security, and political risk. First, after the outbreak of the Darfur civil war, CNPC's close relationship with the Sudanese government fed political opposition in the United States against the company, obstructing its ability to effectively build and run a global corporation. Among other factors, CNPC's Sudan operations played a role in limiting the extent to which it could gain access to technology and expertise through mergers and acquisitions of midsized American and Canadian oil companies.

Second, security risks grew for CNPC at the end of the North-South civil war in Sudan. In the security vacuum of the partially implemented peace agreement, some oil areas in border regions between what are now Sudan and South Sudan essentially became no-man's-land between Sudan's armed forces and the SPLA of South Sudan. As a result, aggrieved local armed groups were able to more effectively target the company. In 2008, an armed kidnapping ended in the killing of five CNPC oil workers. The company's relationship with the Sudanese government, its main security provider, suffered as a consequence and exposed CNPC's own corporate security policy deficiencies across its global operations. Other attacks had taken place on CNPC and other Chinese national oil companies abroad, but because this attack took place in Sudan, the operational and symbolic center of the Chinese oil industry's "going out" strategy, it induced policy change at the headquarters level.

Third, political risk from the instability of South Sudan's independence in July 2011, which resulted in Juba's shutting down its oil production in January 2012, led to a significant loss of overseas revenue for CNPC. The company discovered that there were clear limits to the extent to which the Chinese government could ensure its well-being through oil diplomacy. Beijing was helpful in assisting CNPC's entry into Sudan, but less apt at ensuring the sustainability of its investments. While damaging in the short run, the consequences of this security and political risk in Sudan and South Sudan may actually help CNPC develop its capabilities in mitigating and managing risk in the long run.

By exploring how Sudan influenced a particular Chinese actor in Africa, this case study questions the competitive advantages and disadvantages of Chinese companies on the continent. First, CNPC was able to enter Sudan in 1995 not on the back of Chinese government support alone, but as a consequence of Sudan's civil wars and Khartoum's domestic and foreign policies, which led to a confrontational relationship with the United States and limited competition from American and European oil majors.

Second, although CNPC may have been less risk averse than other companies in entering Sudan, it was eventually affected by the consequences of reputational, security, and political risk. This begs the question of which types of risk are universal to companies in Africa, and which are Chinese companies better equipped to mitigate and manage. At the same time, as the perceptions of risk among Chinese companies evolve and they develop risk management tools, there may be fewer differences between them and their Western counterparts than are commonly portrayed. Along with the risks present in host countries, it is also the nature of the industry and the position of individual companies within it that are more determining of investment behavior and risk attitudes than simply the nationality of a company.

Research on Chinese companies can now move toward synthesizing the various case work undertaken to better define the extent to which political support from Beijing does offer competitive advantages to Chinese companies and how Chinese companies are responding and adapting to various forms of risk. Turning the lens toward how Africa is impacting China presents opportunities to refine this analytical work and build upon theoretical bodies of literature in international business, particularly regarding multinational corporations from emerging economies. China-Africa research may be theory-lite at the moment, but its empirically rich satellites of in-depth country case study work can be harnessed to refine, and potentially to redefine, bodies of theoretical work.