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Understanding Overseas Investment Choices Made by Chinese NOCs: Case Studies of Sudan, Angola and Nigeria

MASTER THESIS

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Abstract

The overseas extension of Chinese multinational companies (MNCs) under the national policy of Going Out in recent decades has caught the attention of scholars and policy makers. Many have noticed a tendency of Chinese investors to invest in countries with "poor" institutional qualities, some of which were torn by civil war or even listed as pariah states. While their counterparts in other industrialized countries avoid investing in such countries for various reasons, such as security issues and political pressure. Some scholars have developed the theory of Institutional Risk Preference to explain such distinctive behavior of Chinese investors. This paper aims at challenging this theory, by proposing a new theoretical framework: lack of competition in host countries. This theory explains the distinctive behavior of Chinese MNCs, represented by National oil companies (NOCs) in this research, by arguing that Chinese investors as commercial actors, are impervious to institutional factors while seeking assets abroad, and the primary concern is level of international competition in the host country while they seek to extend operations abroad. This research provides case studies on Chinese NOCs' investment cases in three with high institutional risks: Sudan, Angola and Nigeria.

Key words: OFDI, C`hinese national oil companies, oil investment, institutional risk

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List of Abbreviations

ANOC	Asian national oil company
BIT	Bilateral investment treaties
BRI	Belt and Road Initiative
CBRC	China Banking Regulatory Commission
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
CSR	Corporate Social Responsibility
Exim Bank	Export-Import Bank
FDI	Foreign direct investment
FOCAC	Forum on China–African Cooperation
GDP	Gross national product
GNOPC	Greater Nile Petroleum Operating Company
IEF	Index of Economic Freedom
IOC	International oil company
MFA	Ministry of Foreign Affairs, People's Republic of China
MNC	Multi-national Corporation
MOFCOM	Ministry of Commerce, People's Republic of China
NEA	National Energy Administration
NDRC	National Development and Reform Commission
NOC	National oil company
OFDI	Outward foreign direct investment
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
Sinopec	China Petroleum & Chemical Corporation
SSI	Sonangol Sinopec International
WGI	World Governance Indicators

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1.Introduction

1.1 Research Background

In recent years there has been proliferation of international relations literature on foreign direct investment, especially focusing on capital flow from the South to the South (Vazquez et al., 2016; Rampa et al., 2012; De Renzio et al., 2014). Chinese enterprise emerged as a major investor in the trend of South-South cooperation. By the end of 2015, there were 38,800 overseas investment enterprises from China, distributed in 188 countries and regions around the world, and China's foreign direct investment ranked second in the world, reaching 145.67 billion U.S. dollars (MOFCOM, 2016). China's engagement in Africa, in particular, has caught the attention of international observers. Many commentators have argued how China uses un-conditional aid, low-interest loans and the norm of non-interference to cement oil deals in Africa (Taylor, 2007; Tull, 2006). Some have even gone further to suggest that China's engagement in Africa is to protect autocratic regimes on their violations on human rights, and contribute to corruption and environmental and social degradation (Sun, 2014).

While much light has been shed upon state intentions and the implications of state engagement, the roles played by the multi-national corporation (MCSs) have not been thoroughly studied. The fact is that MNCs, particularly state-owned MNCs are the main provider of Outward Foreign Direct Investment (OFDI) in China. Among the top 100 corporations engaging with overseas direct investment, state-owned enterprises account for 85 (Guo and Wang, 2015). State-owned enterprises have gradually emerged as non-negligible players in international relations, and the complex interplay between individuals and groups associated with the firms and the state make them unique players. Growing outreach of MNCs not only points towards stronger economic power of corporations and states, but also towards changing power and relations between states. It has even been argued that "China's oil companies are 'locking out' Western oil companies from Africa", with the provision of preferential terms such as low-interest loans, credit lines under the principle of non-interference and territory integrity (Downs, 2007). Their presence contributes to so-called China's Energy Diplomacy and the building of soft power.

Against such background, this research sheds light upon the role played by Chinese MNCs in foreign investment, through challenging a theory related with it, namely the institutional risk

preference. This theory points at an investment strategy of investing in countries with poor institutional qualities. In order to challenge the theory and to better understand the investment strategies adopted by Chinese state-owned enterprises, this research also seeks to establish a new framework highlighting the factor of international competition as an influencing factor. This research takes the cases of China's National Oil Companies (NOCs) overseas investment in three African countries, namely Sudan, Angola and Nigeria as proxies to study the driving factors and decision-making mechanisms of state-owned MNCs in China. It is of great value and relevance to examine the roles played by MNCs and their relations with the state to better understand the investment choices.

1.2 The Institutional Risk Preference Theory

Foreign direct investment is adopted as one of the most significant strategies under the "Going Out" policy, to promote enterprise investment overseas. During the past decade, the "Going Out" policy has become one of the core government strategies (Guo and Wang, 2015). According to Ministry of Commerce (MOFCOM), foreign investment will play a greater role in the construction of the "One Belt and One Road" and in promotion of supply-side structural reforms (MOFCOM, 2016). Energy security is one the pillars of the "Going Out" policy. The NOCs spearheaded by the three companies, namely China National Petroleum Corporation (CNPC), China Petroleum & Chemical Corporation (Sinopec) and China National Offshore Oil Corporation (CNOOC) have emerged as significant energy investors in resource-rich countries.[1] CNPC was the first Chinese enterprise to expand its operation abroad in the 1990s to Sudan, Peru and Kazakhstan. Since then, overseas investment activities of NOCs has expanded rapidly in volume. These companies spent at least US$ 47.59 billion to acquire oil and gas around the world in 2009 alone (Jiang and Sinton, 2011). Between 2011 and 2013, an estimated USD 73 billion was invested in global mergers and acquisitions, of which half are located in the Middle East and Africa (Jiang and Ding, 2014).

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[1] China National Petroleum Corporation (CNPC) is the world's 3rd largest oil company, with oil and gas assets in over 30 countries. China Petroleum & Chemical Corporation (Sinopec) Sinopec Group is the largest oil and petrochemical products suppliers and the second major oil and gas producer in China, the largest Oil Refinery Company and the second largest chemical company in the world. China National Offshore Oil Corporation (CNOOC) is the largest producer of offshore crude oil and natural gas in China and one of the largest independent oil and gas exploration and production companies in the world.
http://www.sinopecgroup.com/group/en/companyprofile/AboutSinopecGroup/
http://www.cnpc.com.cn/cnpc/gywm/gywm_index.shtml
http://www.cnoocltd.com/col/col7261/index.html

What's interesting about China's OFDI in the energy sector is that it tends to flow to countries/regions with high institutional risks, a phenomenon referred to as institutional risk preference by scholars, pointing at a positive correlation between Chinese OFDI and "poor" institutional qualities in the host countries. For instance, in 2003 when civil crisis erupted in Darfur, Sudan, China's investment there increased from US$ 550,000 in 2003 to US$ 171,610,000 in 2004 (Guo and Wang, 2015). During the meantime, China also invested in Afghanistan, Pakistan, North Koran, Democratic Republic of Congo, Venezuela and Zimbabwe, some of the most unstable countries in the world. It seems that compared to many Western countries, Chinese companies demonstrate a stronger tendency to invest in developing or under-developed countries with institutional deficiencies. International observers express their concerns that China's tolerance of such regimes might undermine the international effort to establish democracy and free trade (The Oil Daily, 2006a). Many scholars (Buckley et al., 2007; Kolstad and Wiig, 2012; Kang and Jiang, 2012; Ramasamy et al. 2012; Hajzler, 2014; Asiedu, 2011) have provided empirical support for China's institutional risk preference. Chinese investors' unique behavior contradicts with traditional investment wisdom that associates OFDI with "good" institutional qualities in the host countries, since "good" institutional qualities can promote a stable business environment and lower political risks.

Counter-intuitively, this research proposes that the institutional risk preference is a misconception about MNCs' investment choice, stemming from the practice of treating state and corporations as a single actor. Such practice is a result of combination of the authoritarian nature of the Chinese government, the state ownership of NOCs, and the country's growing demand for energy security (Downs, 2007). Such practice usually leads to misleading perceptions of MNCs' investment preferences, while their commercial motives are overlooked under the cloak of Chinese government's strategic motives. In most of the time, corporate goals coincide with state strategies, but this is not necessarily always the case. As a research by the International Energy Agency points out that while majority of Chinese NOCs are government-owned, they are not government-run, and that they enjoy a large degree of autonomy that enables them to not always align with state interests while pursuing their commercial interests (Jiang and Sinton, 2011).

In order to better understand the driving factors of OFDI made by NOCs, they need to be evaluated as self-determining and stand-alone actors embedded in the larger political-institutional framework.

To answer the question of whether NOCs are driven by high institutional risks while making investment choices and what are some of the influencing factors, this paper proposes the following hypothesis:

Hypothesis 1: NOCs overseas investment choice is driven by lack of international competition in the host country.

Hypothesis 2: NOCs overseas investment choice is driven by institutional risks in the host countries.

Hypothesis 3: NOCs overseas investment choice is driven by strategic intents of the state.

2. Research Design

2.1 Research Methodologies

To test the above hypothesis, this research takes the qualitative approach. Most of existing literature tends to take the quantitative approach while investigating the influencing factors of OFDI. However, while quantitative methods could help establish associations between the variables studied, qualitative analysis could uncover the underlying causal process to complete the understanding of the interaction of the variables (Lamont, 2015). Therefore, this paper adopts the method of case studies to study investment choices made by NOCs qualitatively. Three countries that have received investment from NOCs, namely, Sudan, Angola and Nigeria, are selected for influencing factor analysis. Case studies will be particularly useful in this research, since they provide a deeper insight into the underlying causal pathways between influencing factors and NOCs' investment. They also provide empirical evidence to support the hypothesis.

To complete the understanding cycle, the author also conducts an interview with Mr. Mingchang Zhao, former CNOOC manager and current CNOOC and Shell Petrochemicals Company Limited[2]

[2] CNOOC and Shell Petrochemicals Company Limited (CSPC), established in 2000, is one of the largest petrochemicals joint ventures in China, incorporated by Shell Nanhai BV, China National Offshore Oil Corporation (CNOOC) and Guangdong Guangye Investment Group Company Limited (CPIL), with 50:50 Sino-foreign stake. http://www.cnoocshell.com/EN/about.aspx

C2 (project phase II) Manager, on 7th May, 2018, via Skype.[3] The interview serves to provide first-hand information and deepen insights into the decision-making mechanisms within NOCs.

2.2 Measurement of Variables

The dependent variable studied in this research is NOCs' OFDI. While the focus is on qualitative analysis, statistics on total amount of OFDI is not provided in this research. Instead, I provide detailed accounts of specific major investment projects. The OFDI status and relevant information are obtained from both literature and the companies' websites and reports. The main independent variable considered is international competition, operationalized by the situation of foreign firms' presence in the host country. While data on the exact number of International Oil Companies (IOCs) present in the host country at the time studied is lacking, this research takes the presence/absence of large IOCs as representative of international competition, since large IOCs are most likely to be considered as major competitors. Data on investment behavior of large IOCs are extracted from news reports, literature and company websites.

The other independent variable to be considered is institutional quality. There is a lack of standard definition on what constitutes "good" and "poor" institutions among scholars and practitioners. In order to scientifically treat the concept of institutional quality, some commonly used and widely accepted criteria are considered. This research takes the indicators of Worldwide Governance Indicators (WGI) from the World Bank as parameters of institutional quality. WGI includes Voice and accountability, Political stability and absence of violence/terrorism, Government effectiveness, Regulatory quality, Rule of law and Control of corruption. These indicators capture:

"The traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them." (Kaufmann et al., 2010)

The countries are scored based on their institutional performance under each category, ranging in score from approximately -2.5 to 2.5, and in percentile rank from 0 to 100, with higher values corresponding to better outcomes (World Bank, 2018). According to Guo and Wang (2015), in 68

[3] See Appendix I for interview protocol.

social science citation index journal articles studying the association between OFDI and institutional quality, the using rate of WGI is 27.7%, ranked second place after International Country Risk Guide (ICRG), with a using rate of 29.5%. However, due to accessibility issue WGI is taken as the main parameter in this research. The high using rate of WGI makes it an accountable and credible parameter for institutional quality.

This research takes three out of six indicators of WGI for in-depth evaluation, including Political stability and absence of violence/terrorism, Government effectiveness, Regulatory quality. Political stability and Absence of violence is highly relevant for investors, since internal conflicts are likely to incur risks to enterprise property or employee's life. Government Effectiveness and Regulatory Quality are related to risks of expropriation and contract violation, and the government's capacity to carry out arbitration.

Another parameter to be considered is the Index of Economic Freedom (IEF) from the World Heritage Foundation, which has a using rate of 13.9%, ranked third place in the articles examined (Guo and Wang, 2015). IEF assesses quality of economic institution based on 12 indicators grouped in 4 categories: Rule of law, Government size, Regulatory efficiency, and Market openness (World Heritage Foundation, 2010).[4] 180 countries in the world are ranked based on their overall score, ranging from 0 to 100, with 0 being the least free and 100 being the freest economy. This index is taken for reference because the quality of economic institutions reflected by level of freedom is highly relevant for investors, as "economic freedom is closely related to openness and limited government, advancing entrepreneurial activity" (World Heritage Foundation, 2010). IEF provides an overview of the country's economic institutional quality. To capture the countries' economic institutional quality, three most relevant indicators are selected for examination: Property rights, Business freedom and Investment freedom.

A control variable to be considered is state strategic intents. While it is hard to operationalize this variable, state official policy paper usually reflects strategic intents and the influence could be examined through tracing the decision-making process and the interplay between state actors and corporate actors. It is also useful to examine the structure of NOCs for identifying the state

[4] The 12 indicators include: Rule of law (property rights, judicial effectiveness, and government integrity); Government size (tax burden, government spending, and fiscal health); Regulatory efficiency (business freedom, labor freedom, and monetary freedom); and Market openness (trade freedom, investment freedom, and financial freedom) (World Heritage Foundation, 2018).

elements. Information on corporate-state interaction are collected from literature, corporate and state websites and the interview.

2.3 Research Relevance

There is a general belief that Chinese investors are attracted by host countries with high institutional risks. Until recently, only few scholars challenged the credibility China's institutional risk preference. For instance, Hu et al. (2013) use data between 2003 and 2011, and argue that there is no linear correlation between level or corruption and China's OFDI; Jiang and Jiang (2012) investigated China's OFDI between 2003 and 2009, found out that China's OFDI prefers locations with good institutional quality. Furthermore, by investigating China's OFDI in a total of 185 countries between 2003 and 2012, Yang et al. (2017) argue that Chinese MNCs make no exception, and are also attracted by countries with high institutional quality, but with less economic development and more natural resources, since they are motivated by higher investment return and access to cheaper resources.

These studies raise important perspectives contrary to previous research findings. They raise the point of reconsideration on the institutional risk preference related with Chinese investors. Nevertheless, there is a common shortfall shared by these studies. First, they adopt only quantitative methods, while an in-depth analysis of the investment context and decision-making mechanisms within NOCs is lacking, especially in terms of how corporate decision-making is tied to central government foreign policies. There is also lack of research in the context of investment, especially in terms of host country economic and political environment. It is important to shed lights on the complex interplay between state and corporates, and on the wider international and domestic environment to better understand the decision-making and their investment strategies. Although the large-n analysis could affirm some of the propositions, it does not help with understating the process that links to the variables.

Second, the datasets used cover all sectors and all countries that receives China's investment. This could introduce confounding factors, since other sectors such as trade, tourism, infrastructure are inherently different from energy, which constitutes highly strategic resources. Energy investment also has stronger political implications. Moreover, as mentioned earlies, these studies are under the assumption that state is the major investor, while the roles played by MNCs are largely neglected. This might generate misconceptions about China's OFDI preference, as state political

intentions and corporate commercial intentions are treated as one factor. To overturn the proposition of institutional risk preference, and to better understand why Chinese companies seem undeterred by high institutional risks, one needs to examine the broader institutional-political context in which the companies are embedded.

Besides academic relevance, research in driving forces behind Chinese MNCs' overseas investment also holds great societal relevance. As China is becoming a major global investor, a growing number of developing countries are seeking development cooperation opportunities with China, which holds a different set values and norms from traditional Western investor. For instance, Chinese investment has less conditionality attached, upholds the norm of non-interference and energy investment are usually accompanied by development aid. China's emergence provides alternative development paths for developing and under-developed countries. China's intensive engagement in Africa has great implications for World order shift. As an emerging power, China with increasing material capital and soft power poses great challenge to the liberal hegemonic order (Acharya, 2014). With China's growing intent of "Going Out" along the establishment of Belt and Road Initiative (BRI), it is of great value and relevance for international observers, practitioners and investment seekers to understand the rationale behind Chinese MNC's investment choices.

From engaging in an in-depth analysis of NOCs' investment cases, this research serves to fill in the literature gap through providing qualitative analysis of the influencing factors of NOCs' OFDI location choice. There is lack of evidence suggesting necessary causal relationship between institutional quality and Chinese investment. This paper argues that Chinese investors mark no distinctive case, that they are also attracted by competitive business environment and good institutional qualities in general. However, in locations with rich natural resources, profit-driven orientation would allow mega-pragmatic Chinese NOCs to invest in conflict-prone states, since profit gained from market could outweigh the costs inflicted by institutional risks. Therefore, the NOCs are primarily market and capital seekers. Beneficial market factors including lack of international environment are likely to have significant influence.

3. Literature Review

3.1 Traditional Wisdom on the Role of Institutions in Attracting FDI

For corporations, especially MNCs, profits are usually associated with risks. MNCs not only face domestic economic and political risks, but also have to analyze and avoid risks from political and economic environment in host countries. Institutional deficiencies could incur risks to business from different aspects, which based on the effects could be classified into different groups. Table below shows types and examples of institutional risks.

Table 1. Classification of Institutional Risks

Types	Examples
Expropriation	Expropriation, confiscation or nationalization of foreign enterprises, out of government or social need.
Surveillance and restriction	Due to balance of payment difficulty, exert control over foreign exchange system, limit or prohibit foreign investors' legitimate transfer of profits out of host country.
War and internal conflict	Foreign enterprise property or employee's life subject to heavy loss due to political instability, ethnic or religious conflicts in host country.
Contract violation	Host country government breach contract, and foreign enterprise cannot turn to judicial or arbitral organs for help, or the arbitrament cannot be enforced.
Divestiture	The host government expropriate or nationalize the assets of foreign-invested enterprises.

Source: composed by the author from Huang and Nikita, 2016

Blonigen (2005) also provided a summary of existing literature on the role of institutions in determining FDI, and points out that the quality of institution is an important determinant of FDI, for mainly three reasons: 1) Poor quality of rule of law will likely increase the chance of expropriation of firm assets and thus decrease the chance for FDI; 2) Corruption will increase the chance of increased cost of running business thus restrict FDI; 3) Poor institutional quality is usually associated with poor public infrastructure, which incur more cost for doing business, and therefore less chance for FDI. Overall, a malfunctioning institution is likely to incur more risks to inflow of FDI. In the report *2013 World Investment and Political Risk* (World Bank, 2014), institutional factors are ranked high on the list of most important constraints to FDI in developing economies, with political risks ranked 2nd place and corruption ranked 5th place. The International Monetary Fund also points out that political risks constitute the greatest hindrance to FDI (Walsh

and Yu, 2010). Furthermore, based on empirical research, Bekaert et al. (2014) suggest that each one percentage point rise in political risk leads to 11.5 percentage point decrease in FDI inflow.

Due to the negative effects of malfunctioning institutions on business, there is a general belief that FDI inflow is positively associated with stable and well-functioning institutions. Gani (2007) provides empirical evidence on the strong positive effects of institutional indicators including rule of law, control of corruption, regulatory quality, government effectiveness and political stability on FDI inflow. Globerman and Shapiro (2002) established a positive relationship between governance infrastructure including openness and transparency of legal and regulatory regimes and FDI inflow. Good institutional qualities could to a large extent facilitate the management of FDI through providing a sound business environment and effective regulatory mechanism.

One possible way of surpassing the negative effects of institutional risks is by signing bilateral investment treaties (BITs). There is a general belief that BITs have positive effects on attracting FDI (Egger and Merlo, 2007; Berger et al. 2012). By applying legal protection and dispute resolution mechanisms to enforce commitment, BITs aim to decrease the perception of investment risk and to attract foreign investors (Colen et al., 2016). Neumayer and Spess (2005) suggest that developing countries with weak institutions are likely to gain the most from signing BITs, since "BITs function as substitutes for institutional quality".

Nevertheless, evidence suggesting a firm link between BITs and positive effects on FDIs in countries with weak institutions is still limited and the effects are disputable. Allee and Peinhardt (2011) found out that the effects of BITs on FDI are contingent upon the perceived ability of signatories to comply with the terms, and any information on a weak host state commitment to respect FDI could harm their reputation and credibility in the eyes of the investors. This shows the probability that the effects of BITs on FDI might be harmed by perceived lack of credibility diverted from malfunctioning institutions. Therefore, the effects of BITs on attracting FDI is still disputable.

3.2 Explaining Institutional Risk Preference

Contrary to the mainstream theories, many suggest that Chinese OFDI is distinctive in terms of institutional preference. Buckley et al. (2007) were the first to points out the phenomenon of institutional risk preference. They used pooled ordinary least squares model and the random effects model to examine China's OFDI data between 1984 and 2001, and found out a positive correlation

between political risk levels and Chinese OFDI. They suggest risk is not perceived the same way in China as industrialized country investors, and a distinctive theory should be developed to explain China's OFDI. Recent studies tend to explain China's institutional risk preference from mainly three aspects: 1) strategic intents of the central government, 2) "natural resource distortionism" (Yang et al., 2016), 3) and institutional similarity.

3.2.1 Strategic intents of the central government

One of the views tends to associate China's OFDI with strategic planning of the central government. Such view correlates with institutional theory that emphasizes the role of domestic institutions in firms' investment decision. The Institutional-based view of business strategy argues that the dynamic and interaction between institutions and organizations infuses formal and informal constraints within the institution into strategic decisions made by the firm (Peng, 2002), particularly when the central government is a "powerful ally" to the organizations (Luo et al., 2010). As a recult, domestic institutional constraints or support inherently affect firms' decision (Peng, 2002).

Government-enterprise interaction in the energy sector is particularly close, since energy is considered a strategic resource. This is obvious in the NOCs' leadership setting. One feature of NOCs is that their top leaders wear double hats: as leaders of enterprises and as top party operatives (Jiang and Sinton, 2011). Consequently, NOC leaders must balance corporate and party-state interests, especially if they want to advance their political careers (Downs, 2010). Such leadership structure allows for a close state-enterprise coordination. Because NOCs operate in a strategic sector, they remain at the core of China's energy policy agenda. Ramasamy et al. (2012) found out that government-controlled firms are more attracted to natural resource-rich countries with weak political institutions than private firm, since the strategic intents of going global or acquiring natural resources serve as stronger motivation among state-owned MNCs. The decisions made by NOCs reflect strategic objectives of the state and not just profit maximization (Kolstad and Wiig, 2012). State strategic objectives may include meeting domestic energy needs, forming strategic partnerships (Jiang, 2008), ensure regime survival, support Chinese foreign policy and promote host country development (Yeung and Liu, 2008).

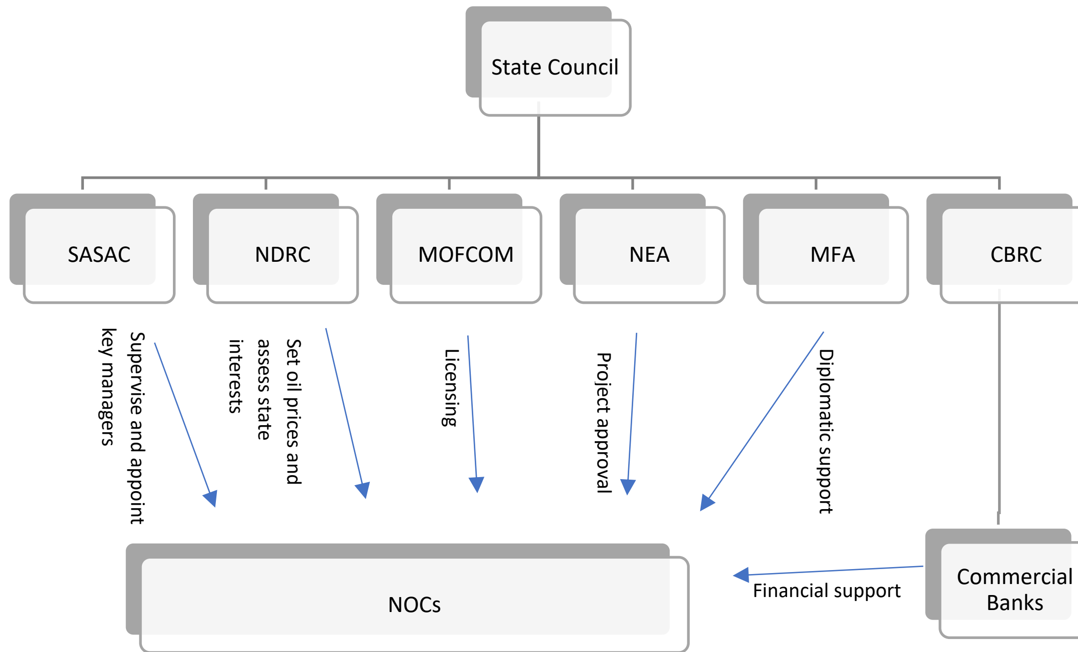
However, despite close corporate-state relationship, many hold the view that the NOCs still hold greater political power than the governing bodies. Power et al. (2012) argue that the coherence

between state-owned corporates and the state strategic intents are often considerably overplayed. NOCs generally take the lead in overseas deals, and NEA does not necessarily get involved unless the project scale is large (Jiang and Sinton, 2011). Moreover, investors also tend to divide large-scale investment into several smaller-scale phases in order to avoid NDRC regulations, earning themselves large amount of self-governing (Tan, 2013).

As a matter of fact, NOCs with their substantive overseas stock exchanges, high global business portfolios and substantial profits earned from high oil prices in recent years grant them relative large amount of autonomy (Downs, 2010). The energy security concern of the central government is not the only driving forces of NOCs' overseas investment, "but there are also compelling commercial factors fueling the companies' global search for oil" (Downs, 2010). As a result, their goals do not always coincide with state intents and the government is not always the principal (Liao, 2015). As commercial enterprises, NOCs are primarily concerned with business profits. The source of motivation to expand overseas include both domestic constraints and the urge to raise overseas reserve portfolio. Their significant political and economic power grant them with stakes vis-à-vis the state (Tan, 2013).

The diverging views in literature could be partially attributed to constantly ongoing government reforms of the energy administrative system in China. The government has carried out six rounds of reform since 1982, with the aim of separating ministries from industrial functions (Liao, 2015). Before 1980, the NOCs were subject to direct control and administration under the Petroleum Ministry and the Petrochemical Ministry. This gradually changed after the initial reform in 1982, which shifted ministries' role from direct to indirect management and made NOCs "agents" (Liao, 2015). In the reform of 2003, a new administrative system was formed. Above the NOCs are several governing bodies, including the State Council, the National Energy Administration (NEA), National Development and Reform Commission (NDRC), State Assets Supervision and Administrative Commission (SASAC), the Ministry of Commerce (MOFCOM), the Ministry of Foreign Affairs (MFA), and China Banking Regulatory Commission (CBRC). The State Council is the highest governing body in charge of overall economic activities in China, including those of the NOCs, while the rest bodies each has specific responsibilities, a graph illustrating the governing structure is shown below.

Figure 1. State Administration of NOCs



Source: composed by the author from various sources. Tan, 2013; Jiang and Sinton, 2011; State council website.

While SASAC officially owns the NOCs, NDRC is the most powerful governing body which makes top economic decisions. It is charged with the responsibility to assess whether a project fits the overall development needs and national interests (NDRC, 2018).[5] Large scale energy projects exceeding US$ 300 million are subject to NDRC and NEA for approval.[6] NEA, linked with NDRC, was launched in 2008 to act as the key energy regulator. Nevertheless, reforms of government and NOCs are still uncompleted. Some argue that the Chinese government has not been able to make NOCs acting like agents, owing to information asymmetry, conflicts of goals, NOCs' political influence and market monopoly (Liao, 2015). The strategic intents of the government are certainly

[5] NDRC was established in 2003. As the most important governing body overseeing the nation's development, it is charged with 15 main functions and the administration of NEA. For more information on its functions, please refer to NDRC website: http://en.ndrc.gov.cn/mfndrc/

[6] Interview with Mr. Mingchang Zhao, former CNOOC manager and current CNOOC and Shell Petrochemicals Company Limited C2 (project phase II) Manager, on 7th May, 2018.

influential to the NOCs, nevertheless, such influence is not absolute and is subject to changes as reforms keep unraveling.

3.2.2 Natural resource distortionism

Another view of institutional risk preference focuses on the interacted effects of natural resources and institutions. Yang et al. (2016) coined the term "natural resource distortionism" to describe the stream of literature that focuses on influence of natural resource endowment over selection criteria for institution. Kolstad and Wiig (2012) point out the significance of the interacted effect of institutions and natural resources on Chinese FDI. They suggest that high institutional risks compounded with natural resource richness attract Chinese investors. Hajzler (2014) argues that countries with high degree of political risk benefit from offering mining rights cheaply to foreign investors. This is because high political risks would render the country less competitive than other countries with higher degree of political stability. Investors from industrialized countries that value institutional qualities highly would normally evade from investing in such countries. The Natural resource distortionism view argues that Chinese investors as profit-maximizers have the incentive to invest in countries with high political risks, since the profit gained from natural resource richness and cheaper mining rights could "distort" investors' selection criteria for institutional qualities. Asiedu and Lien (2011) also found out that the effect of democracy on FDI is dependent on natural resource endowment level of the investment host country. Democracy only has a positive effect on FDI if the share of natural resources in its overall export is low, while the contrary is true if export is dominated by natural resources (such as Sub-Saharan Africa). This finding points out the interacted effect of institution and natural resources on FDI is significant.

3.2.3 Institutional similarity

Institutional similarities or ideological similarities between the investing country and host country are also sometimes considered attracting factors for FDI (Buckley et al., 2007). Similar institutional settings or political environment could shorten the "institutional distance" between parties involved in the investment (Yang et al.,2016). For instance, countries that are both non-democratic might find each other sharing more ideological and institutional similarities than with democracies. Kang and Jiang (2012) found out that Chinese MNCs tend to invest in countries with political and economic institutions "more or less similar to those found in their home country— with relatively market-oriented economic and more restrained political institutions". This is

because Chinese firms tend to have stronger comparative advantage in resolving risks in institutional deficient business environment. Kolstad and Wiig (2012) also reached the conclusion that institutional and cultural similarities constitute one of the explanations to why "the worse the institutional environment of a host country, the more is Chinese FDI attracted by the country's natural resources". These arguments are in line with Buckley et al.'s suggestion that a distinctive theory is needed to understand how investors from emerging economies perceive risks.

This view associates Chinese investors with a different set of norms and distinct way of approaching the institutional risks. One of the distinctive norms that Chinese investors value highly is the concept of *Guanxi* (relationship). Yeung and Liu (2008) suggest that Chinese companies and managers "tend to develop strong competencies in navigating complex webs of patron-client relationships and personal and institutional favors in such relatively opaque and difficult business environments as China". This could be attributed to Chinese investors' practice of building *Guanxi* before doing business. *Guanxi* represents "repeated favour-exchanges that ensure a measure of trust among the members of the guanxi network, which in return minimize the risk of uncertainty and the inflexibility of asset-specificity" (Wong and Chan, 1999). Such practice is called "*Guanxi* investment", which is a common strategy adopted by Chinese investors (Wang et al., 2014). Under such strategy, risks become a dynamic and flexible term instead of a fixed concept. Risks and uncertainties could be lowered by higher level of trust accumulated in the process of *Guanxi* building. Furthermore, Wang et al. (2014) point out that sharing similar norms and activities is likely to make the *Guanxi* investment more profitable and worthwhile.

Despite the multiple evidence provided in the above argument, this research disagrees with some of the arguments. Although there are certain elements of truth contained in the argument, for instance, Chinese investors are attracted by natural resources endowment in the host country which might distort the institutional preference, this research disagrees that institutional risks also constitute one of the attracting factors as supported by the government strategic intent argument and the institutional similarity argument. I argue against these two arguments from mainly two aspects: 1) Same as their counterparts in other industrialized countries, the Chinese MNCS also invest heavily in countries with good institutional qualities, such as the U.S., Canada and Australia. The one characteristic that distinguishes Chinese investors from others is that they seem

impervious to or undeterred by institutional risks in the host country. The probability that they might hold a different way of approach such risks or different priorities does not mean they prefer poor institutions for above-mentioned reasons; 2) Chinese investors as commercial actors are primarily prompted by the urge to seek assets and extend their operations overseas. As relative new-comers in the international oil market, Chinese NOCs are primarily concerned with lack of international competition in the investment location. Institutional qualities did not constitute important factor especially in the earlier phase of overseas expansion. In the next sections, these arguments will be further illustrated.

4. Drivers of Venturing Abroad

This section aims at examining the domestic political and economic environment in which the strategic decisions made by NOCs are embedded. To demystify the institutional risk preference, it is important to first understand what drives the international expansion of Chinese NOCs.

4.1 Profit-seeking Mindset of NOCs

Chinese NOCs are often portrayed as executioners of the political intentions of the central government, and their international expansion is often portrayed as a "misguided attempt" by the Chinese government to enhance China's energy security through acquisition of energy reserves abroad (Downs, 2010). There is an element of truth in such argument, however, the component of Chinese political leadership is often overplayed and often obscures the market incentives of the companies. A research by International Energy Agency (IEA) found out that commercial motives play a large, and perhaps the largest part in NOCs' oversea expansion (Jiang and Sinton, 2011).

One of the most important drivers for NOCs during the expansion phase in the 90s was resource diversification. By the 90s, the main sources of oil and natural gas reserves were concentrated in the domestic market. Yet the domestic market was facing static growth in domestic reserves. For instance, between 1987 and 2007, China's proved oil reserves declined from 17.4 billion to 15.5 billion barrels over the same period (BP, 2008). In an effort to ensure long-term development and stability, the overseas market became an important source of growth for the NOCs. As CNPC's Chief financial officer explained "we can hardly expect big production increases at home.

Overseas production will become the new driving force in the future" (Xie, 2003). For NOCs it was important not to put eggs in one basket for the end of supply-side risk-diversification. This could be achieved by increasing the number of operations overseas.

Another driver for NOCs international expansion in the 1990s was to make up for losses incurred from domestic upstream operations due to price controls. In China the prices for crude oil was subject to domestic price controls before 1993. The government also caps certain refinery products such as diesel and gasoline, as means to protect price-sensitive domestic consumers, including farmers and taxi drivers (Leung, 2011). Domestic price controls incurred huge losses to NOCs as the production cost was higher than state-set prices. For instance, Sinopec, China's largest refiner, suffered billions of dollars in refining losses since 2005, including $8.8 billion in the first half of 2008 alone (Downs, 2010). In such context, overseas expansion was seen as a strategic move to ensure company survival and increase profits.

4.2 Becoming International Players

The NOCs intend to become world-class energy companies through competing with other international oil companies (IOCs). Their executives recognize that if they want to be internationally competitive, then they must compete internationally. Former CNOOC general manager Wei Liucheng employed a soccer analogy to make that point, arguing that China's oil companies "can't just play in the domestic league. We should also compete in the World Cup" (CCTV, 2002). CNPC also lists "expanding markets" and "Seeking a greater international role" as two out of three of its corporate strategies (CNPC, 2018a). Yet compared to many distinguished IOCs, such as Exxon Mobil which have already matured in their cutting-edge technology, arranging huge financing packages, handling politics and host government relations.

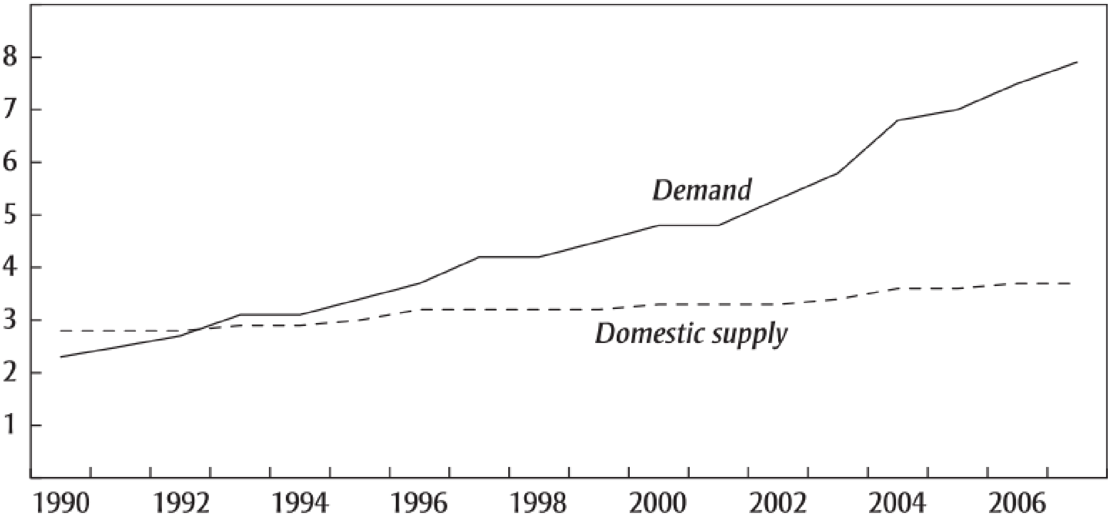
In comparison, the Chinese NOCs were relative late-comers who still lacked competitiveness in the international market. Facing international competition and domestic constraints, the most logical choice for NOCs were foreign markets where there were few international competitions. That said, the NOCs first ventured into African countries such as Sudan, Angola and Nigeria, where there was oil and lack of competition at the same time, since the IOCs from industrialized countries were leaving these countries for various reasons, including political sanction and civil war. Nevertheless, for NOCs, these countries were a "land of opportunity" (Large and Patey, 2011).

At the same time, there was also an international trend of going global by NOCs from other countries. The move of becoming international investors was driven by the need to replace domestic limited or depleted oil resources (Xu, 2007). Facing the issue of low domestic production to reserves ratio and international pressure from other NOCs, CNPC was prompted to venture abroad to look for new resources to increase the production to reserves ration, while pursuing the objective of becoming a Multi-national oil company (Xu, 2007).

4.3 Domestic Demand for Energy Security

China's NOCs are also acquiring assets abroad as a response to increasing domestic demand for oil. Chinese oil executives and senior officials have publicly stated that China's NOCs have a political mandate to enhance China's energy security through investment in foreign oil fields (Downs, 2010). China is currently the largest energy consumer in the world. By early 1990s, China has been a net energy exporter. Yet with fast domestic growth, the demand for energy in China became a primary concern. Increase in domestic oil production could not match up with the rapidly growing demand. While the growth rate of domestic production of crude oil dropped from 1996 to 2000, consumption grew at 8.15 percent on average (Leung et al., 2011). The gap between demand and supply is shown in the graph below.

Figure 2. China's Oil Demand and Domestic Supply, barrels per day (1990-2007)



Source: BP Statistical Review of World Energy, 2008

The demand-supply gap must be met by oil imports. The International Energy Agency projects that by 2030 China's oil demand will rise to 16.6 million barrels per day and its imports will reach

12.5 million barrels per day, making the country dependent on imports for 75 percent of total oil consumption (IEA, 2008).

The demand-supply gap represents one of the most serious problem facing China today. Energy import becomes an important strategy for ensuring China's long-term energy security and economic growth. Compared with making purchases on the international market, there was a widespread perception that oil supplied by China's NOCs abroad provides a more secure supply (Downs, 2010). Another strategy for filling the gap was increasing domestic oil production theorugh enhancing extraction technologies and discovering new oil fields. However, it was believed that China's domestic oil reserves already peaked and the major oil fields such as Daqing and Shengli were maturing and could hardly increase production (Ren, 2013). Some believes that the domestic demand-supply gap served as the primary driving force for NOCs' overseas expansion (XU, 2007). The overseas expansion goals of NOCs were therefore subsequently supported at the highest level of government.

However, it is noteworthy that NOCs' initial ventures during the 1990s were not under government instructions and did not gain government approval (Xu, 2007). Therefore, it accounted for commercial behavior rather than political actions. In fact, government planners took little notice and did not envision overseas upstream investments as a sound strategy to meet the growing Chinese demand (Xu, 2007). It was only until the 2000s that the overseas expansion was incorporated as one the national strategies in securing energy demand. The Going Out policy was only initiative in 1999. NOCs ventures into Angola and Nigeria both received substantive state support as they were launched around 2005. However, the venture into Sudan took place in 1995, before state showed policy support. Therefore, influence of state's demand for energy security only started showing during the 2000s. Nevertheless, the commercial actives of NOCs must not conflict with state interests in order to get approval from NDRC. More on this will be illustrated in the following sections.

Driven by above domestic and international forces, CNPC and Sinopec started venturing abroad during the 1990s. The initial ventures were realized through several mechanisms including joint-venture or forming consortiums with state-owned oil companies in host country, cooperation with large IOC, purchasing license through bidding, being project contractor or equity shares (Ren,

2013). The 1990s ventures marked milestone in China's energy development history. During the past two decades, Chinese NOCs' have expanded rapidly in their acquisition of international oil and gas resources in Middle East, Latin America, Africa and Asia, making them significant players on the international oil market.

5. Case Studies

This section examines China's energy OFDI in three African countries, Sudan, Angola and Nigeria. These countries are selected for examination based on their similarities in natural resource endowment and history of civil war. According to a report by BP (2008), in total amount of proven oil reserves in Africa, Sudan, Angola and Nigeria each account for 5%, 8% and 31% respectively. Another reason for selection of these countries is that civil war has caused damages not only to the economy and infrastructure, but also to the institutions. Institutional deficiencies present political and business risks to companies participating in the country's economy. Therefore, analyzing Chinese NOC's activities in these countries present exemplary cases for understanding their investment strategies.

The concept of perceived risks will also be explained in this section. Even though these countries have been perceived as "troubled zones" in the eyes of international commentators, Chinese investors has developed a distinctive way to approach institutional risks. Each case features Chinese NOCs successful engagement in Africa's energy sector. Sudan was the land of first entry that entails great lessons for following NOCs. Angola is a country suffered under 27-year civil war. Nigeria represents a country with high risks due to stronger political undertone and spread of violence. At the beginning of each case, a brief overview of the country background, including both economic and political environment will be provided, for better understanding of the drivers of the investment decisions. In these case, detailed accounts of China's investment projects are provided, the investment process is traced, and the international and domestic context is analyzed to evaluate the influencing factors.

5.1 Sudan

5.1.1 Background introduction

Before the discovery of oil reserves during the later 1970s and early 1980s, the Sudanese economy was dependent on agricultural products such as cotton. During the 60s and the 70s, share of agricultural sector in gross national product (GDP) fluctuated about 50 per cent (Ali and Elbadawi, 2004). The discovery of oil brought about structural transformation to Sudan from agriculture-based towards industrial. The Sudanese economy today is highly dependent on oil. In 2009, oil products accounted for over 90% of the country's export earnings and almost half of government revenue (James, 2011). The American IOC Chevron made the initial discovery of the oil reserves at Abu Jabra in 1979, followed by several other discoveries in the Muglad Basin in 1980s (James, 2011).

In view of the political background of the country, the political structure has been under constant shifts since independence and the its social environment has been volatile. Sudan came to independence in 1956 from Britain. From 1956 to 1969 the country underwent a period of liberal democracy with two major parties, the National Unionist Party and the Umma Party. From 1969 to 1985, due to the failure of the parliamentary government to address the country's worsening problems, military coup came to power, under the leadership of Nimairi. Later the country underwent a period of democracy from 1985 to 1989, and the period of National Islamic Front from 1989 to 2000. In short, the country's regime type constantly shifted between parliamentary-democratic and military coup. During the meantime, the country was constantly plagued by the longest running civil war on record, which led to a death toll of nearly two million people and more than 80 percent of southern Sudan's population being displaced (The U.S. Committee for Refugees, 2002). Discovery of oil contributed to one of the causes of the enduring characteristic of the civil war, since the combatants aimed not only to defeat the opposing side, but also to secure vested interests from oil (Keen, 1998).

The two-decade warfare wracked the nation's institutions. The IEF 2010 report characterizes Sudan's economy by corruption and a lack of transparency in the enforcement of regulations (World Heritage Foundation, 2010). Between 1995 and 1998, its economic freedom was far below

the world average, as shown in Table 2. WGI indicators also show that the governance indicators of Sudan are in the lowest percentile. For instance, from 1996 to 2000, Sudan's Political stability and absence of violence scores were all lower than -2, ranked in the lowest 1% or 2% percentile. Its Regulatory quality rankings were at around 8% percentile. Although its Government effectiveness and Political stability scores were slightly above 10%, they dropped in the following years. In 2000, Sudan's Political Stability score was 1.1%, making it one the most unstable countries in the world.

In terms of economic freedom, the general scores were far below world average between 1995 and 2000. According to World Heritage Foundation, property rights received little protection and respect in Sudan, as the government influences the judiciary, and the military and civil authorities do not follow due process to protect private property (2010). Investment freedom is also restricted in Sudan, investment laws are non-transparent, and bureaucracy is cumbersome. While interestingly, Sudan scored highly on Business freedom. In 1995 and 1996, its scores of Business freedom surpassed the world average. This could be attributed to the low barriers to entry and easiness of starting business in Sudan. Starting a business takes an average of 36 days, compared to the world average of 35 days (World Heritage Foundation, 2010). Table 2 provides a summary of Sudan's institutional performance.

Expansion of internal political tensions left Western investors unwilling to participate in Sudan's oil sector. The American oil company Chevron halted its activities in Sudan after three of its expatriate stuff were killed by the rebel group Anyanya II in 1984. The same rebel group was also responsible for kidnapping five of Chevron employees in 1982 (Petry, 2006). Chevron then provided financial support to Arab militia and the Sudanese Armed Forces, which gave the rebels more reason to target oil facilities and workers (Moro, 2011). Chevron left the country in 1992 after selling off majority of its assets for US$ 23 million to the Sudanese oil company ConCorp, leaving many local workers unemployed (Patey, 2006). Chevron left Sudan for various reasons, including worsening security issues and increasing pressure from the U.S. government. Facing similar situations, a Canadian IOC, Arakis Energy Corporation, also sold off majority of its share in 1996. Due to worsening social disorder and widespread concern for human rights situations in the country, the United Nations issued sanctions against Sudan in 1996, followed by U.S. sanction in 1997.

Table 2. WGI and IEF of Sudan in selected years

	Government Effectiveness score/percentile rank	Political stability and absence of violence score/percentile rank	Regulatory quality score/percentile rank	Property rights score/world average	Business freedom score/world average	Investment freedom score/world average	Economic freedom score/world average
1995	N/A	N/A	N/A	30/56.2	70/68.5	30/57.7	39.4/57.6
1996	-1.0/15.8%	-2.5/1.1%	-1.4/8.7%	30/55.9	70/66.5	30/55.2	39.2/57.1
1998	-1.2/8.8%	-2.3/2.1%	-1.3/8.3%	30/53.7	55.0/64.9	30/54.1	38.3/57.2
2000	-1.2/9,2%	-2.2/1.1%	-1.4/7.2%	30/52.2	55.0/63.7	30/53.5	47.2/58.1

Source: World Bank, 2018; Heritage Foundation, 2018

5.1.2 China's investment in Sudan

With Chevon's departure, domestic oil production and exploration activities could not be ensured. Facing the dire situation of international sanctions and worsening relations with other states in the region, Sudan was forced to seek alternative resources of economic and political support. Western abandonment urged the government of Sudan to recruit new companies from other countries to continue exploration and drilling activities during the war. As a result, it reached out to NOCs in Asia, including China, Malaysia and India. In 1995, Chinese National Petroleum Corporation (CNPC) signed a contract to buy the previous Chevron assets, after an official visit by Sudanese President Brigadier Omar al-Bashir to Beijing in September 1995. An agreement was signed between CNPC and the Sudanese government to develop Block 6 in Muglad Basin (CNPC, 2010).

In November 1996, CNPC won the contract to develop Block 1/2/4 in Muglad Basin, outbidding several other IOCs. For this end, CNPC together with Sudapet, the national Sudanese oil firm formed the consortium of Greater Nile Petroleum Operating Company (GNPOC).[7] In 1997, CNPC held the largest share in GNPOC after Arakis sold off its shared in the consortium. After the initial entrance, CNPC's presence in Sudan received governmental support since 2000, under the policy of Going Out. Oil deals were accompanied by frequent high-level visits. For instance, in November 2000, the then member of the Political Bureau of the CPC Central Committee and Vice Premier of the Chinese Government, Wu Bangguo visited the Khartoum, and commented that CNPC's projects in Sudan was "a model of a diligent and pioneering Spirit, a monument to Sino-Sudanese friendship" (CNPC, 2010). In November 2005, then member of the Standing Committee of the Political Bureau of the CPC Central Committee, Li Changchun, also paid visit to Khartoum and praised CNPC for demonstrating commitment (CNPC, 2010).

In 2001, CNPC continued its expansion in Sudan after making purchase of commanding shares in the Petrodar Operation Company. In each consortium, CNOC maintained the majority stake as operator in partnership with Sudapet and other foreign oil companies, to ensure the necessity of control (Patey, 2007). During the meanwhile, CNPC also participated in several refinery and trading projects, including g the Khartoum Refinery, the Khartoum Petrochemical Plant and the Petrochemical Trading Company. According to a CNPC report, the Khartoum Refinery ended

[7] The Greater Nile Petroleum Operating Company (GNPOC) was established on June 18, 1997 as a joint operating company owned by CNPC of China (40%), PETRONAS of Malaysia (30%), ONGC of India (25%) and SUDAPET of Sudan (5%) (Greater Nile Petroleum Operating Company, 2018).

Sudan's long history of dependence on import of refinery oil products (CNPC, 2010). To date, CNPC has dominated the oil production in Sudan, and the production has increased steadily, from 0 to over 200 thousand barrels per day (Downs, 2007).

5.1.3 Drivers behind investment

CNPC entered Sudan for various reasons. From the commercial perspective, at that time CNOC was actively seeking operation opportunities abroad due to its concern for domestic constraints as mentioned in Section 4. Its primary goal was to make up for the losses incurred at domestic market through acquiring assets and drilling rights abroad. Sudan was the first foreign land CNPC set foot upon. Although today CNPC has operations in over 30 countries and areas, Sudan served as a land of test and opportunities for the company. The vacancy in Sudan left behind by other IOCs attracts Chinese NOCs with great opportunities to gain experience in overseas operations and develop its own system of management. Chinese NOCs needed a market "where American and European companies were not present, and Sudan represented a viable prospect" (Goodman, 2004). Sudan has a promising oil market, where oil operations were likely to be highly profitable. While the other IOCs were leaving for security concerns, high institutional risks and international human rights pressure, the Chinese NOCs were undeterred by such risks for following reasons.

First of all, the Chinese government upholds the idea of peaceful co-existence in its foreign policy, containing five principles, including principles of equality, mutual benefit and mutual respect for territorial integrity and sovereignty. These principles have been adopted since independence in 1949, as basic norms in developing state to state relations transcending social systems and ideologies (MFA, 1998). Such norms make any internal affairs in the host country irrelevant. Any causes of internal instability or institutional risks have been "either externalized, through blaming Western interference, or depoliticized" (Barber, 2014).

Secondly, it has developed a comprehensive way of approaching institutional risks. In order to protect the interests and rights of Chinese companies and the Chinese labor in Sudan, the Chinese government has signed numerous mutual agreements with the Sudanese government. For instance, in 1997, the two governments signed Concerning the Encouragement and Reciprocal Protection of Investments; during the same year, the Agreement on Avoidance of Double Taxation was signed; in 2007, both governments signed the Memorandum of Simplifying Procedure for Chinese Workers to Work in Sudan. These are examples of how Chinese government utilize mutual

agreements to fill the regulatory void left by institutional defects. Nevertheless, NOCs' operation in Sudan was not without threats. Oil facilities were at times attacked by rebels from Southern area. Under the pressure to protect enterprise interest and the lives of thousands of Chinese workers, China has reportedly sent security personnel to protect its managers and workers, or provide technical assistance and equipment to the government army so that it could protect the Chinese workers (Lee and Shalmon, 2008).

CNPC's entrance into Sudan oil market constitutes a commercial activity. In early 1990s, with monopoly power over domestic energy market and rising importance of energy security in China, NOCs had accumulated considerable political clout that earned them significant autonomy. It has been said that by then the NOC executives exploit their direct access to party leadership to ensure their requests receive high-level political support to overcome any bureaucratic resistance (Patey, 2017). Nevertheless, its investment drivers must be placed within the broader political-institutional framework. Although NOCs enjoyed significant amount of autonomy in its foreign expansions, the state still maintained fundamental control of the company in terms of rights of project approval. It must be noted that until mid-1990s, the domestic discourse still emphasized self-reliance, and top leaders did not envision overseas upstream investment as sound strategy, and emphasized continued domestic investment (Xu, 2007).

Luckily, the projects survived and was proved success. The state adopted a largely supportive stance rather than restrictive. CNPC's experience in Sudan has significant implications for the governments later adopted Going Out policy. Sudan played a significant role not only in China's strategic energy expansion, but also in its political appeals. In fact, besides "the shared experience of hardship and resistance against outside interference in internal affairs", the two countries were both looking to establish strategic partnerships at the time (Large and Patey, 2011). While Sudan was seeking Chinese economic engagement to counter the adverse effects caused by international sanctions, China was seeking Sudan's market for Chinese brands and to cement other national interests including national security, multipolarity and the "One China" policy (Power et al., 2012). According to Large and Patey (2011), the relationship between Beijing and Khartoum is built upon firm bilateralism, containing but moving beyond economic relationship, it is also inherently political.

To sum up, CNPC's experience in Sudan features an exemplary case. CNPC entered Sudan out of commercial drives to acquire assets abroad. CNPC regarded internationalization as an essential strategy in replacing slower growth levels at domestic oil market (Patey, 2017). Lack of international competition in Sudan featured the most important influencing factor. Due to NOCs' lack of experience and international competitiveness, they did not have any comparative advantage in front of large IOCs that were already operating in Sudan for decades. However, civil warfare and internal instability rendered Sudan a pariah state receiving international sanctions, and IOCs were leaving Sudan for various concerns. This provided NOCs with a good opportunity to realize their goal of venturing abroad. During the process, state strategic intents had minimal influence over NOCs' choice of investment location. Institutional factors were also disregarded in front of strong commercial priorities.

5.2 Angola

5.2.1 Background introduction

Angola is the second largest oil producing country in Africa, only after Nigeria. It joined OPEC in 2007. In 2015 Angola produced 1.8 million (bpd), making it one of the top producers of crude oil in Sub-Saharan Africa (ITA and the U.S. Department of Commerce, 2017). It's oil production and supporting activities account for almost half of its GDP and over 90 percent of its total exports (OECD, 2008). Sonangol is the sole national oil company of Angola, responsible for oil exploration and production activities. Foreign firms can participate in Angola's oil activities only through joint-ventures and production sharing agreements with Sonangol (OECD, 2008). Foreign IOCs presenting in Angola include ChevronTexaco (U.S.), B.P. (U.K.), TotalFinaElf (France), ExxonMobil (U.S.) and other NOCs from Brazil and China.

Angola is recognized as a "troubled zone" due to continuous internal conflicts (Jiang, 2008). Angola gained independence from Portugal in 1975, after a military coup in Portugal which forced the colonial government to withdraw from Angola. The country soon plunged into the turbulent decades of civil war for 27 years. The civil war was a post-independence power struggle among three major parties in Angola--the ruling party People's Movement for the Liberation of Angola

(MPLA), The National Liberation Front of Angola (FNLA), and the National Union for the Total Independence of Angola (UNITA). It ended with the victory of MPLA in 2002. The U.S. Department of Justice (2003) estimates a death toll of At least 500,000 since 1975, including over 300,000 since 1992, and tens of thousands killed or mutilated by anti-personnel mines. Infrastructure system of the country was also devastated during the civil war. For instance, railways and supply systems were destroyed. As of 2011, only 30 per cent of the railways were operating (AICD, 2011).

Internal warfare left the country with mal-functioning institutions. During the 2000s, its IEF scores were below the regional average, as shown Table 3. With a score of 48.4, it was the 154th freest country in the 2010 IEF ranking (World Heritage Foundation, 2010). Angola's poor performance in economic freedom, as according to IEF, is due to "pervasive corruption and a lack of institutional capacity", which significantly undermine its implementation and regulation power (World Heritage Foundation, 2010). Nevertheless, during the post-war period, there is an increasing trend in the overall institutional performance. From 2006 to 2010, its IEF score increased from 43.5 to 48.4. Its WGI scores also showed improvements. For instance, the governance effectiveness score increased from -1.3 to -1.1, with percentile rank increased from 6.4% to 11.0% from 2004 to 2010. The political stability and absence of violence score also increased from -1.1 to -0.2, with percentile ranked increased from 6.6% to 38.0% from 2004 to 2010. Table 3 provides a summary of its institutional performance.

5.2.2 China's investment in Angola

When the 27-year civil war ended in 2002, few IOCs were willing to go to the devastated country (Jiang, 2008). China and the NOCs started entering the Angolan oil market at the beginning of the 21th century through provision of low-interest loans and credit lines associated with infrastructure reconstruction promises. China offered three major multibillion-dollar deals through the Export-Import Bank of China (EXIM Bank): US$ 2 billion line of credit in 2004; US$ 2 billion loan in exchange for oil in 2005; US$1 billion more added in 2006; US$ 2.5 billion line of credit in 2007 (Jiang, 2008). Angola soon became the most important oil exporter to China. In 2008 it surpassed Saudi Arabia and became the largest oil exporter to China (Zhang, 2016).

Table 3. WGI and IEF of Angola in selected years

	Government Effectiveness score/percentile rank	Political Stability and Absence of Violence score/percentile rank	Regulatory Quality score/percentile rank	Property rights score/world average	Business freedom score/world average	Investment freedom score/world average	Economic Freedom score/world average
2004	-1.3/6.4%	-1.1/16.6%	-1.3/9.8%	N/A	N/A	N/A	N/A
2006	-1.4/5.8%	-0.5/27.5%	-1.1/13.2%	30/46.6	26.8/62.3	20/49.6	43.5/59.9
2008	-1.1/13.6%	-0.4/31.3%	-1.1/16.0%	20/45.6	36.7/63.6	20/48.8	46.9/60.2
2010	-1.1/11.0%	-0.2/38.0%	-1.0/16.3%	20/44.1	43.4/65.0	35.0/51.0	48.4/48.4

Source: World Bank, 2018; Heritage Foundation, 2018

Sinopec led Chinese NOCs' entrance into the Angola market in 2004. In 2003 the previous major operating IOC Shell showed intention to sell off its 50 percent share of Angola's deep-water offshore Block 18 assets, allegedly due to rising exploration costs and unsuccessful drilling (Alves, 2010). An Indian oil company, Oil and Natural Gas Corporation Limited offered an estimated $600 million to make the purchase (PetroleumAfrica, 2004). However, the deal was refused by BP, the owner of the other 50 percent share, and Sonagol. There was rumor saying that a Chinese NOC was also interested in making the bid (Moran, 2010). In October 2003, Sinopec made an offer of US $725 million with package to help Angola develop railways that amounts to US$ 2 billion (Alves, 2010; Moran, 2010). This offer was accepted by Sonangol and the stakeholder.

To deepen cooperation, in 2004, a joint venture was established between Sonangol and Sinopec, called Sonangol Sinopec International (SSI).[8] The negotiation process of the joint venture involved not only corporation representatives, but also political elites such as Angola's minister of petroleum, Desidério Costa and important stakeholders from Angola. SSI soon became a significant player in Angola's oil market. In 2005 when Sonangol launched a licensing round for proven oil fields, SSI acuiqred 40 percent stake in Block18, 27.5% in Block 17 and 20 percent in Block 15 (Moran, 2010).

The successful joint-venture between Sinopec and Sonangol initiated a series of energy cooperation between China and Angola. For instance, in 2006 Sinopec won the bid to production rights in Block 3/80, while Sonangol favored the new comer Sinopec instead of extending licenses with Total; In 2010, Sinopec made a purchase of 55 percent stake in SSI for US$ 2.46 billion to acquire deep-water oil assets (China Briefing, 2010); Furthermore, in 2008, Sinopec and CNOOC jointly won a bid for a 20% stake in ultra-deep-water oil bloc 32 operated by Total, which was being relinquished by the American oil company Marathon (Alves, 2010).

Since 2005, high-level meetings were held regularly in Luanda and Beijing, where officials from both governments and corporations participated. For instance, in February 2005, Chinese Vice Premier Zeng Peiyan paid a three-day visit to Angola and met with Angolan Prime Minister Fernando da Piedade Dias dos Santos. During this official visit, the two countries signed nine

[8] The company was incorporated in 2004 and is based in Hong Kong. As of September 30, 2010, Sonangol Sinopec International Ltd. operates as a subsidiary of Sinopec Corporation Hongkong International Limited. https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=61894867

agreements cover cooperation in energy, mineral resources and infrastructure, petroleum exploration and prospecting as well as economic and technical assistance, as "efforts by the Chinese government to assist the post-war reconstruction in Angola" (MFA, 2005).

5.2.3 Drivers behind investment

Following CNPC's leading venture into Sudan during the 90s, Sinopec initiated its overseas expansion plan during early 2000s. Shell's exit created the perfect timing for Sinopec, which was seeking overseas opportunities to acquire new assets at that time. Right after 2002, during the initial post-war reconstruction period, Angola was not a competitive land for business due to shattered infrastructure and institutional system. Only few IOCs were operating in Angola. Resource richness and relatively less competition provided Sinopec with a good opportunity to extend its reach. As a new comer, competition-unsaturated market was an important condition for Sinopec.

Moreover, by the start of the new century, Chinese NOCs have already accumulated valuable experience from engaging in the troubled zone of Sudan, that gave them more confidence in entering post-war zones. Under such circumstances, it is unlikely that institutional deficiencies are considered as a deterrent for investment, not to mention that Angola has been enjoying lasting peace since 2002 under a stable regime. One the one hand, there were more available lessons and experience that could be borrowed from previous engagement in Sudan, on the other hand, Angola's President dos Santos has been in power for almost three decades and therefore less uncertainty incurred.

During the same time, China started adopting supportive policies for NOCs' overseas ventures. In January 2006, MFA published the first China's Africa Policy whitepaper, China's official policy document, making China-Africa relations one of the most important pillars in foreign affairs. The whitepaper specifically points out that the government will provide enterprises with supportive measure:

"The Chinese Government encourages and supports Chinese enterprises' investment and business in Africa, and will continue to provide preferential loans and buyer credits to this end. The Chinese Government is ready to explore new channels and new ways for promoting investment cooperation with African countries, and will continue to formulate and improve relevant policies, provide guidance and service and offer convenience." (MFA, 2006a)

China also established the Forum on China–African Cooperation (FOCAC) in 2000 as a platform for the purpose of promoting "friendship, peace, cooperation and development" (FOCAC, 2006). The government's determination in supporting investment and venturing activities in Africa served to fuel NOCs' expansion ambition. Chinese government (MOFCOM) also provides detailed guidance to companies seeking opportunities abroad. For instance, MOFCOM published Foreign Investment Cooperation Country (Regional) Guide that provides information on doing business and channels for seeking protection in Angola. It is also worth mentioning that even during war time, oil production and flow was uninterrupted, unlike that in Sudan and Nigeria (Vines et al., 2009). Therefore, perceived risks on business from unstable political environment was minimized.

While acquiring mining rights in Angola constitutes a significant driver for Chinese NOCs, there are other more deep-seated reasons behind the investment decisions. One of the most important reasons is the comparative advantage stemmed from ever-deepening Sino-Angola bilateral relationship. The two countries have developed strong diplomatic ties in areas of politics, economy and trade, and energy cooperation. While oil supply is the most important strategic interest for China, infrastructure reconstruction was the top priority for Angola during the post-war period. China has been operating overseas on construction projects since the 70s and accumulated rich experience. Therefore, it was capable of providing contract incorporating technical support, low-cost labor and advanced equipment, which could meet Angola's vast demand for national development and reconstruction.

In a speech made on June 20, 2006, the President of Angola, Jose E. Dos Santos, declared that "we appreciate the cooperation between China-Sonangol, Sinopec and Unipec and the efforts our two countries are making to rehabilitate basic facilities destroyed during the war in Angola" (Vines et al., 2009). The connection between business and bilateral diplomatic ties gives Chinese NOCs comparative advantage against other Asian IOCs which were also seeking to enter Angolan oil market, and crowded them out (Vines et al., 2009). Similar to operations in Sudan, this type of cooperation also features strategic partnerships, based on win-win and mutual respect norms. Such diplomatic relation lays a firm foundation for Chinese NOCs' entrance, and therefore features an attracting factor.

Chinese NOCs entered Angola at a time when the state was devastated by civil war. Institutional deficiencies were wide-spread, and led to a relatively non-competitive market in the eyes of foreign

investors. Nevertheless, this featured an advantage for Chinese NOCs that were seeking untapped overseas market. The Chinese state also played a larger role in this case by providing diplomatic and financial support. Together with a relatively stable political regime, the perceived risks were lowered.

5.3 Nigeria

5.3.1 Background introduction

Nigeria has been an oil producer for over 50 years since the initial oil discovery in 1956. Today Nigeria is one of Africa's top oil producer, with proven oil reserves of 37.453 million barrels, accounting for approximately world's 3 percent oil reserves (BP, 2008). Oil and gas are the most important strategic resources for the Nigerian government and account for about one-third of its government revenue, and over 90 percent of total export (OECD, 2008). Nigeria is also endowed with other natural resources, including zinc, tin, iron and coal among others. Nigeria is home to Africa's richest rainforest, which provides various natural resources.

In Nigeria, oil exploration and production activities are mainly carried out by The Nigerian National Petroleum Corporation (NNPC), the state oil corporation. NNPC is also responsible for the management and bidding rounds for oil and gas (NNPC, 2016). Foreign oil companies are allowed to participate in the Nigerian oil sector under what is called a concession system, with NNPC being the concessionaire, while the foreign companies are the operators (NNPC, 2016). Multiple IOCs are therefore present in the Niger Delta (an oil rich South-Eastern region of Nigeria), including Shell (the Netherlands), Chevron (U.S.) and ELF Aquitaine (France).

Thanks to its oil reserves, between 2006 and 2016, Nigeria's GDP grew at an average rate of 5.7 percent annually (World Bank, 2018b). Nevertheless, Nigeria's rich natural resources have been blamed for the constant internal political instability and persistent poverty. The resource curse has been witness in Nigeria, leading to increased corruption which adversely affect growth, price volatility and the Dutch disease--the tendency for the real exchange rate to become overly appreciated in response to positive shocks (Sala-i-martin and Subramanian, 2008). Some even argue that the presence of natural resources contributes to higher risks of rebellion (Collier and

Venables, 2008). For instance, during the 1990s, the rebellion movement of the Survival of the Ogoni People (MOSOP) spread against the government with resentment towards human rights issues, pollution and corruption This movement was met with forceful repression from the government, causing over 3,000 killed and 1,200,000 wounded (MOSOP, 2018).

Nigeria's institutions are usually under public denunciation and identified with "decades of national government corruption, bad governance, unemployment, insecurity, and a total indifference to poverty alleviation" (Gonzalez, 2010). IEF ranks Nigeria the 106th freest in the 2010 index, with a score of 56.8 below the world average of 59.4 (World Heritage Foundation, 2010). It also points out that corruption is pervasive in Nigeria and property rights are also not respected in Nigeria. Nevertheless, foreign investment and domestic investment are treated equally under the law, and most sectors are open to investment. Nigeria maintains a relatively open market for foreign enterprises. However, it scores poorly on Investment freedom, owning to inadequate infrastructure, corruption, crime, security concerns and other social issues (World Heritage Foundation, 2010). Table 4 shows data on Nigeria's institutional quality indicators. Political Stability and Absence of Violence scores are particularly low, fluctuating about -2.0, with percentile rank about 3%. Regulatory quality scores showed tendency of increasing from 2004 to 2010, yet the rankings are still in the lowest quarter. Nigeria's performance on Government effectiveness also has low rankings.

Institutional deficiencies and lack of governmental capacity cause social issues that negatively affect IOC's operation in Nigeria. Security issues became a major concern for many IOCs operating on the Niger Delta. For instance, in 2006 armed robbers in Nigeria attacked on Total's Obagi oil facilities and killed three policemen, and carried out car bombing at Total's employee residential compounds (The Oil Daily, 2006b). Car bombings were carried out by a rebellious group, the Movement for the Emancipation of the Niger Delta, at Shell and Total's residential compound. These attack events led to serious security concerns and both Total and Shell decided to evacuate their employees (The Oil Daily, 2006b). Security issues continued to disrupt the IOC's normal operations. In 2012, Continuing oil spills caused by oil thieves prompt Shell to shut down some of its pipelines, causing damage to its production. The same issue also bothered the U.S. IOC Exxon Mobile, and led it to shut down some of the pipelines (Africa Research Online, 2012).

Table 4. WGI and IEF of Nigeria in selected years

	Government Effectiveness score/percentile rank	Political Stability and Absence of Violence score/percentile rank	Regulatory Quality score/percentile rank	Property rights score/world average	Business freedom score/world average	Investment freedom score/world average	Economic Freedom score/world average
2004	-0.9/15.3%	-1.8/4.8%	-1.4/7.9%	30/47.9	55/63.3	50/52.5	49.2/59.6
2006	-1.0/16.6%	-2.0/2.4%	-0.9/19.1%	30/46.6	50/62.3	30/50.8	48.7/59.9
2008	-1.0/16.5%	-1.9/5.3%	-0.8/20.9%	30/45.6	52.9/63.6	30/50.3	55.1/60.2
2010	-1.2/10.5%	-2.2/2.8%	-0.7/26.3%	30/44.1	53.2/65.0	40/51.0	56.8/59.4

Source: World Bank, 2018; Heritage Foundation, 2018

5.3.2 China's investment in Nigeria

Foreign participation in Nigeria's oil sector is dominated by the concept of "oil-for-infrastructure", which was upheld by President Olusegun Obasanjo (1999–2007) who actively sought Asian players from China, India, South Korea and others to acquire oil blocks in return for their commitments to invest in downstream and infrastructure projects (Vines et al.,2009). Against such background, Chinese NOCs started entering Nigeria's market since 2005. CNPC reached a cooperation agreement with the Nigerian government in 2006, and won the bidding for four onshore and offshore oil blocks, including OPL298, OPL471, OPL721 and OPL732 (CNPC, 2018b). At the same time, CNPC was also funding two community sustainable development projects in the Southern Ijaw area of Bayelsa State, which was completed in 2011 (CNPC, 2018b).

Major steps were also taken by CNOOC, the largest offshore crude oil producer in China. In December 2005, CNOOC purchased 45 percent stake of licensing covering OML 130 field from South Atlantic Petroleum Ltd.[9], with the amount of US$ 2.3 billion (CNOOC, 2005). The deal was by then the largest foreign acquisition made by Chinese firms (Alden and Davis, 2006). The OML 130 field covers almost 500 square miles, covering four oil fields that contain "huge interest and upside potential", said by Fu Chengyu, CNOOC's chairman and chief executive (Hogg, 2006).

CNOOC further deepened its engagement in 2014, by making US$ 50 million in improving subsector tools including logistics trucks, machine shop and rig assembly in Nigeria (the Nation, 2014). As one of its priority overseas fields, CNOOC adopted the strategy of "Highlighting Major Fields and Optimizing Investment Portfolio" to optimize its operations in Nigeria, and further made discoveries of OML 138 and Usan Blocks in Nigeria (CNOOC, 2014). By the end of 2014, CNOOC was ranked 12th place among Nigeria's 100 strongest companies (CNOOC, 2014).

5.3.3 Drivers behind investment

CNOOC's entrance into Nigeria was an outcome of the company's strategy of improving its overseas investment portfolio and ambition to seek overseas assets (CNOOC, 2014). CNOOC's chairman and chief executive said the company "has to look beyond its domestic market for new opportunities, just as producers in other countries have done" (The Oil Daily, 2006c). Facing both domestic and international competition, the company's primary goal was to acquire new assets

[9] South Atlantic Petroleum is a Nigerian stat-owned company, holder of interest in deep-water OML 130 and OPL 246. CNOOC has been a cooperating partner with the company since 2006. http://www.sapetro.com/about-us/

abroad to become competitive against global peers (CNOOC, 2006). As mentioned in the acquisition report, OML 130 in Nigeria represents a “unique opportunity” with “world-class assets”, “significant upside potential”, “strong local partner” and “highly attractive terms” (CNOOC, 2006). The deal was supported by the state. According to MFA, the deal is “cost-effective” as the oil reserve price in Nigeria is US$4.60 per barrel, equivalent to the reserve price of US$7.30 per barrel obtained by Sinopec in Kazakhstan (MFA, 2006b). Investment in Nigeria was therefore seen as “an ideal strategic fit” (CNOOC, 2006).

Huge profit constitutes an explicit driving force. There is another factor that is not usually considered, which is the competition factor. By early 2000s, only few IOCs were operating in Nigeria, including Shell and Total. Both have been operating in Nigeria for over 50 years and accumulated rich experience. Total has been present in Nigeria since 1962 while Shell was there since 1936 (Total, 2013; Shell, 2018). There was a perception that Nigeria was the exclusive domain for IOCs, leaving little space for outsiders (Vines, 2009). Moreover, despite Nigeria’s important status in international oil market, social security issues and institutional deficiencies such as corruption presented a deterrence to risk-averse investors.

Against such background, Chinese NOCs faced few competitions from other large IOCs in the corresponding period. While other Asian National Oil Companies (ANOCs) from Korea and India also showed interest in purchasing oil blocks from Nigeria, the Chinese NOCs and other ANOCs were all new-comers, and no one had significant advantage over the others. In fact, ANOCs did not show interest at all in purchasing oil blocks in Nigeria when it first opened licensing round in 2000 (Vines, 2009). In following licensing rounds from 2005 to 2007, the Asian footprint was still small, with only ANOCs from Korea, Taiwan and China obtained offers.

Large IOCs that had been operating in Nigeria also present no significant threat, due to the Nigerian government’s preference for ANOCs. The Nigerian president Obasanjo was reportedly “fed up with Shell and Exxon” due to their repeated declination of the government’s request to build new refineries and there was a growing sense that they were there only to exploit the natural resources without giving things back (Vines, 2009). During that time, Nigeria was in an urgent need to rebuild the country’s infrastructure and stimulate national development. Therefore, President Obasanjo adopted the “oil-for-infrastructure” rules in the bidding rounds to attract ANOCs, in hope that they would provide more support for national development. For Chinese

NOCs, they had the advantage of substantial governmental support from China. They were thus able to secure oil blocks with various development commitments, including rehabilitation of the Kaduna oil refinery, construction of a railway from Lagos to Kano, building a hydroelectric power station in Mambilla, and providing financing to the projects (Mthembu-Salter, 2009). Such governmental provided NOCs with substantive negotiating power.

Furthermore, the Nigerian government also held other more implicit political appeals. In 2006, President Obasanjo had the plan to extend the presidential tenure beyond the prescribed two four-year terms in the constitution, which would require large amount of funding (Sahara Reporters, 2006). Big infrastructure projects promised by China would provide such opportunity. At the same time, Nigeria also needed support from Asian countries for its bid for one of the two proposed permanent seats for Africa in the United Nations Security Council (Vines, 2009). From the Chinese side, this was a further step to enhancing the strategic partnership with Nigeria. The first China's Africa Policy paper points out that developing strategic partnerships with Nigeria based on mutual-benefit is one of the most important factor in foreign policy (MFA, 2006a). From the Nigerian perspective, energy cooperation with China featured a better alternative path of development.

Overall, entrance into Nigeria was a strategic decision made by Chinese NOCs. With the thirst for overseas assets and the ambition to become world-class oil companies, Nigeria with rich proven oil reserves present them with a great opportunity. Even though the social security issues and institutional deficiencies in Nigeria raised significant risks for business, Chinese investors did not seem to perceive it as a highly relevant factor. First of all, the Chinese government's sturdy support provided the companies with driving force to implement their venturing plans. Second, despite institutional risks from corruption and presence of violence, Chinese investors seem to not perceive these factors as significant risks.

In MOFCOM's Foreign Investment Country Guide: Nigeria (2017), the Counsellor of the Chinese embassy in Nigeria, Zhao Linxiang points out the weakness of Nigeria's institution: the level of market development level in Nigeria is relatively low, infrastructure is deficient, policy consistency is poor and characterized by arbitrariness, government efficiency is low and the regulatory and enforcement capacity is also lacking. On the other hand, he also notices, level of market openness in Nigeria is relatively high, barrier for entrance is low and policies are relatively loose (MOFCOM, 2017). These comments reflect that for Chinese investors, market openness and

low entrance barrier are of primary concern, while risks post by governmental ineffectiveness in the host country could be lowered by bilateral protective policies. For instance, in 2001, the Agreement on the Reciprocal Promotion and Protection of Investments between the Government of the People's Republic of China and the Government of the Federal Republic of Nigeria was signed, to protect the interests of both sides.

6. Influencing Factor Analysis

6.1 International Competition

The above analyzed cases represent Chinese NOCs' strategy to venturing abroad during the late 90s and early 2000s. CNPC acted as the flagship in promoting the overseas steps. In all three cases, lack of international competition in the "troubled-zone" featured an important driver for NOCs overseas expansion. As national oil giants, the international competitiveness of NOCs also determines the competitiveness of China's oil industry. As mentioned earlier, during the 1990s the NOCs saw the need to becoming international players and increase their own corporate competitiveness against other IOCs. They were seeking places where they could ensure a foothold in the process of asset acquisition. However, in earlier phases, Chinese NOCs did not have enough capacity or technological power to compete against large IOCs. IOCs which have been operating overseas for over half century such as Shell and Total have invested heavily in research and development for more efficient and advanced technologies, while Chinese NOCs by that time did not have enough awareness in investing in research and development, and most of the facilities were imported (Ren, 2013). The facilities and technologies state of art in China were mostly at the 90s level, instead of at the international vanguard level. Peer IOCs from Western countries usually hold comparative advantages with their leading technologies and abundant human resources, which could ensure better exploration and production prospects.

Under such situation, the Chinese NOCs had limited choices, since majority resources of good quality were already acquired and occupied by Western oil giants, which increased the difficulty and costs for Chinese NOCs in overseas exploration. Sudan featured a viable choice. When CNPC initiated negation with Sudan, Sudan's oil resources were largely underdeveloped and most its

territories remained unexplored. It was believed that Sudan was one of the few areas in the world with large amount of untapped resources, giving Sudan significant development potential (Lee and Shalmon , 2008).

At the same time, Sudan, Angola and Nigeria were countries either in the middle of civil war and internal political instability, or in the phase of post-war reconstruction. Institutional deficiency is a shared feature among these countries. Sudan, in particular, was in a dire situation facing economic sanctions from the U.S. and the UN. The U.S. issued restrictions on imports and exports with Sudan and refused to support request from Sudan for funding in the international financial institutions for reasons related with human rights, terrorism and regional stability (Rennack, 2005). Competition from IOCs in these countries were low. Chevron, the American IOC, left Sudan for domestic pressure and security reasons. The void left by other IOCs provided Chinese NOCs with the opportunity they have been seeking to raise their international portfolios. Sudan as the virgin land for China, hold significant implications for Chinese IOCs later development.

Angola and Nigeria were also under similar situations, where risk-averse investors hesitate to engage with. Chinese NOCs, on the other hand, were primarily concerned with market and assets. Therefore, market accessibility and level of competition become significant influencing factors. Nevertheless, the competition factor was more important in the earlier phase during the 1990s than in the 2000s. This is because in 1995 when CNPC went to Sudan they had few experience to learn from. Experience accumulated from domestic operations and the facilities could not match up with those of large IOCs. As a result, finding a market where they could experiment with their own way of management and operation became utterly important. However, by the 2000s, Chinese NOCs have already set foot in various overseas market, and accumulated valuable experience. In 2005 when Sinopec went to Angola, there was already a decade of experience from CNPC's operation in Sudan. NOCs' strategic focus shifted from finding a less competitive market towards enhancing self-competitiveness through cooperation. This is because while analyzing competition environment and strategic goals, the NOCs realize that between the goals and their corporate capacity lies a "strategic gap", which renders cooperation between corporates a better choice (Tong and Cheng, 2006). Cooperation could contribute to value-added of both through establishing an interest-and-risk-sharing mechanism.

Table 5. Overview of NOCs'investment in the year of entry

Country	NOC	Year of Entry	Entry Form	National policy of "Going out"	Government effectiveness score/percentile rank	Political Stability and absence of violence score /percentile rank	Regulatory quality score/percent ile rank	Property rights score/world average	Business freedom score/world average	Investment freedom score/world average	Economic Freedom score/world average
Sudan	CNPC	1995	Acquisition	No	N/A	N/A	N/A	30/56.2	70/68.5	30/57.7	39.4/57.6
Angola	Sinopec, CNOOC	2004	Equity shares, forming consortium	Yes	-1.3/6.4%	-1.1/16.6%	-1.3/9.8%	N/A	N/A	N/A	N/A
Nigeria	CNOOC, CNPC	2006	Won licensing for operation rights, forming consortium	Yes	-1.0/16.6%	-2.0/2.4%	-0.9/19.1%	30/46.6	50/62.3	30/50.8	48.7/59.9

6.2 Institutional Risks

Table 5 demonstrates that the institutional indicators of the three countries are generally in the lowest rankings. During the 1990s and 2000s, institutional risks were not considered an important determining factor in choosing overseas investment location. The most important reason is the lack of relevant theoretical research. China lacked authoritative institutional risks evaluation institutions, while existing reporting mechanisms in related institutions were relatively backward compared with internationally recognized risk evaluation institutions such as the United Nations Conference on Trade and Development (Tong and Cheng, 2006). Attention on institutional risks are also insufficient among Chinese investors. Since Chinese enterprise has a relatively short history of overseas operation, there is little research on interactions between institutions and MNCs and theoretical research remains at the conceptual level (Tong and Cheng, 2006). Chinese investors therefore approached institutional risks in largely informal ways, based on existing empirical knowledge and developed through the process of interaction. With insufficient theoretical support, there was also lack of awareness on the importance of institutional factors. Within the NOCs there was no specific department dedicated to institutional risk evaluation.[10]

Moreover, while these countries all suffer from mal-functioning institutions, they share a common characteristic of relatively open market, which constitutes an attracting factor for Chinese investors. For instance, the Sudan government encourages foreign enterprise participation, especially from Asia, for their technological and financial support in oil production activities. As shown in Table 5, it enjoys a high level of business freedom in the year of NOCs' entry. The Nigerian government also started opening up market to ANOCs in the 2000s, by offering licensing of oil blocks. Market openness means easy accessibility for NOCs. Market accessibility was valued highly than other institutional defects during the age of Going Out.

Furthermore, another reason is that institutional factors are either externalized or de-politicized under the guiding norms of non-interference and mutual respect. From the geo-political perspective, the regions with the richest natural resources in the world are also the most unstable and most complicated regions. Conflicts and disputes surrounding natural resources will continuously happen, but this is not likely to stop Chinese NOCs' exploring steps. While seeking

[10] Interview with Mr. Mingchang Zhao, former CNOOC manager and current CNOOC and Shell Petrochemicals Company Limited C2 (project phase II) Manager, on 7th May, 2018.

opportunities abroad, the NOCs make strategic choices from a long-term perspective. For instance, Sudan is considered a strategic move to further expand the North Africa market, with the objective of establishing overseas oil production system of a certain scale, towards a diversified oil supply system (Tong and Cheng, 2006).

6.3 State Strategic Intents

Influence of state strategic intents were not particularly strong during the 1990s. When CNPC entered Sudan, no government supportive policy was in place to grant NOCs with additional drives. State strategic intents started to play a stronger role after 1999 with the adoption of the Going Out policy. As shown in the case of Angola and Nigeria, the Chinese government provided both strong financial and diplomatic support. However, even without much state influence in the 1990s, it must be admitted that corporates' pursuit of foreign assets coincides with state's strategic goals of ensuring supply-side security.

In the case of Sudan, CNPC's huge amount of investment makes it not only an economic actor but also political participant. This means corporate and state are closely linked with each other. The corporates are the ones that initiate an investment proposal which is subject to state approval, and the state do not intervene with where the company wish to go.[11] Although the Chinese government offers advice and direction sometimes, "the companies are almost always in the driver's seat and has the freedom to choose where it wants to invest" (Downs, 2007). For instance, in the case of CNOOC's investment in Nigeria, the decision was made within the company's director team, and later submitted to NDRC for project approval.[12] The state administrative mechanism is only to ensure that corporate interests are in line with state interests. In the case of energy investment, the state's interest in securing domestic energy supply and the corporate's interests in acquiring overseas resources usually coincide with each other. Nevertheless, this is not always the case. For instance, by the time of 1990s when NOCs started venturing abroad, the Chinese government was still focusing on self-reliance and domestic oil production (Jiang and Sinton, 2011).

The state's influence is mostly felt at the negotiation phase. Commercial negotiations between corporations in both countries are usually accompanied by frequent official diplomatic meeting between state leaders. Chinese leaders often emphasize the importance of cultivating good and

[11] Interview with Mr. Mingchang Zhao, former CNOOC manager and current CNOOC and Shell Petrochemicals Company Limited C2 (project phase II) Manager, on 7th May, 2018.
[12] Ibid.

lasting relationships with oil-exporting countries. For example, China has been providing development aid to Angola. In 2004, China Exim Bank provided US$ 2 billion oil-backed credit to Angola; in 2007 an additional US$ 500 million were offered to construction and development projects (Corkin, 2008). China Exim Bank Li Ruogu paid official visit to Angola in September 2007, announcing additional US$ 2 billion to finance public investment (Corkin, 2008). Angola's president Jose´ Eduardo dos Santos paid visit to Beijing in December 2008 and a month later Chinese Minister of Commerce Chen Deming also paid visit to Angola. In order for deals of large-scale projects to be signed, governments from both participating countries must both grant approval.[13] For instance, CNOOC's US$ 15.1 billion acquisition of the Canadian oil company Nexen in 2013 required approval from both the Chinese government, the Canadian government and the U.S. government, since Nexen holds U.S. interests (Reuters, 2013). MFA therefore offers diplomatic support from its offices around the world, to support NOCs deal negotiations (Jiang and Sinton, 2011). Such sturdy state support is likely to increase Chinese NOCs' comparative advantage while bidding for license, while the host governments could use oil deals to negotiate for development aid.

Similar to other IOCs, Chinese NOCs made mergers and acquisitions through participating in biddings. However, what differentiate them from other IOCs is that the deals are negotiated directly with the host government closed door (Andrews-Speed and Dannreuther, 2011). The relationship is built upon elite-based ties and the cultivation of "win-win" strategic ties (Barber, 2014). Such high-level meetings entail explicit state sport for NOCs' activities. The state also issued a series of supporting policies, including financial support to NOCs' expansion, especially in countries that have been proved challenging for other IOCs to penetrate (Francisco and Baechler, 2013).

State support for overseas investment made by enterprises has been increasingly explicit under the Belt and Road Initiative (BRI) since its adoption in 2013. China increases its investment in Africa region, concentrates on oil exploration and development as well as infrastructure construction. It identifies enterprise as a key force to implement the BRI and provides substantial policy and financial support (UNDP, 2017). For instance, China's banks, including the Asian Infrastructure Investment Bank, China Exim Bank, China Development Bank and New Development bank all

[13] Ibid.

provide special loans for projects along the Belt and Road. The Silk Road Fund also provide financial support for investment in infrastructure and energy sector. These policy initiatives are likely to drive enterprises to invest in countries along the Belt and Road.

7. Conclusion

This research provides a study on Chinese NOCs' investment cases in Sudan, Angola and Nigeria to investigate the influencing factors for OFDI. The primary goal of this research is to counter the institutional risk preference theory associated with Chinese investors and to investigate the influence of the competition factor. This paper examined NOCs as independent actors who coordinate with the Chinese government on major investment projects. Analyses of investment cases demonstrate that institutional factors do not feature an important influencing factor for Chinese NOCs. The cases show that the countries performance on institutional quality indicators, including Political stability and absence of violence/terrorism, Government effectiveness, Regulatory quality, Property rights, Business freedom and Investment freedom, were poorly scored and ranked lowly in the world. In some cases, the institutional quality was extremely poor and ranked in the lowest percentile. For instance, Sudan's percentile rank on Political stability and absence of violence was 1.1%. Chinese NOCs entrance in Sudan was highly controversial, but they were seemingly impervious to such institutional downsides. While China upholds the principles of non-interference and mutual respect, either externalized or down-played the institutional factors. It was also important that NOCs developed a distinctive way of minimizing institutional risks, through elite-based bilateral diplomatic ties, and risk countermeasures.

NOCs' investment behavior reflects their determination in seeking overseas assets, especially during the 1990s. Lack of international competition constituted an important attracting factor. Lack of technological and human capacity, compounded with the urge to become international players forced NOCs to seek locations with fewer competitors and proven reserves. Countries including Sudan, Angola and Nigeria stood out as locations with significant upside potential. Nevertheless, competition was only a significant influencing factor during earlier ages when the NOCs' did developed international competitiveness. Today Chinese NOCs are leading players in the field, with advanced technologies and substantial overseas portfolio. The competition factor becomes

less important today, as Chinese NOCs hold enough comparative advantage against most IOCs, thanks to their huge capital and substantive government support.

The three cases also exemplify that NOCs hold significant amount of autonomy to maintain the freedom of choice in making overseas investment. Especially for small-scale investment, the NOCs hold almost complete autonomy. In the case of large-scale investment projects, the project proposals are subject to NDRC approval. Nevertheless, given special strategic role of natural resources in state agenda, the corporate interest is largely in line with state interests. Therefore, corporates and states are cooperators in overseas energy investment.

However, empirical knowledge gained from previous experience are subject to changes, while China's state priority shifts. Today, as China is trying to strengthen its role as a responsible international player, it tends to associate corporate social responsibility (CSR) with higher significance. Many NOCs have established specific CSR departments, to ensure that their operations abroad fit within international norms. For instance, CNOOC started publishing CSR reports since 2005. It has established the Risk management committee, to oversee risks in overseas operations. CNPC also started publishing CSR reports since 2012. It compiles hazard recognition and risk assessment reports in order to minimize overseas operational risks. It is likely that Chinese NOCs will associate institutional risks in potential investment locations with higher significant. Nevertheless, further research is needed to assess the current role of institutional risks in NOCs' overseas investment.

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Appendix I.

Interview with Mr. Mingchang Zhao, former CNOOC manager and current CNOOC and Shell Petrochemicals Company Limited C2 (project phase II) Manager, on 7th May, 2018, via Skype

1. Could you briefly introduce the managing system within CNOOC?

2. Who usually takes the lead in initiating overseas investment projects?

3. Are the investment proposals completely initiated within the company? Do any state bodies participate?

4. Under what circumstance would NDRC or NEA intervene?

5. Were there any cases where the project proposals were rejected?

6. To what extent do you agree that CNOOC is able to act independently?

7. CNOOC invested in Nigeria in 2006, could you elaborate on the process? What were the considerations of the company leaders?

8. Are there any principles that CNOOC have to follow when going abroad?

9. Is the process of risk evaluation important while making project proposals?