Bureaucratic Politics and Overseas Investment by Chinese State-Owned Oil Companies: Illusory Champions

Author(s): Chih-shian Liou
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BUREAUCRATIC POLITICS AND OVERSEAS INVESTMENT BY CHINESE STATE-OWNED OIL COMPANIES

Illusory Champions

Chih-shian Liou

Abstract

From the state-centered perspective, China's hunt for foreign energy deals has generated increasing uneasiness in international relations. By exploring Chinese national oil companies' overseas expansion, this study finds that Chinese bureaucratic fragmentation in the context of the state's changing relationship with state-owned enterprises has greater impact on firms' offshore ventures than the state-centered perspective contends.

Keywords: China, outward foreign direct investment, national oil company, "Going Out" strategy, state/enterprise relationships

Introduction

Since the late 1990s, the rise of China has been a focus of intense international discourse. Much of the debate centers on whether or not China is a threat and to what extent it can be incorporated into an American-dominated global system.[1] As a result, a great deal of attention

Chih-shian Liou is a doctoral candidate in the Department of Government at the University of Texas at Austin. She wishes to thank William Hurst, Patricia Maclachlan, Patrick McDonald, Peter Trubowitz, Chung-min Tsai, and an anonymous reviewer for insightful commentary on the article. Email: <csliou@mail.utexas.edu>.

1. For more on this debate, see Aaron L. Friedberg, "The Future of U.S.-China Relations: Is Conflict Inevitable?" *International Security* 30:2 (Fall 2005), pp. 7–45; Thomas J. Christensen, "Fostering Stability or Creating a Monster? The Rise of China and U.S. Policy toward East Asia," ibid., 31:1 (Summer 2006), pp. 81–126.

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has been paid to policies that extend China's global reach. Less noticed are the domestic politics of China's transition economy that help shape these policies. Focusing on the overseas investment of China's national oil companies (NOCs), this article examines the bureaucratic politics of China's outward foreign direct investment (ODI). It identifies the changing state/enterprise relationships as the central determinant of China's foreign economic policy as well as the outcomes summed up in the Zouchuqu ("Going Out") strategy.[2]

International relations scholars often debate whether and how the global expansion of Chinese state-owned enterprises (SOEs) alters the power structure of world politics. In particular, SOEs' energy-related overseas investment and associated oil-hunting diplomacy are key elements of China's alleged resource-oriented foreign policy.[3] While security analysts differ in their perceptions of the threats to American leadership posed by Chinese SOEs' transnational operations, they consistently see these ventures simply as manifestations of China's increasingly skillful diplomacy.[4] The security approach to China's ODI, especially the realist conceptions of the connection between wealth and power, tends to treat the state as the most important, if not the only, variable in explaining the sustained transnationalization of Chinese SOEs.[5] This approach contends that the Chinese government uses SOEs' transnational businesses as a means of engaging

2. The "Going Out" strategy has three primary policy components: ODI, international engineering and construction contracting, and international labor services cooperation. For more on this, see Xiao Qinfu, ed., *Zhongguo Zouchuqu Zhanlue Yanjiu Baogao* [The research reports on China's Going Out strategy] (Beijing: Zhonggong Zhongyangdangxiao Chubanshe, 2004). According to China's official statistical reports, capital outflows from Chinese state-owned enterprises (SOEs) constitute the bulk of China's ODI. For instance, Chinese central SOEs' outbound investments contribute to over 90% and 83% of the accumulated amount of China's ODI in 2003 and 2004, respectively.

3. For example, see Ian Taylor, "China's Oil Diplomacy in Africa," *International Affairs* 82:5 (October 2006), pp. 937–56; Flynt Leverett and Jeffrey Bader, "Managing China-U.S. Energy Competition in the Middle East," *Washington Quarterly* 29:1 (Winter 2005–06), pp. 187–201; David Zweig and Jianbai Bi, "China's Global Hunt for Energy," *Foreign Affairs* 84:5 (September/October 2005), pp. 25–38.

4. See, for example, David Shambaugh, "China Engages Asia: Reshaping the Regional Order," *International Security* 29:3 (Winter 2004–05), pp. 64–99.

5. In realism, because economic expansion leads the state to gain more material resources that are important for building military forces, the state's economic and political capacities are complementary in the long run. For the realist argument of international political economy, see Jonathan Kirshner, "The Political Economy of Realism," in *Unipolar Politics: Realism and State Strategies after the Cold War*, eds. Ethan Kapstein and Michael Mastanduno (New York: Columbia University Press, 1999), pp. 69–102. For the realist implication of China's economic growth for international relations, see John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton & Company, 2001), pp. 401–02.

with other countries, with the ultimate goal of bolstering China's political influence against American domination in periphery regions such as Southeast Asia and Africa. These security scholars have not examined SOEs' interests in investing abroad as an independent driver of their actions. Rather, in their fixation on the causes of China's emerging great power status, these studies tend to ignore the gross inefficiencies associated with Chinese SOEs' capital outflows as a cost of expansion.[6]

The works of international relations scholars with a regional focus on Asia provide a more elaborate view of the formation of Chinese foreign policy, but they still pay insufficient attention to Chinese SOEs as an independent economic actor in overseas economic expansion.[7] For instance, the expanding economic ties between China and countries of the Association of Southeast Asian Nations (ASEAN) are viewed as part of a central state effort to cultivate more or less benign political influence over small states in Southeast Asia.[8] The few studies that do recognize SOEs' independent economic decisions fail to identify the origins of their commercial interests and why the government has failed to coordinate SOEs' transnational activities, which have their institutional roots in China's centrally planned economy.[9] As such, it is important to realize that just as China increasingly relies on SOEs' global reach to enlarge its sphere of influence in international politics, the state/enterprise relationships have been largely

6. According to an official investigation, only one-third of Chinese transnational operations are profitable, and the remaining ventures either suffer losses or just manage to break even. For details, see Zhang Xiaoji, "Daqiye Zouchuqu Zhengce Yanjiu" [Policy studies on big enterprises' "Going Out"], in *Zhongguo Duiwai Kaifang de Qianyan Wenti* [Frontier issues in China's foreign economic policy], ed. Zhang Xiaoji (Beijing: Zhongguo Fazhan Chubanshe, 2003), p. 107.

7. One exception is the works by Erica S. Downs that examine China's energy security policy making and the role of NOCs in China's global hunt for oil. The author notes that Chinese NOCs are capable of pursuing their own commercial interests and thus further exacerbate the problem of fragmented authority in the making of energy security policy. See, for example, Erica S. Downs, "The Fact and Fiction of Sino-African Energy Relations," *China Security* 3:3 (Summer 2007), pp. 42–68; Erica S. Downs, *The Brookings Foreign Policy Studies Energy Security Series: China* (Washington, D.C.: The Brookings Institute, 2006).

8. Elizabeth Economy, "China's Rise in Southeast Asia: Implication for the United States," *Journal of Contemporary China* 14:44 (August 2005), pp. 409–25; David Shambaugh, "Return to the Middle Kingdom? China and Asia in the Early Twenty-First Century," in *Power Shift: China and Asia's New Dynamics*, ed. David Shambaugh (Berkeley: University of California Press, 2005), pp. 23–47; Hideo Ohashi, "China's Regional Trade and Investment Profile," in *Power Shift: China and Asia's New Dynamics*, ed. David Shambaugh (Berkeley: University of California Press, 2005), pp. 71–95; Brantly Womack, "China and Southeast Asia: Asymmetry, Leadership, and Normalcy," *Pacific Affairs* 76:4 (Winter 2003–04), pp. 529–48.

9. See, for example, Downs, *The Brookings Foreign Policy Studies Energy Security Series: China*.

transformed over the course of two decades of reform. Specifically, simultaneous changes in Chinese grand strategy and SOE autonomy cast doubt on the contention of the security literature that Chinese SOEs' overseas operations are largely driven by a dominant state.

I argue that Chinese SOEs have their own market interests in overseas investment, although these do not necessarily run counter to those of the government. The changing state/enterprise relationships associated with economic reform entail changes in the ways SOE managers carry out state-prescribed policies. SOE managers have market incentives to pursue a profit-maximization strategy that does not always reflect state interests in venturing abroad. When an overseas project involves multiple Chinese SOEs, economic considerations and bureaucratic fragmentation often make them compete in ways that harm overriding state interests. It is therefore analytically unsatisfying to assume that Chinese SOEs share the same interests as the Chinese central state. To accurately assess China's growing power, it is necessary to probe the processes by which the central state has relaxed its control over SOEs' capital outflows and the extent to which SOE transnational projects have actually fulfilled state-prescribed goals.

The argument of this study is mainly based on empirical observations of Chinese oil companies' overseas investment. The case selection is justified by its practical as well as theoretical significance. Practically, the ODI of Chinese NOCs has attracted extensive public attention, because it acts as the indicator for measuring the revisionist nature of China's rise.[10] Theoretically, Chinese NOCs' overseas operations represent a "critical case" for my argument. According to the international relations literature, because raw materials are of strategic importance for building up military capacity, the state has strong interests in promoting foreign raw materials investment. Moreover, as realist theorists argue, the state not only has interests in securing foreign raw materials but is also capable of using its enterprises to fulfill those interests, even in the face of domestic resistance.[11]

10. From a realist's view, a rising state is presumably a revisionist state, challenging existing international rules and norms. Because material power is the only element that decides the international configuration, redistribution of power makes a rising power discontent with the status quo. By heavily relying on the implication of state capability for foreign policy, realism is a state-centered approach in which states are the units of analysis. Consequently, this approach suggests that a rising power in general, and an ascendant China in particular, is barely a status quo state. From the realist perspective, this is why the U.S. has a profound interest in containing a growing China.

11. For example, see Stephen D. Krasner, *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton: Princeton University Press, 1978).

Therefore, if focusing on domestic divergent interests can effectively explain Chinese NOCs' overseas investment, the approach should have more leverage over the analysis of capital outflows from other industries to which the Chinese government attaches less strategic importance. After a brief description of how the Chinese central state has reformed its ODI regulatory regime since the 1990s, the article examines the domestic determinants of China's ODI policy and shows why the security account of capital outflows from Chinese SOEs is oversimplified. This is accomplished through an analysis of the competition between China National Petroleum Corporation (CNPC) and China Petroleum and Chemical Corporation (Sinopec) over oilfield projects in Sudan in 2004.

Building National Champions

The Domestic Context of ODI by Chinese State-owned Oil Companies

China clearly intends to foster a vanguard of "national champions" in its drive to integrate with the world economy on more favorable terms. Motivated by a hunger for the resources critical to fueling its expanding economy, the Chinese central state adopted particularistic policies in the early 1990s, after having largely devolved regulatory authority to provincial and local governments in the 1980s. The 1990s policies favored large SOEs' transnational operations.[12] With the help of a more relaxed ODI regulatory framework, the particularistic and preferential treatment encouraged more transnational projects of national strategic importance.

Capital flight and a dearth of foreign exchange reserves led the State Council to withdraw its policy support for SOEs' overseas activities in 1993.[13] As a consequence, Chinese ODI flows remained highly regulated during the first two decades of the economic reform. Although several government bodies, such as the State Planning Commission and the State Administration of Foreign Exchange (SAFE), were involved in the process of review and approval, the Ministry of Foreign Trade and Economic

12. For detailed case studies on pioneer Chinese multinational enterprises (MNEs) that have enjoyed governmental policy privileges during this period, see Yongjin Zhang, *China's Emerging Global Businesses: Political Economy and Institutional Investigations* (New York: Palgrave Macmillian, 2003), chs. 5, 6, 7.

13. For more on this, see the State Council's 1993 document, "*Guowuyuan Guanyu Zhanting Shougou Haiwai Qiye he Jinyibu Jiaqiang Haiwai Touzi Guanli de Tongzhi*" [Circular of the State Council concerning postponing the acquisitions of foreign enterprises and further reinforcing the management of overseas investment]; Zhang Xiaoji, "Daqiye Zouchuqu Zhengce Yanjiu," p. 110.

Cooperation (MOFTEC) became the lead agency responsible for the promotion, approval, management, and supervision of Chinese ODI.

Not until the late 1990s, after the central government learned some hard lessons from the Asian financial crisis (1997–98), did sweeping regulatory reforms lay the groundwork for a coherent ODI policy.[14] In 1997, the notion of "taking full advantage of both markets"—i.e., domestic and foreign—was proposed at the 15th Party Congress. This was later dubbed the "Going Out" strategy. Meanwhile, government efforts to meet the requirement of World Trade Organization (WTO) membership sped China's embrace of the global economy and the adoption of more systematic regulations for ODI. In 2001, the Chinese government made the "Going Out" strategy one of the main goals for the 10th Five-Year Plan. In 2002, President Jiang Zemin's report at the 16th Party Congress indicated that China should actively participate in the global economy by both "Going Out" and Yinjinlai ("Bringing In").[15] Since then, the State Council has enacted numerous additional preferential policies to encourage large SOEs to invest abroad.

Concurrent with the Chinese central state's initiation of comprehensive integration with the global economy through expansion of SOEs' overseas activities in the mid-1990s, the SOE reform entered its most critical phases.[16] The overarching goal of the reform of China's state sector since 1978 has been the transformation of SOEs into market-oriented entities. This would require SOEs to behave more independently, responding more to market signals than to government directives. The quest for a market-disciplined

14. See Dali L. Yang, *Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China* (Stanford, Calif.: Stanford University Press, 2004). According to Yang, the Asian financial crisis in the late 1990s was a "precipitating event" that drove the Jiang-Zhu administration to launch a new round of administrative rationalization, leading to China's progress toward a regulatory state.

15. "Yinjinlai" refers to policies that attract capital inflows to serve the engine of China's spectacular economic growth. Since reform, China has attracted foreign direct investment (FDI) inflows by implementing numerous preferential policies and has become the largest recipient of FDI in the world in 2003. Therefore, the Chinese central government shifted its strategy to emphasize that "Going Out" and "Bringing In" should go forward together. On the report, see Xinhua News Agency, <http://news.xinhuanet.com/english/2002-11/18/content_632532.htm>, accessed January 18, 2009.

16. For a comprehensive analysis of China's attempt to reform its large SOEs, see Edward D. Steinfeld, *Forging Reform in China* (New York: Cambridge University Press, 1998). For the most updated accounts of Chinese SOE reform, see Shahid Yusuf, Kaoru Nabeshima, and Dwight H. Perkins, *Under New Ownership: Privatizing China's State-owned Enterprises* (Stanford, Calif.: Stanford University Press, 2006), chs. 2, 3, 5; Ross Garnaut, Ligang Song, Stoyan Yenev, and Yang Yao, *China's Ownership Transformation: Process, Outcomes, Prospects* (Washington, D.C.: The International Finance Corporation and the International Bank for Reconstruction and Development, 2005).

state sector, a prerequisite for raising national competitiveness, was becoming more desirable as China progressively integrated itself into the world economy in the 1990s. In the second half of that decade, the central state began to corporatize its large SOEs and introduced the shareholding system in the hope of improving SOEs' efficiency and profitability. The aim was to establish a linkage between performance and rewards.

China's oil industry also experienced the organizational changes brought by the reform. After the central government decentralized its control over the energy sector during the 1990s, the oil industry was characterized as "three divisions and four oligopolists."[17] The "three divisions" referred to the division of labor among the four oligopolistic administrative companies that were involved: (1) "between onshore exploration and production and offshore exploration and production," (2) "between upstream business and downstream business," and (3) "between domestic trading and international trading."[18] Under this functional framework, CNPC and China National Offshore Oil Corporation (CNOOC) were responsible for onshore and offshore exploration and production, respectively. Sinopec was in charge of refineries and petrochemical plants, and Sinochem Corporation engaged in international trade of crude oil and chemical products.

Not until the central government's initiation of a sweeping governance reform in 1998 did the vertical integration that expanded an individual NOC's operations into both upstream and downstream business become the guiding principle for restructuring the oil industry. After restructuring, CNPC and Sinopec dominated oil-related operations in northern and southern China, respectively, the border being roughly demarcated by the Yellow River. At the same time, CNOOC maintained its advantage in offshore business. The restructuring of the oil industry reflected the Chinese central government's efforts to introduce market mechanisms in the hope of encouraging NOCs to behave more efficiently. Because of the strategic significance attached to the oil industry, the central government partially liberalized it by creating oligopolistic competition among three giant NOCs.[19] In 1999, it further granted CNPC and Sinopec monopoly rights

17. For a detailed reform history of the oil industry in China, see Yan Xuchao, *Zhongguo Shiyou Dachongzu* [The massive restructuring of the Chinese oil industry] (Beijing: Shiyou Gongye Chubanshe, 1998).

18. Jin Zhang, *Catch-up and Competitiveness in China: The Case of Large Firms in the Oil Industry* (London: RoutledgeCurzon, 2004), p. 101.

19. For a detailed assessment on the oligopolistic competition among three Chinese NOCs and government regulation of the industry, see Wang Dan, *Zhongguo Shiyou Chanye Fazhan Lujing: Guazhan Jingzheng yu Guizhi* [The development path of the Chinese oil industry: Oligopolistic competition and regulation] (Beijing: Zhongguo Shehuikexue Chubanshe, 2007).

to the wholesale market for refined oil. However, destructive price wars between the two firms forced the central government to resume a role in setting oil prices in the domestic market.[20]

The Commercial Motives behind Chinese State-owned Oil Companies' Operations

Since restructuring, there has been a growing tendency for Chinese NOCs to behave in ways consistent with their commercial interests despite being state-owned enterprises with a national welfare mandate such as stabilizing the supply of petrochemical products. The trend has its roots in domestic institutional change. After a two-decade economic transition, the financial relationship of subordination between state firms and the state has been dismantled, and state firms' independent status as commercial entities is confirmed.[21] In particular, the central state created oligopolistic competition among the three NOCs in order to foster efficiency, establishing commercial interest as an independent driving force behind operations. At the same time, as state firms with strategic importance, Chinese NOCs' political role is largely defined by national political mandates. Although the tension between NOCs' political and economic functions does not always appear in NOCs' transactions, it has become one of the major issues facing NOC managers when making business decisions. Even after corporatization, NOCs and their general managers are still given administrative ranks on the level of cabinet ministries. Thus, managers face incentives to secure not only economic gains but also political career advancement. In other words, senior NOC managers are caught between two roles: a chief executive officer (CEO) in a corporate entity and a party official in the state sector.

Over time, NOC managers increasingly prioritize their economic identities over their political ones, representing corporate interests. Under the planned economy, NOCs were administrative organizations that carried out the state's energy policy. Without open and objective economic indicators, such as return on capital, the central government could only judge the performance of NOCs and their managers based on the fulfillment of their political functions. The managers shared the policy positions in concert

20. For more on the restructuring of China's oil industry in the 1990s, see Kun-Chin Lin, "Macroeconomic Disequilibria and Enterprise Reform: Restructuring the Chinese Oil and Petrochemical Industries in the 1990s," *China Journal* 60 (July 2008), pp. 49–79.

21. By the late 1990s, Chinese SOEs were no longer obligated to meet centrally planned production and cost targets. They had gained autonomy over most aspects of production decisions with few exceptions such as price in the energy sector. See Yusuf, Nabeshima, and Perkins, *Under New Ownership*, p. 77.

with the interests of the central state. After reorganization, however, NOCs' internal restructuring program, which separated core from non-core businesses, and the new manager-incentive system established concrete financial performance indicators. The global listing of NOCs' core businesses further requires firms to reveal their corporate performance.[22] Compared to political functions, the NOCs' economic performance is more easily observed and subject to routine evaluation, leading to managers' short-term mentality on firms' management.[23]

The artificial shortage of fuel manipulated by CNPC and Sinopec in 2007 illustrates the tension between NOCs' political and economic roles. Under current price regulation, the two oligopolistic oil giants' operations for refining imported crude oil operate at a loss when domestic government-controlled prices lag behind global market prices. In the second half of 2007, as the global oil price continued to surge, CNPC and Sinopec reduced their product supply to domestic gas stations. Instead, they exported their oil products for better returns, leading to fuel rationing and the decision of private gas stations to shut down in Guangdong Province, the center of China's manufacturing industry.[24]

From the government's standpoint, NOCs, as state firms, were supposed to shoulder the responsibility to protect the national economy from international oil price fluctuations, requiring oil companies to follow the government pricing policy. Yet, the two NOCs circumvented the price regulation by reducing product supplies to minimize their economic losses without considering the negative impact of their commercial calculations

22. For a detailed account of NOCs' internal restructuring program, see Zhang, *Catch-up and Competitiveness in China*, chs. 5 and 6. Core businesses mainly refer to activities involved in the exploration, development, transportation, storage, refining, and marketing of oil and gas. Non-core businesses refer to technical service for the core businesses, social service, and diversified businesses. CNPC and Sinopec put their core businesses under the new subsidiaries, PetroChina in 1999 and Sinopec Group in 2000, respectively, which were listed on the global stock market in 2000.

23. Lin finds that NOC managers hold a short-term mentality toward firms' management, which emphasizes the fulfillment of NOCs' short-term goals despite accumulated consequences for the firms in the long run. The phenomenon resulted from the inability of the post-reform institution to reflect existing social structures. For details, see Kun-Chin Lin, "Disembedding Socialist Firms as a Statist Project: Restructuring the Chinese Oil Industry, 1997–2002," *Enterprise & Society: The International Journal of Business History* 7:1 (March 2006), pp. 59–97.

24. "Guangdong: Liutong Gengzu Zaocheng Xujia 'Queyou' Yingxiang" [Guangdong: Monopoly created the illusion of an oil shortage], *Jingji Cankaobao* [Economic Information Daily], November 6, 2007, <http://big5.xinhuanet.com/gate/big5/jjckb.xinhuanet.com/cjxw/2007-11/06/content_72674.htm>, accessed August 2, 2008. For more on China's chronic oil shortage, see Jianjun Tu, "Smoke and Mirrors in China's Oil Statistics," *China Brief: A Journal of Analysis and Information* 8:11 (May 21, 2008), pp. 10–14.

on national economic development. The Chinese central government opposed the artificial shortage from an early stage, utilizing political pressures to force NOCs to stabilize their supply of oil products for the sake of social and economic stability. Nevertheless, the shortage was finally resolved only after the central government's move to raise oil product prices led to an 8% increase in average retail prices.[25]

Similarly, NOCs' overseas investment decisions are more often motivated by commercial profits than by political commands. Though NOCs are national agencies responsible for securing China's access to energy in the world market, it is increasingly hard for the central government to force corporatized NOCs to engage in deals without considering their economic gains and market concerns. Moreover, NOCs' desire to pursue commercial interests in transnational ventures is intensified while their domestic market shares are still under the influence of the command economy. For instance, because of the previous functional division of labor, CNPC still dominates the upstream market, whereas Sinopec has advantages in the refinery business. Consequently, NOCs utilize overseas investment as an alternative to enhance their competitiveness against each other in the domestic market.

As such, the transformation of Chinese NOCs into profit-oriented actors must necessarily cast doubt on the security account of their capital outflows. In the security literature, the convergence of state and NOC interests is assumed and NOCs' autonomy is overlooked. But NOCs clearly do have their own interests, especially as they come to function as economic actors in a regulated, rather than fully commanded, economy. Although the state has both market interests and security interests in venturing abroad, profit is the most important, if not the only, factor motivating corporatized NOCs' investment decisions. Seen in this light, domestic institutions are key to understanding the implementation and implications of China's ODI policy. As I show in the following section, NOC corporate autonomy and bureaucratic fragmentation associated with the reform largely explains the pattern of NOCs' overseas expansion.

Oil Companies' Internal Strife

The Sudanese Oilfield Incident

China's hunt for oil is influencing its foreign policy, and the implementation of the "Going Out" strategy provides Chinese NOCs with both financial

25. "Guojia Tigao Chengpinyou Jiage" [The state raised the price of refined oil], *Renmin Ribao* [People's Daily], October 31, 2007, <http://news.xinhuanet.com/newscenter/2007-10/31/content_6985363.htm>, accessed August 2, 2008.

and diplomatic support for venturing abroad.[26] However, the central government is by no means the omnipotent regulator controlling NOCs' overseas activities, as the security literature has suggested. When NOCs have their own interest in expanding operations, which sometimes runs against national goals, the central government as a regulator has difficulty monitoring key details of their performance. One case that illustrates this dynamic is when Sinopec outbid CNPC for the construction of a 1,385-mile pipeline in Block 3 and Block 7, located in the southeast of Sudan, by strategically cooperating with foreign companies. Because of the way each firm was created under the planned economy, Sinopec has had to compensate for its disadvantage in operations in the domestic upstream market. Sinopec aggressively seeks to expand exploration projects outside China that reinforce its domestic market status vis-à-vis CNPC. Without institutional coordination among NOCs' investment decisions, the vertically integrated Sinopec has incentives to expand its upstream operations to beat CNPC. In the end, this rivalry extends the competition in overseas markets in a way that defeats China's global strategy for energy security.

Before Sinopec participated in the bidding process for the Block 3 and Block 7 projects in Sudan, CNPC had long been recognized as the primary agent of the Chinese central government to secure stable access to Sudanese oil. The Chinese central government began to participate in the development of the Sudanese petroleum industry in response to President Omar al-Bashir's invitation to explore Sudan's oilfields jointly. Beijing financially supported CNPCs' operations in Sudan in 1995 while the firm was still handling many functions formerly performed by the Ministry of Petroleum Industry (MPI), such as formulating production planning and price regulation. Since then, Sudan has become the top destination for CNPC's foreign operations. In addition to venturing into oil-related businesses, CNPC strengthens its enterprise image by participating in local infrastructure projects. By the end of 2004, it had built two hospitals and more than 20 schools in Sudan.

In 2000, CNPC signed the "Block 3 and Block 7 Supplementary Production Sharing Agreement" with the Sudanese government, becoming the largest shareholder of this project, with 41% of the ownership. Other shareholders include Malaysia's state-owned Petroliam Nasional Berhad, known as Petronas, with 40%; Sudan's state-owned Sudan National Petroleum

26. For overviews, see Yang Zhongqiang, *Dangdai Zhongguo Shiyou Anquan Yanjiu* [The study of China's petroleum security] (Beijing: Zhonggong Zhongyangdangxiao Chubanshe, 2006). For an updated review of how the oil hunt has driven Chinese diplomacy since Hu has taken over, see "Dujia Cehua Shiyounian Zhongguoce" [The exclusive report on the year of oil and China's strategy], *Nanfengchuang* [Window of the South], May 1, 2006, pp. 30–54.

Corporation (Sudapet), with 8%; Sinopec, with 6%; and Thailand's National Surat Thani Petroleum Terminal (THANI), with 5%. In 2003, the Sudanese government issued an invitation to bid for the pipeline construction of Block 3 and Block 7. Sinopec was informed by an official of the Economic and Commercial Counsellor's Office at the Chinese Embassy in Malaysia that the MMC Corporation Berhad (MMC) was planning to cooperate with China's NOCs to make the bid. According to the custom of Chinese enterprises' overseas ventures, a recommendation letter from this diplomatic official in the country where the venture is conducting business is critical for government approval.[27] Sinopec, therefore, took the information as a green light for cooperating with the Malaysian company to build the Sudanese pipeline.

The opportunity for cooperation came at a time when Sinopec was attempting to break away from the old mode of business operation under China's planned economy. In the old mode, over 75% of Sinopec's crude oil was supplied either by its domestic competitor, CNPC, or Sinopec's foreign counterparts.[28] Eager to expand its upstream market and reduce its reliance on CNPC, Sinopec decided to accept MMC's invitation based on the commercial calculus. Together with Oman Construction Corporation, the consortium offered the lowest bidding price at $190 million, outbidding CNPC's price of $254 million.[29]

Given that CNPC is the largest shareholder of the Block 3 and Block 7 project and had built the pipeline in Blocks 1, 2, 4, and 6, CNPC considered the deal to be the next step in consolidating its operations in Sudan's oil industry.[30] Thus, the firm invested considerable effort to prepare for the construction, including transporting machines to Blocks 3 and 7 and training technicians. These sunken costs, together with its long-term efforts to be involved in Sudanese society, made Sinopec's initiative an unwelcome and surprising development for CNPC. More seriously, the pipeline construction in Blocks 3 and 7 could be seen as a step toward further completion of CNPC's supply chain, which would reinforce its capacity to transport oil to the Chinese domestic market. As China grows increasingly reliant on imported oil, the shipment of foreign crude has become one of the government's security concerns.

27. Author's interviews with CNPC's managers, Beijing, May, July, and August 2007.

28. "Sanjutou Jupai Haiwai Caiyouchao Quanmian Qidong" [Three giants initiated a comprehensive strategy for overseas exploration], *Zhongguo Jingyingbao* [China Business], May 17, 2002, <http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/fortune/2002-05/17/content_397793.htm>, accessed June 1, 2008.

29. "Malaysia's MMC, Sinopec in Sudan Oil Pipeline Deal," *Sudan Tribune*, July 26, 2004, <http://www.sudantribune.com/spip.php?article4216>, accessed June 1, 2008.

30. Author's interviews with CNPC's managers, Beijing, June 2006.

Geographically, Central Asian countries such as Kazakhstan and Azerbaijan would be the ideal suppliers of oil when considering transportation costs. Yet, because it falls under the influence of great powers—Russia and the United States—Central Asia carries less weight than Africa in China's recent energy diplomacy.[31] In addition, continuous political turmoil and the vested interests of Western investors in the Middle East have caused the Chinese government to take actions to diversify its sources of oil. Consequently, as a latecomer in the race for strategic resources, China had to turn to Africa as its stable source.[32]

By the end of 2005, about 30% of China's oil imports came from Africa, with Sudan as one of the key suppliers.[33] CNPC has its largest transnational operation in Sudan; its decade-long involvement in Sudan's oil industry guarantees China stable access to the equity oil from fields developed by CNPC, free of the influence of major Western oil companies. Seen in this light, with unequal stakes between CNPC (41% of shares) and Sinopec (6% of shares) in the Block 3 and 7 construction project, Sinopec's victory posed trouble for the Chinese government, especially when its success relied on cooperating with two foreign companies. In an era of resource scarcity, the collaboration gave other countries access to more oil than China.

CNPC had anticipated a smooth process in winning the bid, but competition from Sinopec soon broke such expectations. As an alternative, CNPC involved the Chinese central government in the bidding procedure, hoping that Sinopec would withdraw. Upon notification from the Chinese Embassy in Sudan, the Ministry of Foreign Affairs (MFA) informed the Ministry of Commerce (MOC, the successor of the MOFTEC) about the situation, and the latter authorized the China International Contractor Association (CHINCA) to negotiate an agreement between the two NOCs. However, without official status, CHINCA's efforts never progressed beyond the discussion stage, the results of which are not binding on the NOCs. In the meantime, Sinopec moved the registration of its wholly owned subsidiary, the International Petroleum Exploration and Development Corporation (SIPC) to Bermuda in 2004. By using SIPC as an institutional coordinator, Sinopec centralized control over its subsidiaries' overseas investment in upstream businesses.[34] The effect of the agreement

31. Author's interviews with officials in the National Development and Reform Commission, Beijing, May and June, 2007.

32. "Dujia Cehua Shiyounian Zhongguoce," pp. 42–43.

33. "Africa Accounts for 30 Percent of China's Oil Imports," Xinhua Net, October 18, 2006, <http://english.peopledaily.com.cn/200610/19/eng20061019_313219.html>, accessed January 18, 2009.

34. "Zhongshihua Haiwai Zhanlue Jiemi" [Understanding Sinopec's overseas strategy], *21Shiji Jingji Baodao* [21st Century Business Herald], April 26, 2004.

was to moderate competition among its subsidiaries and thus to reinforce its capacity to win bids on international projects in the pursuit of global expansion. Facilitated by the unified process of investment decision-making, Sinopec became more attentive to the profits of its foreign operations. As Zhang Yaocang, the then-vice general manager of the Sinopec Group, pointed out, Sinopec followed the market rule so that its investment decisions would be based on generating economic profits. The cost of dropping the bid made the senior management of Sinopec choose to stay in the project instead of conceding to the central government's interest in maximizing the oil supply.[35]

Corporate Autonomy and Bureaucratic Fragmentation

The Sudanese case reveals that Sinopec not only has its own commercial interests but is able to pursue them despite opposition from the central state. How can Sinopec, an agent of the Chinese central state in the hunt for foreign oil, use commercial logic to justify its investment decision without worrying about the political consequences of not obeying the state's directives? The answer is that although Chinese NOCs are state firms responsible for carrying out national political goals, corporate autonomy resulting from restructuring empowers NOCs to resist the state's political policies that conflict with their commercial goals.

Sinopec's investment decision reflects NOC managers' complex cost-and-benefit calculations under the new ownership arrangements that accompanied the introduction of corporatization. As noted earlier, corporatized NOC managers in a company have two roles: as party officials in the state sector and as CEO in commercial entities. A delicate balance between the political and economic roles is desirable for managers wanting to pursue career advancement in a country where the party still holds the ultimate authority. Although the State Council is the ultimate authority for evaluating NOC managers' political as well as economic performance, such judgments are actually carried out by two different government agencies. These are, respectively, the National Development and Reform Commission (NDRC) and the State-owned Assets Supervision and Administration Commission (SASAC). Although the NDRC announces policy recommendations for the locations of NOCs' overseas investment in accordance with national security concerns, the SASAC acts

35. "Zhe Jiushi Zhongguo Qiye de Haiwai Jingzheng: Jingxiang Yajia Liangbaijushang" [Overseas competition among Chinese enterprises: Vicious price wars and no one gains], *Jingji Cankaobao,* June 28, 2004, <http://news.sina.com.cn/w/2004-06-28/09422927201s.shtml>, accessed June 1, 2008.

on behalf of the central state as the dominant shareholder of NOCs to observe the state's economic interests.

As the previous discussion showed, however, the SASAC's annual performance evaluation sets more precise indicators compared to the NDRC's policy guidelines defining NOC managers' political tasks. These evaluation standards are what motivate the managers. Therefore, with the SASAC pushing the consolidation of corporate governance and the associated corporate short-term reward system, NOC managers obtain greater financial autonomy and their investment decisions mostly follow an economic, rather than political, logic. The trend has intensified with the gradual demise of administrative ranks for SOE managers and senior executives.[36]

In the case of competition between CNPC and Sinopec over the Sudanese oilfield project, the Chinese state would rather see the two Chinese NOCs cooperate with each other, thereby maximizing its access to energy resources. In response to the inter-firm rivalry, the central state expected that Sinopec would consider national interest as the priority and withdraw its bid. Yet, the interpretation of national interest is not always clear. In the context of NOCs' global expansion, it is often argued that efforts to sharpen the firms' competitive edge in the world oil market, which has long been dominated by Western oil companies, would lay the foundation for a robust strategy for national energy security. As Fu Chengyu, the general manager of CNOOC, noted, national security is guaranteed only if the nation has world-class oil companies, which requires firms to protect shareholders' interests and follow market signals.[37] Following this logic, it is not hard to understand why Sinopec decided to maintain its presence in the Sudanese project, even under the pressure of state interference. In particular, Sudan is one of the suggested locations for NOCs' transnational operations on the NDRC's list, and Sinopec's bid did not incur any immediate security concerns for the Chinese central government. In short, corporatized NOCs are not financially subordinate to the central state as they were during the period of the planned economy. Rather, corporate autonomy as a result of changes in this relationship empowered Sinopec to protect its commercial interests.

36. "Guoqi Laozong Chuantong Shenfen Jinnian jiang Zhongjie" [The old role of managers in state-owned enterprises will be ended this year], *Shichangbao* [Market News], March 3, 2006, <http://www.people.com.cn/BIG5/paper53/16995/1492644.html>, accessed June 1, 2008.

37. "Xinguoqi Lingxiu Guoji Liangjian" [The leaders of new state-owned enterprises reveal their international ambitions], *Yingcai* [Talents Magazine], September 1, 2006, <http://magazine.sina.com/genius/000/2006-09-05/05154005.shtml>, accessed March 7, 2008.

China's fragmented bureaucratic structure further weakens the central government's control over Sinopec's investment decisions.[38] Administrative reforms, focused on rationalizing governance, did not change the factional dynamics associated with internal bureaucratic conflicts. Bureaucratic principals, facing NOCs' increased corporate autonomy in the late 1990s, found themselves plagued by protracted negotiation in the making of policies, leading to delayed regulation of firms' conduct. For example, the State Development and Planning Commission (SDPC, 1998–2003, the predecessor of the NDRC), which functioned as the chief economic planning agency, was in charge of China's industrial policy. Nonetheless, to some extent the SDPC's macroeconomic governance was still subjected to tense inter-agency interactions, and it needed cooperation from other central government bodies.[39]

The problem of conflicting bureaucratic agendas is especially acute in the energy sector. After several rounds of restructuring, authority to regulate energy is now shared by several government departments without any effective institutional mechanism coordinating their governance.[40] Each regulatory agency is in charge of a specific aspect of energy governance. The ensuing intra-bureaucratic conflict hinders the formation of integrated energy policy-making, with the result that reform of the energy regulatory framework falls short of its goal of creating a sustainable energy system.[41]

38. Lieberthal and Oksenberg label China's bureaucratic structures as a "fragmented structure of authority." For details on the conceptual framework, see Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes* (Princeton: Princeton University Press, 1988), ch. 4.

39. Kun-Chin Lin, "With Strings Attached? Improving the Administration of Central State Financed Investment Projects in the PRC," *Asian Journal of Political Science* 15:3 (December 2007), pp. 319–43.

40. These government bodies include the National Energy Leading Group under the State Council, the NDRC, MOC, SASAC, Ministry of Land and Resources, Ministry of Finance, Ministry of Construction, the State Environmental Protection Administration, the Administration of Work Safety, and the Administration of Quality Supervision, Inspection, and Quarantine. For detailed duties of each regulatory department, see Wang, *Zhongguo Shiyou Chanye Fazhan Lujing,* ch. 7. It is worth noting that the authority of the NDRC, as the most powerful energy regulator, is also diffused to different subordinate units such as the Bureau of Energy and the Department of Price. See Downs, *The Brookings Foreign Policy Studies Energy Security Series: China.*

41. For a detailed study on the evolution of China's energy governance regime, see Kong Bo, "Institutional Insecurity," *China Security* 2:2 (Summer 2006), pp. 64–88. For a brief overview of China's energy challenge and the reform goals, see Edward S. Steinfeld, "Energy Policy," in *China Urbanizes: Consequences, Strategies, and Policies*, eds. Shahid Yusuf and Tony Saich (Washington, D.C.: World Bank, 2008), pp. 125–56.

In contrast, the pursuit of firms' commercial interests is facilitated by NOCs' former bureaucratic positions. Namely, because the central ministries had been replaced by bureaucratic NOCs in the 1980s, the NOCs had functioned as both a government agency and a for-profit corporation.[42] Even after the restructuring took place in the late 1990s, CNPC and Sinopec still have a role in making rules governing energy-related policies, and their corporate documents are circulated around related regulatory departments to help in government decision-making.[43] Because under the planned economy NOCs monopolized the complex technical knowledge related to oil exploration and refining, they still maintain these superior capacities vis-à-vis central regulators and thus are able to circumvent governmental supervision.

Given that regulatory authority over both the oil industry and ODI is shared among various central governmental agencies, the case of how to regulate NOCs' capital outflow represents an even more complicated picture of the power struggle. Concerning NOCs' overseas expansion, primary bureaucratic regulators include the NDRC, the MOC, the MFA, the SASAC, and the SAFE. They are assisted by the Export-Import Bank of China (China Eximbank) and the China Export and Credit Insurance Corporation (Sinosure), governmental institutions in charge of providing financial support for NOCs' outbound investment. Protection of bureaucratic interests has made these agencies behave in a self-preserving, even contradictory, way.[44]

Nonetheless, compared with the prolonged process of ex ante review and approval, none of these regulators has the capacity to monitor the performance of NOCs' transnational projects. In theory, the rationale for China's industrial policy is to retain the state's control over state firms that operate in the sectors with strategic importance, such as the petroleum and telecommunications industries. The creation of the SASAC represents such an effort, manifesting Chinese reformers' commitment to the efficient

42. In 1983, the central state established Sinopec to manage the affairs of oil refineries and petrochemical production that were originally under the authorities of the MPI and the Ministry of Chemical Industry. In 1988, the MPI was transformed into CNPC, which was directly led by the State Council.

43. Author's interviews with CNPC managers, Beijing, July 2006.

44. For details, see Guowuyuan Fazhanyanjiuzhongxin Qiyeyanjiusuo Ketizu [The Enterprise Research Institute at the Development Research Center of the State Council], *Zhongguo Qiye Guojihua Zhanlüe* [The strategy for internationalization of Chinese enterprises] (Beijing: Renmin Chubanshe, 2006). See also Yan Ming, *Haiwai Touzi Jinrong Zhichi: Yi Zhongguo Qiye Wei Duixiang* [The study on financial support for overseas investment of Chinese enterprises] (Beijing: Shehui Wenxian Kexue Chubanshe, 2006), p. 260.

management of state assets.[45] The SASAC, which performs the function of the owner, or controlling shareholders of central SOEs on behalf of the central government, is thus in charge of ex post supervision of the management of state assets.[46]

In reality, however, the SASAC has been a weak agency in overseeing state assets abroad.[47] Created in 2003, the SASAC is still adapting itself to the operation of the elephantine Chinese bureaucracy, and the legal basis for its mandates has long been under intense debate. Indeed, given constraints in manpower and information asymmetry, the SASAC faces a constant challenge in monitoring capital outflows from central SOEs. This is especially so with central SOEs that had administrative duties during the period of the planned economy.[48] Although the SASAC's capacity to monitor central SOEs' transnational ventures remains to be determined, the rivalry between CNPC and Sinopec over the Sudanese oilfields did not result in the loss of state assets, an issue that often calls for the involvement of the SASAC.

Consequently, when the MOC, the lead organ for ex ante review and approval of ODI, was informed of the competition, it could only rely on the CHINCA, with its extensive network of local businesses, to subordinate Sinopec's business interests to the national one. Instead of withdrawing its bid, Sinopec defended its independence from MOC's opposition by pulling the other regulator, the SASAC, into the game. Dropping out of the bidding, according to Sinopec's senior management, would incur enormous losses that would damage the firm's overall overseas business,[49] thereby implying that SASAC intervention would be inevitable. Notably, the bureaucratic fragmentation mentioned above is a product of accommodating conflicting interests among regulatory agencies while state/enterprise

45. Margaret M. Pearson, "Governing the Chinese Economy: Regulatory Reform in the Service of the State," *Public Administration Review* 67:4 (July/August 2007), pp. 718–30; Margaret M. Pearson, "The Business of Governing Business in China: Institutions and Norms of the Emerging Regulatory State," *World Politics* 57:2 (January 2005), pp. 296–322.

46. See Barry Naughton, "The State Asset Commission: A Powerful New Government Body," *China Leadership Monitor,* no. 8 (Fall 2003), <http://media.hoover.org/documents/clm8_bn.pdf>, accessed March 7, 2008.

47. Authors' interviews with officials in the SASAC and scholars in Qinghua University, Beijing, July 2006 and May and July 2007.

48. One notable example is the financial scandal of Singapore-listed China Aviation Oil, hitting the headlines in the end of 2004 when it appealed to Singapore's High Court for protection from creditors after losing 550 million dollars in speculative oil derivatives trading. For the special reports of this incident, see "Jukui 5.5 Yi Meiyuan, Zhonghangyou Zhejichensha Shimo" [The loss of 550 million, the story of Zhonghangyou], *Renmin Ribao*, <http://finance.people.com.cn/GB/8215/41815/index.html>, accessed March 7, 2008.

49. See "Zhe Jiushi Zhongguo Qiye de Haiwai Jingzheng."

interactions change, which further creates opportunities for NOC corporate autonomy.

For years, cooperation with foreign oil companies and submission of below-market bids to defeat domestic competitors have been the primary strategies for Chinese NOCs to develop as vertically integrated oil giants. For example, CNPC and Sinopec competed with each other to cooperate with the Brazilian oil corporation Petróleo Brasileiro S.A. (Petrobras); their intent was to expand their operations to offshore areas, which had long been monopolized by CNOOC.[50] As such, numerous Chinese policymakers and researchers at policy-related think tanks suggest that it is time to establish a coordination mechanism among NOCs' overseas investments to maximize the return of oil at the national aggregate level.[51] Government efforts had once moderated the tension among NOCs after the incident of the Sudanese oil field.[52]

China's oil hunt, however, is hardly free from the internal rivalry among NOCs, as long as managers choose to prioritize their economic, rather than political, incentives. China's energy deals in Russia, for instance, are fraught with similar dynamics. After bilateral cooperation agreements were signed, Chinese President Hu Jintao's 2005 visit to Russia opened another battlefield for CNPC and Sinopec to race for Russia's burgeoning oil outputs. Although a head-to-head clash was avoided, CNPC and Sinopec were not provided with a centralized blueprint for division of labor in Russian oil deals. Instead, the two firms separately reached agreements with the Russia-based OAO Rosneft Oil Company (Rosneft) to develop joint oil exploration on Sakhalin Island. The arrangement, as interpreted by Sinopec senior management, put Sinopec on an equal footing with CNPC to compete for equity oil in the Russian market.[53]

50. "Lianmeng Baxishiyou, Zhongshihua Hushi Zhonghaiyou Lingdi" [Sinopec broke the monopoly status of CNOOC in offshore oil by cooperating with Petrobras], *21Shiji Jingji Baodao*, May 26, 2004; "Zhongguo Liangda Shiyou Jutou Jiaozhu Baxishiyou Hezuo" [Two Chinese oil giants competed for cooperation with Petrobras], *Jingji Cankaobao,* February 28, 2005, <http://finance.sina.com.cn/roll/20050228/09071388462.shtml>, accessed March 7, 2008.

51. See, for example, Gan Ziyu, ed., *Zhongguo Haiwai Touzi Niandu Baogao* [The annual report on China's overseas investment] (Beijing: Shehui Kexue Wenxian Chubanshe, 2005), pp. 72–74.

52. For example, CNPC and Sinopec formed a joint venture, Andes Petroleum Corporation, to purchase EnCana Corporation's assets in Ecuador, including oilfields and pipelines for 1.42 billion dollars. See, "2005 Qiye Shida Haiwai Binggou" [Top ten overseas acquisitions in 2005], *Zhongguo Jingji Shibao* [China Economic Times], January 25, 2006.

53. "Zhongshihua Zhongshiyou Zai'e Zhankai Jingzheng, Kaifa Kuyedao Youqi Ziyuan" [Sinopec and CNPC compete to develop oil and gas exploration on Russian's Sakhalin Island], *Shanghai Zhengquanbao* [Shanghai Securities News], April 12, 2006, <http://www.china.com.cn/economic/txt/2006-04/12/content_6181320.htm>, accessed March 7, 2008.

In short, it is bureaucratic fragmentation that contributes to overseas competition among Chinese NOCs. If the security approach provided a more convincing account of Chinese ODI, Sinopec would have coordinated with CNPC to maximize the leverage of the Chinese central government over the bidding of all oil investment projects. Yet, from the case of the Sudanese oilfield, NOCs' market interests clearly overpowered the central state's security interests. The combination of the central government's weak regulatory capacity and NOCs' post-reform market incentives leads to competition among Chinese NOCs. These efforts are an attempt to reinforce their domestic market shares vis-à-vis each other, shares that are still under the influence of the functional division in the period of the planned economy.

Conclusion

Recent literature focuses on the security implications of China's ODI, arguing that the growing SOEs' transnational operations reflect China's outward-looking diplomacy—a strategy to challenge American global domination. These studies often adopt a state-centric analysis in which Chinese SOEs' ODI is an instrument of national power in the pursuit of what the central state identifies as national interests. The state-centric analysis is effective in explaining what motivates the Chinese central state to encourage capital outflows from its state sector but overlooks how China's ODI policy has been implemented and whether it has achieved the prescribed goals. More crucially, divergent interests of the actors involved in international operations are left out entirely. This article rejects the notion that the state is a rational unitary actor, by proposing that each actor involved in a given policy has its own interests, independent from but not necessarily contrary to state interests. Building upon this proposition, the case study in this article shows that Chinese NOCs' investment decisions consistently reflect a more complex situation in which maximizing the national interest is frequently subordinated in the pursuit of the NOCs' own commercial interests.

The point here is that in the "Going Out" strategy, China's national interest is not ignored, but neither is it the predominant driving force behind Chinese SOEs' overseas activities. In the course of promoting SOEs' ODI, the challenge facing the Chinese central state is not only the power struggle coming from international competition but also the one inherent in China's domestic politics. The transformation of the state/enterprise relationship has taken place in response to an almost three-decade-long economic reform. Therefore, greater attention should be paid to the process by which the Chinese central state relaxes its control over capital outflows from the state sector, and how the incongruence of interests involved in venturing abroad drives policy implementation.

The study on the implementation of China's ODI policy reveals that theoretical analysis of a given foreign policy should focus more on the structure of capacity distribution in domestic, not international, politics. Transition from a command to a market economy redefines the relationship between the state and the market by altering the parameters of state intervention in the market. Yet, the transition does not take place in a vacuum; rather, the persistence and influence of past institutions may actually have an effect on how actors form their preferences and how competing interests translate into policy outcomes. More broadly, if an effort to examine domestic constraints provides us with a more persuasive account for understanding China's foreign economic policy, it is reasonable to expect that this approach has more leverage in explaining the formulation of foreign policy in countries with governments less authoritarian than that of the Chinese state.

Finally, the case study in this article is not just a coincidence; rather, it represents a typical challenge the Chinese central state must face when engaging in SOEs' global expansion to serve the national security interest. In addition to ODI, construction contracting is another important policy component of the "Going Out" strategy to expand Chinese enterprises' global reach. From the Western perspective, China's construction-contracting projects such as building local infrastructure in developing countries, especially those in Africa, reflect a coherent state behavior with an eye to enlarging China's sphere of influence.

This observation is not without foundation; however, it requires more focus on the evolution of China's engineering-contracting industry, in which Chinese construction firms compete with one another in an even more destructive way than NOCs do.[54] In terms of the policy implication of this research, for believers in the "China threat" doctrine, Chinese enterprises' attempts to invest in foreign markets are just another manifestation of Chinese mercantilism. Yet, this research suggests a different image of China, one that is deeply burdened with and exhausted by its internal troubles. Therefore, contrary to the realist understanding of the international order, one important lesson to be learned from this observation is that when dealing with a rising China, a successful policy prescription emerges out of a deep understanding of China's, not Europe's, past.

54. See, for example, Xiao Cifang, "Fazhan Duiwai Chengbao Gongcheng de Tizhixing Maodun yu Duice" [The institutional difficulties and strategy of developing the international engineering contracting industry], *Guoji Jingji Hezuo* [International Economic Cooperation], no. 12 (December 2000), pp. 7–9.