



Corporate actors in China's foreign and defense policy

# BUSINESS AND POLITICS IN CHINA'S OVERSEAS INVESTMENTS

**The variety and sophistication of Chinese foreign investment has grown over the past decade from oil and gas to forays in the overseas nuclear and telecom industries. And as Chinese outbound investments surge ahead, so do anxieties in the West.**

Understanding the different and changing roles Chinese companies play in China's foreign and defense policy is an increasingly important issue in evaluating China's impact on global politics and security. Chinese companies, both state- and privately-owned, have been regarded as tools of China's foreign and defense policy, yet are also

## RECOMMENDATIONS

- Build mutual trust with China in critical industries through initially engaging in joint and smaller tier investment projects.
- Communicate changes in oversight measures and regulatory framework to help avoid diplomatic friction with China, even when investments are rejected for security concerns.
- To dampen cybersecurity concerns, China and other foreign powers should set investment conditions that level the competitive playing field and offer transparent regulation.

# Chinese companies are now gradually developing their international presence into advanced infrastructure, and grappling with unfamiliar regulatory and political environments

China is increasingly cautious about the cybersecurity threat posed by the United States and other foreign powers

deemed influential in shaping decision-making through their expanding global investments.

In August 2016, China's Ministry of Commerce reported that outbound foreign investment exceeded US\$100 billion for the first time. And China Inc. is no longer concerned with energy and mining investments alone. Chinese companies have become more competitive in critical industries, such as nuclear and telecom infrastructure, and are seeking to expand their global footprint.

Going forward, this cohort of 'newcomers' will warrant closer scrutiny from host governments given that the largest shareholder in many of these industrial giants is the Chinese state. Moreover, top executives at Chinese state-owned enterprises are selected not by the company board, but China's Communist Party. With access to state-owned banks, Chinese companies can also benefit from cheaper financing than many of their Western peers. This brief examines three roles Chinese multinational have played in China's foreign and defense policy: flag bearers, disruptors and complicators.

## Flag bearers

In the South China Sea, where questions of energy security and sovereignty intersect, China's oil and gas companies have largely played a role of flag bearers, supporting and executing the government's foreign and security goals, whilst also pursuing their own commercial interests. For the better part of the last decade, China's national oil companies (NOCs) have been at the forefront of the country's outbound investments. They are aware that in forming their goals, they must also pay heed to Beijing's political goals and by doing so, can seek to advance their own agendas too.

In the South China Sea, understanding the rationale for China's actions and the role corporate interests play in shaping them, has become increasingly critical, especially since tensions started flaring up again in 2010. The regional competition over territorial claims has important energy implications as China's all encompassing, yet vague, nine-dash line includes a number of oil and gas rich areas off the shores of Vietnam, Malaysia, Indonesia, the Philippines, and Brunei. Over the past several years, China has challenged Vietnam's offshore deepwater exploration activity and projects involving Russian, Indian and US-based companies. In 2012, China offered exploration blocks to its oil and gas industry that extended into Vietnam's 200 nautical-mile exclusive economic zone while in May 2014, the Chinese National Offshore Oil Corporation moved a deepwater drilling rig into Vietnamese-claimed waters for over a month of drilling with additional rig incursions also contested by the Vietnamese in early 2016.

Yet such decisions to offer blocs for exploration, or to send drilling rigs into contested waters – which have certainly dovetailed with the NOCs' desire to tap the South China Sea's potentially ample oil and gas reserves – are not examples of the tail wagging the proverbial dog. Rather, they have only been tolerated when decision makers have been willing to risk unsettling other claimants. China's NOCs, as powerful as they may be, recognise the geopolitical sensitivities surrounding the South China Sea, when they sense that the political mood is ripe, they can seek to advance their own goals. As such, in the South China Sea, energy security has been a useful tool for Beijing in devising its foreign and strategic priorities, and the NOCs have been the flag bearers.

## Disruptors

Beyond oil and gas, Chinese companies are now gradually developing their international presence into advanced infrastructure, such as nuclear, telecom and other higher-value added industries, and grappling with unfamiliar regulatory and political environments. These investments have generated unease in developed countries, which are fearful of the potential security vulnerabilities associated with them.

One such example is China General Nuclear's investment in the Hinkley Point C nuclear power station in the UK. The government-to-government deal, concluded with much pomp and ceremony in October 2015 during Chinese President Xi Jinping's visit to the UK, became the cornerstone of the "golden era" in UK-China relations. It set the stage for the Chinese nuclear company to undertake the financing required for Hinkley Point C and later build and operate additional reactors in the UK.

For the Chinese nuclear industry, the investment in critical infrastructure in a developed economy like the UK was to become an important seal of approval for

their technological prowess and would facilitate future investments in other developed markets. And in light of the slowdown in China's domestic economy, the government has been eager to help more companies in advanced industries compete globally, as the need to offer such robust diplomatic support for oil and gas has decreased. So when the British government announced its decision to delay the project for further review – reportedly on the grounds of national security concerns – Beijing made it clear that a cancellation would bode ill for bilateral relations.

To be sure, a decision by the UK government to cancel the Hinkley Point investment would have amounted to a diplomatic slight, but it was in large part due to the nature of the deal and the Chinese government's sustained efforts to support the nuclear industry's growth overseas. While the deal has ultimately been given the go ahead, there may still be bumps along the way and as such, the trials and tribulations of the Chinese nuclear industry will remain potential disruptors of Beijing's foreign policy.



Britain's former Prime Minister David Cameron drinks a pint of beer with Chinese President Xi Jinping, Oct. 22, 2015. The two leaders met for talks and dinner at the prime minister's official country residence, during a state visit hailed as a landmark by both China and Britain. AP Photo/Kirsty Wigglesworth

### **Complicators**

Elsewhere, the global expansion of Chinese telecom corporations, such as Huawei Technologies and ZTE Corporation, has brought increased focus on cybersecurity issues in China's foreign and defense policy. Beijing has had to respond to the perceived cybersecurity threat Chinese telecoms pose to foreign governments, but also defend against Chinese telecoms being exploited as vehicles for foreign infiltration into China.

Scrutiny of Chinese telecoms varies overseas. In Europe, the low-cost advantages offered by Huawei and ZTE, coupled with fears of the potential negative impact on the broader political and economic relationship with China if such investment was restricted, has prompted some governments to accept high-levels of Chinese telecom investment. But control measures have been applied in many cases, such as in the UK and Denmark, to monitor incoming Chinese hardware and software for cyber security threats.

In the United States, where China remains the largest source of cyber espionage, Washington has marked Huawei and ZTE as potential threats to national security. This has severely undermined the ability of Chinese telecoms to establish a strong presence in the lucrative US telecom industry. The main concern is that surveillance technology could be installed into communication networks and systems that offer a backdoor for the Chinese governments to carry out cyber espionage of diplomatic, military, and commercial intelligence, or even launch cyber attacks to handicap civilian and military telecommunications infrastructure.

The view from Beijing is that Chinese overseas telecom investments provide mutual benefit for China and host countries, acting as stabilizers and generators of growth, particularly for struggling European economies. China sees cybersecurity concerns in the United States and other overseas markets as masking what are in fact protectionist measures.

But China is increasingly cautious about the cybersecurity threat posed by the United States and other foreign powers to its own telecom infrastructure. This was confirmed to China in a 2013 leak of classified documents that revealed that the National Security Agency had accessed Huawei's networks in order to learn how to carry out surveillance and cyber attacks on foreign countries serviced by the Chinese telecom.

In response, China has hardened control measures on foreign equipment purchases and activity in its telecom industry. Beijing's stated goal is to remove much of the foreign technology used in key government and military bodies as well as state-owned enterprises by 2020. Much as with other critical industries, China's cyber security policies at home, and those in the US and Europe, will need to avoid too tightly limiting foreign investment if the global telecom industry is to grow.

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Cover: Large Chinese businessman catching up with Japanese, American and German businessmen running through city.  
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