Sino-Trojan horse

Chinese firms are finding new ways to buy access to foreign resources.

The government of China and the large natural-resources companies it controls have made little secret of their hunger for foreign assets. But using their overflowing coffers to make acquisitions has not been easy. In 2005 America's Congress objected to the efforts of the partially state-owned China National Offshore Oil Corporation (CNOOC) to buy Unocal, an American rival. Chinalco, a state-controlled aluminium firm, has stirred up opposition in Australia with its bid to enlarge its stake in Rio Tinto, an Anglo-Australian mining giant. No wonder big Chinese firms with government ties have been looking for more oblique and less obtrusive ways to expand abroad. A deal unveiled on May 24th, in which PetroChina, another partially state-owned oil firm, will buy a big stake in Singapore Petroleum, a refiner, hints at a new tactic.

Although producers are particularly eager to drum up investors amid the credit crunch and the accompanying sharp fall in commodity prices, national governments are leery about approving outright acquisitions by Chinese firms. One reason is a lack of reciprocity: although China complains about nationalist impediments of the sort that blocked the Unocal transaction, it tolerates little involvement by non-Chinese companies in its own energy industry.

So several recent Chinese investments have taken more roundabout forms. Over the past three months the state-owned China Development Bank has agreed to lend billions of dollars to state-controlled Brazilian and Russian oil firms in exchange for long-term supplies of crude. Meanwhile CNOOC and PetroChina have each done multi-billion-dollar deals tied to the development of specific gas projects in Australia, blurring the line between investments and supply contracts.

The Singaporean purchase appears more straightforward. PetroChina, China's largest energy company, will pay $1 billion for the 45% stake in Singapore Petroleum held by Keppel Corp, a conglomerate in which Temasek, Singapore's state investment fund, owns a big shareholding. The target is not celebrated or strategic enough to occasion much adverse comment, and the transaction appears to enjoy the support of Singapore's government. PetroChina has offered a substantial premium to the stockmarket price. The deal is already the largest in Singapore since 2001 and will probably lead to an offer for remaining 55%. Singaporean bankers and investors, who have been pounded in the recent slump, are thrilled.

But PetroChina has said Singapore Petroleum could serve as a platform for future transactions. That suggests it might try to use the Singaporean firm to pursue the kinds of acquisitions that it would be blocked from making directly. After all, Singapore's own openness to foreign investment, and its record in managing numerous passive overseas holdings, means it is a welcome partner in the rich world. In 2006 a Singaporean investment in Great Wall Airlines, based in Shanghai, apparently helped secure the lifting of American sanctions imposed after the Treasury Department accused its then (and soon after former) parent, China Great Wall Industry Corp, of supplying Iran with missile components.

Yet the benefits PetroChina would receive from having an acquisition vehicle in Singapore would be limited. Concerns still hover around acquisitions by Chinese state-run firms, whether done directly or through a subsidiary, even if the subsidiary is in a friendly country. PetroChina will not be free to invest wherever and however it likes until it is liberated from its controlling shareholder at home.

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