The oil and gas industry in china

Finance

Case Study China's discovery and exploitation of oil and gas was a significant boost to the economy. The oil and gasindustry was regarded as the main driver of economic development in the country. Back in the 1950s, China's mining companies had made several major discoveries of crude oil and gas in northern China. Since the restructuring of the oil and gas industry, China was a leading oil and gas exporter (Wei 4). However, in the early 1990s, China turned from a net exporter of oil and gas into a net importer of the same commodities. Therefore, turning from an oil and gas exporter into an importer is what went wrong.

The use of large State-owned enterprises (SOEs) that did not observe strict corporate governance was the main reason for the situation that faced China's oil and gas industry. There were limited forms of privatization of the oil and gas companies in the country. In addition, much of China's economy was strictly under the control of the SOE sector that at the time had turned into non profitable and failed corporations (Wei 9). For instance, PetroChina, a subsidiary company of China national Petroleum Corporation (CNPC) used a corporate governance model that exposed the company to numerous investment risks. PetroChina's model did not meet the required international governance standards. Corporate governance is defined as a scheme through which business units are controlled. It entails both regulatory and market mechanisms, the obligations and relations between a business and stakeholders such as the board of directors, managers, and shareholders. Another reason that led to the plight of China's oil and gas industry was the high governance standards set by foreign exchanges.

China's plight may have been averted. To start with, China government should have executed efficient corporate governance and guarantee that the oil and gas industry recognized it as a strategy for the government's accountability to improve the legal, institutional and regular framework. Consequently, the corporations would ensure their operational performance and attract international capital in order to stabilize the domestic industry (Wei 11). This would have enabled the industry to keep up with the increased domestic demand and continue exporting of oil and gas. The Chinese government should have implemented the privatization of the oil and gas industry in order to encourage health competition. This would result to superior mining production of oil and gas enough for domestic use and export.

From this case, we learn the pertinence of an efficient corporate governance model for companies in business. We also learn that a company's success in both local and international business operations is largely attributed to international standards of corporate governance. Furthermore, we learn that businesses should be free of political interference to ensure success. Therefore, the separation of ownership and control of the main players of the oil and gas industry ensures companies are run with minimal influence from local party committees.

As a business professional in 2012, it is vital to read this because the case study demonstrates to me a practical scenario of the effects on both the internal and external environments to a business. Furthermore, it enables me to clearly comprehend the pertinence of corporate governance to local and international businesses. It also helped me to appreciate the main advantages of having an independent board of governors of a company, and the need for a good relationship between them, the shareholders, and other stake holders.

Work Cited

Wei, Yuwa. Comparative Corporate Governance: A Chinese Perspective. New York: Springer, 2002. Print.