

# The Political Economy of China's Oil Strategy in Africa



by  
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## Abstract

*China's rising role and involvement in Africa has resulted in an increasing amount of focus and interest on the continent, specifically with regards to its relations with various individual African states and the West. It has been argued that China and the West are locked in a political, economic and diplomatic confrontation on the continent, intensified by the need to gain access to natural resources, especially oil. This study analysis the behaviour of Chinese oil companies in Africa, with specific focus on whether their investment patterns tend directly to confront established Western interests, or whether they simply position them as economic competitors. This is tested through a study of two cases, the first of Sudan which focuses on the availability of reserves in the form of abandoned facilities by Western oil companies and the second of Equatorial Guinea which concentrates on new investment opportunities in the form of newly discovered offshore oil reserves. It is determined that Chinese oil companies avoid political confrontation with the West through avoiding direct involvement with United States-based oil companies and by co-operating with the host government and other non-Western oil companies operating within the same oil-rich states in Africa.*

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## **List of Acronyms**

**CNOOC** – China National Offshore Oil Corporation

**CNPC** – China National Petroleum Corporation

**CSIS** – Centre for Strategic and International Studies

**EPSA** – Exploration and Production Sharing Agreement

**FDI** – Foreign Direct Investment

**FOCAC** - Forum on China-Africa Co-operation

**GDP** – Gross Domestic Product

**GNI** – Gross National Income

**GNPOC** – Greater Nile Petroleum Operating Company

**HDI** – Human Development Index

**IEA** – International Energy Agency

**ILO** – International Labour Organisation

**Nilepet** – Nile Petroleum Corporation

**NPGC** – National Petroleum and Gas Corporation

**PDOC** – Petrodar Operating Company

**PSA** – Production Sharing Agreements

**RCC-NS** – Revolutionary Command Council for National Salvation

**Sudapet** – Sudan National Petroleum Corporation

**UN** – United Nations

**UNDP-HDI** – United Nations Development Programme-Human Development Index

**US** – United States

## Introduction

In recent decades, Africa as a continent has become a significant focus of international trade and investment due largely to its abundance of natural resources. In particular, oil reserve exploration and discoveries have attracted states aiming to meet their domestic energy needs and to lower supply risk by diversifying their sources of oil. This has become a necessity as a result of the tumultuous events that surrounded the Arab Spring which occurred in the oil-rich Middle East. Consequently and for several other reasons, many African states have become important and competitive players in the global arena and have gained much attention from foreign investors. This 21st century phenomenon has been termed, the 'New Scramble for Africa' and it is argued that it mirrors the period of colonisation which occurred in the 1800s. Significant international players are increasingly trying to gain influence in Africa's most substantial resource producing states. China, for example, has developed its relations with Africa through infrastructure and development projects channelled through the Forum on China-Africa Co-operation (FOCAC).<sup>1</sup> The result is a global controversy, involving potential political confrontation versus economic competition, regarding China's rising role in Africa and its relations with the West on the continent.

This controversy has taken a predominantly West versus East characteristic. The political confrontation perspective potentially playing out in Africa sees China as a neo-colonial and predatory actor. With China's rising influence on the continent, in a previously Western-dominated platform, confrontation is expected to occur between both actors driven by the competition for the continent's abundant natural resources, the variance in agendas and ideological differences. John Ghazvinian, author of "Untapped: The Scramble for Africa's Oil" discusses this perspective referring to Africa's oil boom as the exploitation by foreign actors and the subjection of Africa's people to the mercy of commercial interests. Throughout the continent, international companies can be seen competing for a position to gain exploration rights and the scramble amongst oil companies is echoed in the world's greatest powers, specifically France, China and the United States (US), which are engaged in increasingly intensive competition for influence among the predominant oil-producing states of Africa.<sup>2</sup>

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<sup>1</sup> Sidhu, A. (December 2011) "A 21st Century Scramble for Africa" *Berkeley Political Review*

<sup>2</sup> Ghazvinian, J. (2007) "Untapped: The Scramble for Africa's Oil" Houghton Mifflin Harcourt, Pg. 10

The opposing perspective of this controversy refers to the potential economic competition that is occurring in Africa between China and the West. This perspective instead sees China as a benign and developmental actor. Economic competition is often seen as beneficial as it encourages better service and more efficiency, along with lower prices, forcing both the US and China to constantly increase their standards with regards to investment in Africa. The US and China have economically become deeply intertwined with one another in Africa resulting in the affirmation that the two states stand a better chance of economic success by effectively dealing with the many challenges that they face through co-operation and healthy competition rather than confrontation.<sup>3</sup> Jennifer Cooke, director of the Centre for Strategic and International Studies (CSIS) Africa Program, reinforces several themes discussed at the CSIS between 5 and 6 December 2007 which support this perspective. The first is that the negative view of China's engagement in Africa is fuelled by the uncertainty surrounding its rapidly expanding engagement with the continent and the concern of Africa's capacities to manage this engagement to its countries' ultimate benefit. Secondly, several areas are highlighted in which US, China and African interests intersect and where greater collaborative efforts can yield positive economic results.<sup>4</sup>

There has also been progress towards creating US-Chinese dialogue and co-operation in Africa in order for all parties involved to reach the maximum benefits available through these oil exploration opportunities. Phillip Van Niekerk highlights the fact that China's three main oil companies in Africa generally operate according to the same rules as all other companies operating on the continent and in many cases have been found to partner up with other Western oil companies. US demand for oil is also decreasing as US imports of African oil fell by 27 per cent in 2011. The new oil discoveries in the US and the consequential movement of the country towards increased energy independence through shale gas fracking contradicts arguments that the US and China are in a geopolitical scramble for Africa's resources. The US's progression towards energy independence also has consequences for future Chinese involvement in the African oil sector.<sup>5</sup>

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<sup>3</sup> Gill, B. Huang, C. and Morrison, J. (2007) "Assessing China's Growing Influence in Africa" *China Security*, Vol. 3, No. 3, Pg. 17

<sup>4</sup> Cook, J. (2008) "US and Chinese Engagement in Africa: Prospects for Improving US-China-Africa Co-operation" Report for the *Centre for Strategic and International Studies*, 5-6 December 2007, Pp. 4 - 5

<sup>5</sup> Van Niekerk, P. (April 2013) "New Revolution in Africa is Wrought by Oil, Gas industry" *Business Day*

This study analyses the political economy of China's oil strategy in Africa through a study of its patterns of behaviour surrounding its involvement with and within Africa and the ways in which it aims to achieve its goals on the continent. Specific focus is placed on whether China's investment patterns tend directly to confront established Western interests, or whether it is simply positioned as an economic competitor. The research conducted aims to confront the general belief that China is competing for oil dominance in certain African oil producing countries over the US. It also challenges the way in which the 'New Scramble for Africa' phenomenon portrays Chinese involvement in Africa to be of a neo-colonialist nature. In order to maximise the benefits of the available economic and resource opportunities in the continent's oil sector, political rivalry should be avoided and it is essential that co-operation is achieved through partnerships, in the form of Production Sharing Agreements (PSA). These partnerships may occur between the various oil companies active in the country, as well as, the host government. Through building partnerships with African governments, who practice less demanding legislative frameworks, oil companies potentially have the opportunity for greater involvement in the actual extraction of the oil, thereby mitigating risks and ensuring a greater continuity of the supply of African oil at a possibly lower price.

In order to establish China's strategy when it comes to its involvement in African oil-rich states, it is necessary to examine the patterns of behaviour behind which of these states China chooses to invest in. Various elements motivate China's interactions with the continent, including economic growth, diplomatic relations, access to natural resources and political and ideological motives. The hypothesis that forms the basis of this research states that if China chooses to invest in African oil-rich states, then it tends to focus on areas or countries where Western oil companies are not present. This can occur either in the form of previously 'abandoned' facilities by these companies, or in new exploration opportunities that become available through recent discoveries predominantly in deep offshore oil. The hypothesis is motivated by the idea that China seeks to avoid political rivalry with Western powers and would consequently gravitate towards abandoned or new deep offshore sources of oil. By avoiding political conflict with Western interests in Africa, China is granted further secure access to energy reserves on the continent, as well as economic benefits, essentially reinforcing the notion that political rivalry is a poor motivation to structure global trade relations. In any international partnership regarding trade and investment, a country's focus should be on growing economically, forming diplomatic relations and ensuring access to

natural resources, especially energy reserves. It is far more feasible to safeguard all three elements rather than place them at risk through the creation of unnecessary tension and confrontation in a situation that has the potential to become highly volatile and counterproductive. Three independent variables are discussed in order to assist in testing this hypothesis. The first is *China's Foreign Economic and Oil Policy in Africa*, followed by the *Host Government's Policies with Regards to Oil Extraction* and lastly, the *Host Country's Availability of Reserves in Terms of Abandoned Facilities and New Opportunities*. The *Nature and Degree of Chinese Involvement in African Oil* forms the dependent variable. Each variable is discussed in the two chosen case studies of Sudan and Equatorial Guinea, in order to determine the individual influence that each independent variable has over the dependent.

Sudan and Equatorial Guinea are chosen as relevant case studies as a result of their variances. Both states differ in size, geographical location in Africa, the amount of oil discovered and produced, the location of natural resources and varying economic and political profiles. Both states form interesting and valid cases, resulting from their many differences and also consequently have the potential to correlate with other states in Africa that are not present in this research. Additionally, these two states are chosen because oil is one of the largest contributors to Gross Domestic Product (GDP) growth and the overall development of the state. Although both states have significant oil supplies, they have experienced varying levels of oil production in their respective histories of oil extraction and have different economic and political profiles which have often contributed to their fluctuating production. In the case of Sudan, conflict between the north and south has been on-going for decades, creating a highly unstable political environment, whereas in Equatorial Guinea, apart from a military coup d'état in 1979 and a lack of democracy, the political arena has been relatively more stable. Economic data from 2012 shows that Equatorial Guinea's GDP per capita is significantly higher than that of both north and South Sudan. Most importantly, Sudan presents a situation where Chinese oil companies have invested in after previously established Western companies have withdrawn. On the contrary, the case of Equatorial Guinea portrays a situation where new deep offshore oil reserves have been discovered, creating opportunities for new investments. With South Sudan's secession in 2011, any data referred to after that period is done by focusing on oil-rich South Sudan. These chosen case studies include situations in which China is expected to behave strategically by investing in abandoned facilities and new deep offshore opportunities. Through two specific studies of

Chinese investment behaviour, these cases have the potential to shed important light on the controversy surrounding the portrayal of China's political and economic role in Africa.

Chapter 1 of this study focuses on the theory of international trade relations through an analysis of both the Liberalist and Realist theories of international relations. It also encompasses a discussion of the 'New Scramble for Africa' in order to determine the extent of this phenomenon. Prior to the theoretical analysis, a brief reference to existing literature regarding this topic is provided. Chapter 2 examines the history of Sino-African trade relations which assists in determining whether or not China has become increasingly involved in the investment and extraction of oil on the continent. China's foreign economic and political policies with respect to African oil-producing states are also addressed in this chapter. Chapter 2 then concludes with an examination of a portion of data on African oil exporting states and China. The hypothesis is tested by looking at two oil-affluent countries in Africa, Sudan and Equatorial Guinea which are examined in Chapter 3 and 4 respectively. These case studies assist in determining the nature and degree of China's involvement in African oil, as well as its investment behaviour, which is reliant on the three independent variables. Chapter 5 is the final section and encompasses a critical analysis of the findings, which is then followed by the conclusion.

# 1

## **Existing Literature and an Exploration of the Realist and Liberalist Theories**

In order to recognise where this research fits in with regards to the current existing literature, a brief reference to the main contrasting ideas and opinions on this topic is provided. It offers insight into the views of scholars who argue that China's presence and involvement in Africa is detrimental to the continent's economic independence and that its involvement echoes that of a neo-colonialist nature. It also encompasses entirely opposing, more convincing arguments and evidence which state the contrary. The last section of this chapter deals with the theoretical foundation that this research is based on. The 'New Scramble for Africa' phenomenon is first examined in order to portray the current international atmosphere with regards to the African continent. The Liberalist and Realist theories are then discussed, focusing on their relevance with regards to China's behaviour on the African continent.

### **Review of Existing Literature**

In 1982, China began promoting the 'Four Principles' of Chinese co-operation with Africa. This included equality and mutual benefit, stress on practical issues, diversification in form and economic development.<sup>6</sup> In 2006, in order to cement their partnership, the Chinese government released a document titled "China's African Policy", which emphasised the development of a 'New Strategic Partnership' based on mutual and friendly political co-operation, deepening economic interactions, cultural exchanges emphasising mutual learning

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<sup>6</sup> Brown, K. and Chun, Z. (June 2009) "China in Africa – Preparing for the Next Forum for China Africa Co-operation" *Asia Programme Briefing Note: ASP 2009/02*, Chatham House, Pg. 5

and closer ties of solidarity in international affairs.<sup>7</sup> According to Chenchen Wu, China repeatedly addresses the mutually beneficial aspect under the framework of the strategic partnership. The Asian state is not interested in exporting its communist ideology, but is instead focused on mutual economic and political influence.<sup>8</sup> Richard Payne and Cassandra Veney argue that in the context of China's foreign policy in Africa, there are three predominant factors: national unification, the promotion of world peace and the sustainability of economic development.<sup>9</sup> One connecting question concerns the reasons for China possibly becoming increasingly involved in the extraction, production and refinement of African oil. Ricardo Soares de Oliveira examines the geopolitics of Chinese investment in African oil and states that Chinese investment in the continent's oil sector has grown into a major presence with important consequences for African domestic politics, as well as, the continent's relations with the rest of the world.<sup>10</sup>

For the purpose of this research, Sudan and Equatorial Guinea are focused on as broad proximities for other African states. The major deals that China has made with both of these states are highlighted and in the case of Sudan, in 1997 and 2007, China granted the state interest-free loans for building and other infrastructure construction and in 2008, paid US\$2.8 million in humanitarian aid packages. China's relationship with Equatorial Guinea is more recent and was essentially cemented in 2009 when China gained exploration and drilling rights in certain areas.<sup>11</sup> Princeton Lyman discusses China's role in Sudan and states that the Asian country became a principle investor in Sudan's oil industry and infrastructure projects, which was made possible by the pressure that US oil companies received to withdraw from the country as a result of the civil war and the persecution of its people in the south. In this case, Lyman argues, China filled the gap left by the Western companies and enabled Sudan to become a net oil exporter.<sup>12</sup>

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<sup>7</sup> Jintao, H. (19 July 2012) "Speech by H.E. Hu Jintao, President of the People's Republic of China" *The Fifth Ministerial Conference of The Forum on China-Africa Co-operation, Ministry of Foreign Affairs of the People's Republic of China*

<sup>8</sup> Wu, C. (Unknown) "China's Foreign Policy towards Africa" *The School of Government and International Affairs*

<sup>9</sup> Payne, R. and Veney, C. (1998) "China's Post-Cold War African Policy" *Asian Survey*, Vol. 38, No. 9, Pp. 867 – 879

<sup>10</sup> Soares de Oliveira, R. (Unknown) "The Geopolitics of Chinese Oil Investment in Africa" *Austin Robinson Research Fellow*

<sup>11</sup> Zhao, S. (2011) "The Geopolitics of China-African Oil" *China Briefing*

<sup>12</sup> Lyman, P. (2005) "China's Rising Role in Africa" Presentation to the US-China Commission July 21, 2005, *Council on Foreign Relations*

Through the case of Sudan, Princeton Lyman essentially highlights the fact that Chinese oil companies' focus in Africa does not conflict with that of Western companies with regards to geographic position and claim. This is reinforced by Hany Besada who states that Africa is of strategic importance to China as it represents one of the last available geographical oil producing regions that have several oil reserves not managed by Western energy companies.<sup>13</sup> The preconceived idea that Chinese interest and involvement in the African continent has underlying motives, compared to that of the US is argued by David Shinn who states that China has four 'hard' interests in Africa. They include the increasing access to natural resources, the development of good relations with all African countries, the increasing significance of China's exports to Africa and lastly, the ending of Taiwan's diplomatic presence in Africa. Shinn argues that the first three interests coincide with that of the US. He further adds that the US has several additional interests centred on the creation of military bases and the countering of terrorism and other potential threats to America.<sup>14</sup> In another paper by David Shinn, titled "Africa, China, the United States and Oil", he argues against claims that countries isolated by the US, such as Sudan, that export significant quantities of oil to China will cause tension between the US and China. Shinn argues that in reality, there is no reason why US and Chinese energy policies in Africa should result in conflict, as there are opportunities for Chinese and American co-operation in the development and security of oil reserves on the continent. It is also in the interests of both states to develop a secure supply of oil at a reasonable international price.<sup>15</sup>

While much is known about Chinese relations with Sudan, both north and south, knowledge surrounding its role in Equatorial Guinea is limited because of its fairly recent involvement in the oil sector of the West African state. Driven by this limited knowledge, the purpose of this research is to uncover the role that Chinese oil companies have in Equatorial Guinea, in relation to their co-operation with the government, as well as, with other major oil companies in the country. A study of Equatorial Guinea and the oil companies operating within it will assist in conveying the methods in which oil companies carry out their business in ways that ensure mutual and consequently, maximum benefit. In most of the literature concerning this topic, it is evident that a controversy exists surrounding the nature of Chinese involvement in

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<sup>13</sup> Besada, H. (2007) "China in Africa - a Reliable Friend?" *Taipei Times*, Final Edition

<sup>14</sup> Shinn, D. (2011) "China's Growing Role in Africa: Implications for U.S. Policy" *Senate Committee on Foreign Relations Subcommittee on African Affairs*, Elliott School of International Affairs

<sup>15</sup> Shinn, D. (Unknown) "Africa, China, the United States and Oil" *Centre for Strategic and International Studies*

African oil producing states. This controversy motivates the research and forms the basis of the evidence examined. If the hypothesis is proven to be true, it will convey a different approach to viewing China's methodology in its decisions concerning where to invest in oil in Africa. A look at the development of new oil opportunities which have emerged in the form of deep offshore reserves, especially in the Gulf of Guinea, provide a new and interesting dynamic to oil exploration and investment in Africa that is worth examining.

The contribution that this research is aiming to make is concerned with identifying China's strategy in Africa and whether or not, as a result of its rising role on the continent, it is locked in a political and economic confrontation with the West. Evidence is provided in the ensuing chapters to address this controversy that exists in the hope of determining whether this is the case or if China co-operates with other actors and is merely another international player interested in Africa's oil. The evidence surrounding this controversy is analysed firstly through the two case studies of China's interactions with the particular African country and the international oil companies operating within that country and secondly, the independent and dependent variables which are then analysed within each case. The contribution that this research is expecting to accomplish is to achieve an understanding of China's strategy in Africa, through either a Liberalist or Realist perspective, that reflects the true nature of its involvement with the West on the continent.

## A Theoretical Analysis

### *The New Scramble for Africa*

The 21st century scramble for Africa mirrors the period of colonisation which occurred in the 1800s. The original scramble lasted until the early 20th century, during which the political boundaries of contemporary Africa were shaped. This defined the principle relations of most African states to the European powers and the sources of crucial financial resources for future colonial development. Remnants of this pattern influenced and remain in oil interactions to this day.<sup>16</sup> Alexandra Hrituleac argues that European powers were the main colonisers of that time and sought to culturally, economically, politically and religiously influence the indigenous communities of Africa. The continent presented an open market area for the trade

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<sup>16</sup> Clarke, D. (2008) "Crude Continent: The Struggle for Africa's Oil Prize" *Profile Books Ltd*. Pg. 66

of slaves and primary resources such as cocoa and rubber and the exploitation of these commodities was rampant. Colonisation also obstructed the process of internal state formation and development in Africa which resulted in the legacies of corruption and political instability on the continent.<sup>17</sup> With the Berlin Conference of 1884-1885, European international actors essentially 'carved' up Africa, having no consideration for ethnic and cultural groups.<sup>18</sup> While the present day neo-imperialism leaves African leaders in charge of their resources to a certain degree, ethnic and geographical conflicts still echo the legacy of colonisation.

With the independence of African states in the 1900s, conflict, political instability and varying degrees of confusion emerged. When natural resources, especially oil and precious minerals, were discovered, internal struggles within states between leadership and other groups occurred over the control of the resources, presenting domestic scrambles over these precious commodities. International interest in Africa's resources, encouraged by globalisation, assisted in the growth and development of many states, but economic inequalities surrounding the unfair distribution of revenues increased. According to Arjan Sidhu, significant international players are increasingly trying to gain influence in Africa's most substantial resource producing states. Russia has recently strengthened connections with two of Africa's largest oil producers, Angola and Nigeria, China has developed its relations with Africa through infrastructure and development projects channelled through FOCAC and the US has reinforced its relationship with the continent based on humanitarian values and interventions.<sup>19</sup> Richard Ingwe et al argue that Sub-Saharan Africa is faced with a new invasion of its land from international and domestic players, as well as, Multinational Corporations. They emphasise that the regions current weaknesses revolve around maintaining its economic, political, social and environmental systems as a result of its past.<sup>20</sup> These weaknesses result in the vulnerability to exploitation and underdevelopment by external influencers. This modern scramble has its roots around 1957 where issues surrounding independence coincided with the struggle for control over Africa. It became increasingly concerned with oil, with disputes over African oil patrimony rising to the

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<sup>17</sup> Hrituleac, A. (2011) "The Effects of Colonialism on African Economic Development" *Business and Social Sciences*

<sup>18</sup> David, S. (2011) "Slavery and the 'Scramble for Africa'" *BBC*

<sup>19</sup> Sidhu, A. (December 2011) "A 21st Century Scramble for Africa" *Berkeley Political Review*

<sup>20</sup> Ingwe, R. Okoro, J and Ukwayi, J. (2010) "The New Scramble for Africa: How Large-Scale Acquisition of Sub-Saharan Africa's Land by Multinational Corporations and Rich Countries Threatens Sustainable Development" *Journal of Sustainable Development in Africa*, Vol. 12, No.3, P. 28

forefront of disagreements. Several consequences were associated with this scramble and each were aggravated as the thirst for oil grew in an increasing amount of states. These consequences included state budgets being dominated by oil revenues, the surfacing of presidential and ministerial interests in oil and lastly, the establishment of national oil companies in many states, which subsequently controlled the reserves.<sup>21</sup> The consequence for this scramble being dominated by oil has resulted in weakened and flawed African states, with regards to both African countries and African populations all wanting a share in the oil patrimony. This has moulded both the struggle for African oil, played out in African politics and the pursuit for oil that appears to be preoccupying private and state-owned companies from all over the world.<sup>22</sup>

### *Realism*

Realism in International Relations states that world politics is driven by competitive self-interest.<sup>23</sup> In the political economy, Realism assumes that states pursue self-interest defined in terms of relative state power and wealth.<sup>24</sup> Realism is centred on four predominant propositions: the international system is anarchic, states are the most important actors in the international system, all states within the international system are unitary, rational actors in that they pursue self-interest and lastly, the primary concern of all states is survival.<sup>25</sup> With regards to Realism, international companies, specifically those from China, have been labelled 'neo-colonialist' with regards to their recent involvement in Africa. There is evidence to suggest that China is on a global hunt to secure energy sources and that China's infusion of funds could leave Africa in debt, or reliant on Chinese investment in order to maintain their economies. This would negatively impact the economic and political independence of African countries argues Kate Douglas in her article titled, "Understanding Chinese investment in Africa". Douglas raises another concern which deals with the fact that most Chinese investment comes from state-backed organisations, although investment from China's private sector is increasing. Investment projects in raw materials and energy are dominated by Chinese state-funded initiatives, usually in the form of sovereign wealth funds.

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<sup>21</sup> Clarke, D. (2008) "Crude Continent: The Struggle for Africa's Oil Prize" *Profile Books Ltd*. Pg. 70

<sup>22</sup> Clarke, D. (2008) "Crude Continent: The Struggle for Africa's Oil Prize" *Profile Books Ltd*. Pg. 72

<sup>23</sup> Rourke, J. (2011) "International Politics on the World Stage" New York: McGraw Hill, Pg. 16

<sup>24</sup> Ferraro, V. (2010) "Political Realism" Department of International Politics, Mount Holyoke College Massachusetts

<sup>25</sup> Donnelly, J. (2008) "The Ethics of Realism" *The Oxford Handbook of International Relations*, Oxford University Press, Pg. 150

These state-backed sectors are predominantly the ones that have been criticised for being neo-colonialist. Douglas further states that there has also been a large amount of criticism surrounding the work conduct of Chinese corporations and the fact that African governments enter into corrupt or misleading contracts with Chinese investors.<sup>26</sup>

According to this stance, China's strategy in Africa is based solely on self-interest in terms of state power and reflects the political and zero-sum nature of economic relations. Essentially, China benefits from interest-backed loans, Chinese-dominated investments and the access to natural resources, while African oil-producing states experience losses with regards to financial dependence and misleading contracts. With reference to the view that China and the West are locked in a political confrontation in Africa, the self-interest aspect of Realism supports this argument, as both actors are pursuing parallel benefits and gains in the same geographical region, resulting in a geographical power-struggle. Although both interests align, the two states are expected to behave in a competitive manor in order to ensure that their individual interests are met. As China has a lack of domestic human rights and labour laws, the country is often portrayed in a poor light and is accused of having a negative impact on the progress that the West has made in Africa with regards to good governance, democracy and economic growth. Chinese oil investment in Africa has also been criticised for focusing infrastructure projects on assisting with the extraction of resources, rather than on the growth and wellbeing of various communities in Africa.

### *Liberalism*

According to Shou Wang Mai Tian, the West argues that China is looting and exploiting Africa's resources through trade conducted with state-owned enterprises. He argues further that such a label is an unfair distortion of China-Africa relations, because China's exchanges with the continent constitute a relationship of friendship and a win-win outcome in the rapidly changing world.<sup>27</sup> Liberalism in International Relations essentially prescribes that economics should determine politics.<sup>28</sup> In the political economy, Liberalism assumes that producers and consumers pursue self-interest defined in terms of net economic benefit.

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<sup>26</sup> Douglas, K. (August 2012) "Understanding Chinese Investment in Africa" *How We Made it in Africa*

<sup>27</sup> Wang Mai Tian, S. (2011) "The West's Neo-Colonialism in Africa Unmasked" *FOCAC*

<sup>28</sup> Moravcsik, A. (Unknown) "Liberalism and International Relations Theory" *Centre for European Studies*, Paper No. 92 – 6, Pg. 3

Voluntary exchanges, which lead to mutual benefits between producers and consumers, then occur as a result of both parties' expectations to gain from these exchanges. Three core assumptions common to the Liberalist theory include: the fundamental actors in world politics are individuals and privately-constituted groups with independent preferences, governments represent a subset of domestic social actors and interstate behaviour is primarily shaped by the pattern of state preferences, not power.<sup>29</sup> Neo-liberals essentially believe that states co-operate in order to achieve absolute gains and that the greatest obstacle to co-operation is non-compliance by other states.<sup>30</sup> For any capitalist-driven state or private entity, politics should not be a determining factor in the creation of international trade agreements or partnerships, where both parties have the opportunity to benefit economically. On the contrary, economics should be the driving force behind the politics of this engagement. This is the case with regards to China's foreign policy in African oil-rich states. Bilateral economic exchanges also create shared interests further developing good relations between the states. The greater the volume of trade and investment being exchanged between two countries, the stronger each state's interest will be in avoiding conflict and preserving peace. Economic exchanges between the US and China have increased dramatically since the onset of market reforms in the late 1970s, already assisting in the creation of a mutual interest in peace between the two states. It is possible that economic forces will continue to draw them together in the future, constraining and hindering any tendencies towards conflict.<sup>31</sup> Essentially, the potential economic and resource gain made available by Africa's resources, encourages all parties to make it the guiding force behind how they deal with the politics in oil abundant states. It would be detrimental for Chinese oil companies to jeopardise the stability of their positions in Africa by creating unnecessary friction with Western oil companies. Essentially, co-operation and mutual dependence is placed at the forefront of their relations with and within the African continent.

Deborah Brautigam highlights this relationship in the "Dragon's Gift", providing evidence that China's escalations in aid to Africa are not motivated by short-term commercial and strategic interests, but are instead motivated by broader and long-term goals. The evidence that Brautigam provides begins with Chinese agricultural and infrastructure projects in the

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<sup>29</sup> Moravcsik, A. (Unknown) "Liberalism and International Relations Theory" *Centre for European Studies*, Paper No. 92 – 6, Pg. 2

<sup>30</sup> Galbreath, D. "Neo-Liberalism" *Theories of International Relations*

<sup>31</sup> Friedberg, A. (2005) "The Future of US-China Relations: Is Conflict Inevitable" *International Security*, Vol. 30, No. 2, Pg. 13

1960s. Essentially, China is genuinely interested in assisting in Africa's development based on a similar method to that of how China achieved its own domestic growth. Brautigam argues that the negative appearance of China's commercial interests and decisions are instead a result of careful choices grounded on mutually beneficial outcomes. Brautigam ventures further into this view of China's involvement in Africa and refers to its policies as sophisticated in contrast to the self-interested actions of the West.<sup>32</sup>

Adam Smith's theory of international trade refers to the political economy of a country and argues that the predominant objective of every state is to increase the wealth and power of that state and the gain of one does not necessarily mean the loss of another. On the contrary, trade always benefits all participating nations.<sup>33</sup> In the case of Chinese oil companies becoming increasingly involved in the extraction of oil in Africa, they need to co-operate with the government of the country where the extraction is occurring, as well as, with other main oil companies that may already be involved in the same area. This must be done for all parties to experience the maximum benefits that are available in the oil extraction process and to realise the positive-sum potential of these economic transactions. As a result of Africa and China's extensive bilateral trade relations, to be discussed in Chapter 2, it is evident that both parties are benefitting from this partnership. From this perspective, China is seen as a another developmental and economic competitor interested in purchasing Africa's oil, as opposed to a neo-colonialist concerned with dominance and confrontation with the West.

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<sup>32</sup> Brautigam, D. (2009) "Dragon's Gift: The Real Story of China in Africa" Oxford University Press

<sup>33</sup> Hirschman, A. (1969) "National Power and the Structure of Foreign Trade" *Bureau of Business and Economic Research*, University of California Press, Pg. 5

# 2

## **Sino-African Relations and China's Foreign Policy**

China and the country's various oil companies have become increasingly involved in the direct extraction, production and refinement of oil in Africa. This is addressed in Chapter 2, and aims to determine if it is the case and if so, the reasons for this movement towards increased involvement. This is achieved through an examination of the history of Sino-African relations which enables one to determine if China is progressively becoming more deeply involved in the continent. The direct participation in the oil extraction process potentially reduces the risk of unstable oil markets, which would affect China's domestic supply and potentially increase the chances of price fluctuations. Essentially, Chinese oil companies will potentially have to deal with states that have a history of being politically and socially unstable. The risks and fears of working with volatile governments are offset and outweighed by the advantages that lower prices and the reduced risk of unstable global oil markets will have on ensuring that China's domestic energy needs are met. The second section in this chapter contains an examination of China's foreign policy towards African oil-rich states. An investigation of data collected on all African oil exporting states follows, which aims to examine Africa's most significant oil producing countries in terms of proven reserves, GDP growth, political framework, corruption ranking, oil exports and Chinese and African bilateral trade. The focus of this paper is on the various states' oil companies and does not deal with relations between states on the governmental level. As a result of China's political policy and ideology, the state and the country's oil companies are essentially one and the same.

## The History of Sino-African Relations

Geographically, China and Africa are far apart and have little in common with regards to language or culture, but their interaction goes back as far as the 10th century BC, when Alexandria, one of Egypt's largest cities, began trading with the Asian state. China and Africa essentially came into contact as a result of Arab and European maritime voyages brought on by the slave trade. It was, however, in the second half of the 20th century when China and Africa rediscovered one another. When, in 1946, the People's Republic of China was founded, the relationship entered a new stage of development. This occurred most notably at the Bandung Conference on Non-Alignment held in April 1955 in Indonesia. Further, the establishment of diplomatic relations between China and Egypt on 30 May 1956 signalled the formal beginning of Sino-African ties. It was during this period that China was in a direct ideological conflict with the West, who recognised the Kuomintang administration in Taiwan as the sole government of China. In an attempt to increase the legitimacy of its regime and to counter the so called 'American-led imperialism encirclement', China saw Africa as a strategically important diplomatic amphitheatre. The close bilateral relations that formed were made desirable by shared ideological beliefs regarding anti-colonialism, as well as, co-operation based on both countries being considered as part of the Third World.<sup>34</sup>

One of the most important economic developments in recent years has undoubtedly been the rapid emergence of China as a world economic power. The state achieved this through a combination of sound economic management, policy reforms and hard work which resulted in an economic growth of more than 8 per cent per annum for the last decade. This propelled China into its current position as the world's fastest growing economy. Motivated by the need to supply a growing industrial sector and willing to find destinations for its cheap goods, finding access to raw materials and markets became a top priority for Chinese companies.<sup>35</sup> The year 2006 marked half a century of Sino-African diplomatic relations and was a year unparalleled by Chinese focus on the continent. On 12 January of the same year, Beijing revealed its first White Paper on its relations with Africa titled "China's African Policy", which essentially provided a detailed plan for long-term co-operation with regards to

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<sup>34</sup> Tu, J. (2008) "Sino-African Relations: Historical Development and Long-term Challenges" *China: An International Journal*, Vol. 6, No. 2, Pg. 331

<sup>35</sup> Zafar, A. (2007) "The Growing Relationship between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment and Aid Links" *World Bank Research Observer*, Vol. 22, No. 1, Pg. 104

economics, politics, education, health, social development, peacekeeping and security. On 12 October 2006, Deputy Commerce Minister Wei Jianguo revealed that China had assisted 49 African countries establish more than 700 projects in fisheries, telecommunication, hydropower, education and health care since 1956.<sup>36</sup>

The end of the Maoist regime and the subsequent economic restructuring of China led to a significant increase in the states demand for oil and other natural resources. This resulted in an amplified focus on Sub-Saharan Africa.<sup>37</sup> Trade between China and Africa in 2006 totalled more than US\$50 billion, with Chinese companies importing oil from Angola and Sudan, timber from Central Africa and copper from Zambia. The demand created from Chinese interest has contributed to an increase in prices, especially for oil and metals from Africa and has led to an improvement in real GDP in certain Sub-Saharan African states.<sup>38</sup> Graph 1 below demonstrates the growing bilateral trade relations that have occurred between the Asian state and Africa between 1995 and 2010.

**Graph 1 - China's Growing Trade with Africa<sup>39</sup>**



<sup>36</sup> Tu, J. (2008) "Sino-African Relations: Historical Development and Long-term Challenges" *China: An International Journal*, Vol. 6, No. 2, Pg. 330

<sup>37</sup> Uche, C. (2009) "Trade and Industrial Policy in Africa: the Impact of China's Growing Influence in the Region" Paper proposed for presentation at the 2009 Asia-Pacific Economic and Business History Conference

<sup>38</sup> Zafar, A. (2007) "The Growing Relationship between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment, and Aid Links" *World Bank Research Observer*, Vol. 22, No. 1, Pg. 103

<sup>39</sup> Zhao, S. (2011) "The China-Angola Partnership: A Case Study of China's Oil Relations in Africa" *China Briefing*

In less than a decade bilateral trade has significantly increased. It is also notable that imports and exports between China and the continent have remained fairly equal, sporadically alternating between trade surpluses and deficits, which emphasises the reciprocal and positive-sum nature of their relationship. China is also increasingly investing in energy security in Africa in order to support its long term growth. As oil is a major import for China, it has been investing in refinery projects across Africa. Algeria, Sudan, Chad, Niger and Nigeria all have oil refinery projects funded by Chinese companies, with the Nigerian project worth US\$2 billion alone.<sup>40</sup> This enables China to have direct access to the oil extraction and method of production, involving it deeply in the process in order to ensure a continuous domestic supply in energy.

China is the second largest oil importer in the world behind the US. In the past, both countries have considered Africa to be a strategic trading partner and have approached their relations with the continent differently. There has been speculation that both states have been competing for oil dominance on the continent, however, the US has recently discovered domestic oil deposits which may have future implications for its dealings with Africa. A report by the US Government Accountability Office in 2012 estimated that the oil found in the American states of Utah and Colorado could potentially amount to more than the entire world's proven oil reserves. The International Energy Agency (IEA) additionally envisages that the US will become the world's largest oil producer by 2020. This abundance of oil may have significant implications for the US economy and its foreign policy which has been based on a growing scarcity of oil.<sup>41</sup> The implications of the US becoming oil independent for the situation in Africa with regards to Sino-African energy trade will only fully be realised in many years to come. Before that status is reached, Africa will remain a strategic partner in its interest to gain access to energy reserves. There is relevance in examining the current ways in which China determines its trading patterns and partners and interest areas in Africa, with respect to the US. To begin this process of examination, China's foreign policy in Africa is examined.

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<sup>40</sup> Douglas, K. (August 2012) "Understanding Chinese Investment in Africa" *How We Made it in Africa*

<sup>41</sup> Farnham, A. (2012) "An American Oil Find That Holds More Than All of OPEC" *World News*

## China's Foreign Policy in Africa

A country's foreign policy portrays the ways in which it deals with other states and regions in the world. It is moulded by international and domestic interests and reasons for involvement and is an important aspect of the international architecture. It relates to the international political economy as foreign policy deals with both political and economic relations between various states. Joshua Ramo coined the term the 'Beijing Consensus' which represents an alternative economic development model to the Washington Consensus of the US. Ramo believed that a state from the south could take its place in the global arena through innovation, taking into account the quality of life and economic growth, providing sufficient equality to avoid instability, valuing independence and self-determination and by refusing to allow Western powers to impose their will. The Beijing Consensus allows states to take control of their own development without having to accept the terms constituted in the Washington Consensus.<sup>42</sup> For the purpose of this research, it is necessary to examine China's domestic policy, which is based on the 'one country – two systems' approach, in order to determine its internal framework which contributes to the understanding of the way in which its foreign policy is structured, as well as, what forms the basis of its principal interests.

### *China's Domestic Policy*

China's political ideology is based on the Communist Manifesto. Although the state does not govern according to authoritarian statute, political and social freedom is limited. China's freedom of press – to highlight one aspect of its repression – places at 187th of 197 countries on an international scale of press freedom.<sup>43</sup> Economically, it has adapted its approach to an open market, liberal economy. This development was considered an instrument for safeguarding the power of the Chinese Communist Party. As a result, the pace and direction of the reform process was still closely monitored by the state.<sup>44</sup> Human rights abuses also continue to occur in the form of torture and executions and environmental deterioration is rife.<sup>45</sup> China's first labour law was implemented in 1995, but there is evidence that labour

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<sup>42</sup> Gresh, A. (2008) "Understanding the Washington Consensus" *Le Monde Diplomatique*

<sup>43</sup> King, G. Pan, J. and Roberts, M. (18 June 2012) "How Censorship in China Allows Government Criticism but Silences Collective Expression"

<sup>44</sup> Woo, W. (October 1999) "The Economics and Politics of Transition to an Open Market Economy: China"

<sup>45</sup> Economy Watch (30 June 2010) "China Trade, Imports and Exports"

rights are increasingly being violated in breach of this law. China has also not endorsed basic International Labour Organisation (ILO) conventions on 5 labour rights. Accordingly, there are no strike rights, no freedom of association and no independent trade unions. The All-China Federation of Trade is the sole legal state controlled union and is often unable or unwilling to defend workers' interests in the market economy. The low cost of labour in China also encourages global corporations to work in China on a quid pro quo basis. Essentially, the Chinese government provides a low wage labour force in exchange for massive foreign investment.<sup>46</sup> China's domestic focus remains largely on economic growth and development to the extent that it is willing to disregard labour laws and human rights. From an economic perspective, this makes it a popular country to invest in and trade with. The policies that the Chinese government implement domestically provide informative insight into its foreign policy towards the African continent as a whole and should be considered when determining its approach and interactions with the African countries in which it has interests.

### *China's Foreign Policy in Africa*

In 1982, China's approach to the continent was based on the 'Four Principles of Chinese Co-operation with Africa', which included equality and mutual benefit, the stress of practical results, varied forms and co-development. During this period, economic growth and domestic reforms were China's main domestic focus. This shifted attention away from Africa and onto its own internal situation.<sup>47</sup> In 1987, after China strengthened its domestic condition, then leader, Deng Xiaoping reiterated the importance of continuously forming close ties with the Third World and Africa in particular in order to demonstrate how a developing nation can modernise.<sup>48</sup>

In the 1990s, China intended to increase its focus on developing states but was confronted with condemnation on human rights through political isolation and economic sanctions. This resulted in an even larger division between the East and the West and caused China to seek political assistance and support from elsewhere in the world. "China's African Policy" which sought to clarify Africa's strategic importance to China portrayed China's objective to

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<sup>46</sup> Global Labour Strategies (April 2008) "Why China Matters: Labour Rights in the Era of Globalisation"

<sup>47</sup> Wenping, H. (2003) "China-Africa Relations Facing the 21<sup>st</sup> Century" *Africa Beyond*

<sup>48</sup> Yu, G. (1988) "Africa in Chinese Foreign Policy" *Asian Survey*, Vol. 28, No. 8, Pg. 849

establish a new form of strategic partnership with the continent on the basis of evolving the fundamental interests of both parties.<sup>49</sup> China's new strategic partnership with Africa was unveiled at the November 2006 Beijing Summit of FOCAC. 48 African countries were invited to the two-day summit, which unanimously adopted the FOCAC Beijing Action Plan and a Declaration which called for strategic partnership aimed at strengthened mutual trust and economic co-operation, especially in the area of joint energy exploration. China has become Africa's third largest trading partner following the US and France, making Africa China's major foreign source of strategic resources and investment opportunities and an export market for Chinese commodities.<sup>50</sup> Infrastructure development projects and educational exchange have been some of the elements that China has focused on in Africa. As a result of its mutually beneficial approach, these have all been done with the pretence of securing access to energy resources in resource-rich states.<sup>51</sup>

China's foreign policy in Africa cannot be analysed without examining its oil strategy on the continent. China houses an extremely large population, of more than 1.4 billion people<sup>52</sup> and its own limited oil reserves has created a situation where demand outweighs supply. Consequently, oil strategies have been placed at the forefront of its foreign policy. A consequence of China's oil industry consisting of state-owned enterprises, its strategy for creating relationships with oil-exporting states had to be co-ordinated with its foreign policies, both economically and diplomatically. Moulded by this goal, China's global oil strategy consists of three main components. The first addresses the differentiation of Chinese initiatives by those conducted by Western governments and their oil companies, the second is aimed at leveraging China's comparative advantages while downplaying its disadvantages and thirdly, China directs its focus on countries within which there is a high probability that oil reserves would increase and where China could negotiate arrangements that fulfilled its long-term interests.<sup>53</sup>

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<sup>49</sup> Wu, C. (Unknown) "China's Foreign Policy towards Africa" *School of Government and International Affairs*, Durham University

<sup>50</sup> Tu, J. (2008) "Sino-African Relations: Historical Development and Long-term Challenges", *China: An International Journal*, Vol. 6, No. 2, Pg. 331

<sup>51</sup> Anshan, L. (2006) "Transformation of China's Policy towards Africa" *Centre on China's Transnational Relations*. Paper No. 20

<sup>52</sup> Lee, H. and Shalmon, D. (2008) "Searching for Oil: China's Oil Strategies in Africa" in Rotberg, R. (ed.) *China into Africa: Trade, Aid and Influence*, Brookings Institution Press, World Peace Foundation, Pg. 110

<sup>53</sup> Lee, H. and Shalmon, D. (2008) "Searching for Oil: China's Oil Strategies in Africa" in Rotberg, R. (ed.) *China into Africa: Trade, Aid and Influence*, Brookings Institution Press, World Peace Foundation, Pg. 111

Chinese actors adapt their strategies geographically to suit the individual histories and geographies of the African states with which they engage.<sup>54</sup> Relating to China's recent emergence as a competitive player in the global economy, economics is the driving force behind the politics that are required to support China's continued economic rise as a global power.<sup>55</sup> China places economics at the forefront of its dealings with the continent, a concept closely related to Liberalism, emphasising co-operation and economic growth at the centre of its foreign policy in Africa.

## China and Africa's Oil

In recent decades, Africa has become the principle exploration and development target for international players aiming at achieving financial gain and securing domestic energy demands. The continent has been described as the world's greatest frontier in oil exploration. With this abundance, there have also been great and enduring struggles within African states for control and ownership of these oil reserves. These struggles have often been in the form of armed conflicts and have shaped the corporate oil pursuit in Africa and are likely to do so in the future.<sup>56</sup> Africa has become a significant oil-producing and exporting continent although it does not nearly meet the amounts produced by the Middle East. As a result of the increase in the global energy demand due to population growth and technological development, Africa's oil is now contributing to the meeting of these demands and assists in diversifying consumer states' oil sources to prevent over-reliance on the volatile Middle East. Graph 2 portrays Africa's oil production in comparison to other oil-producing regions in the world.

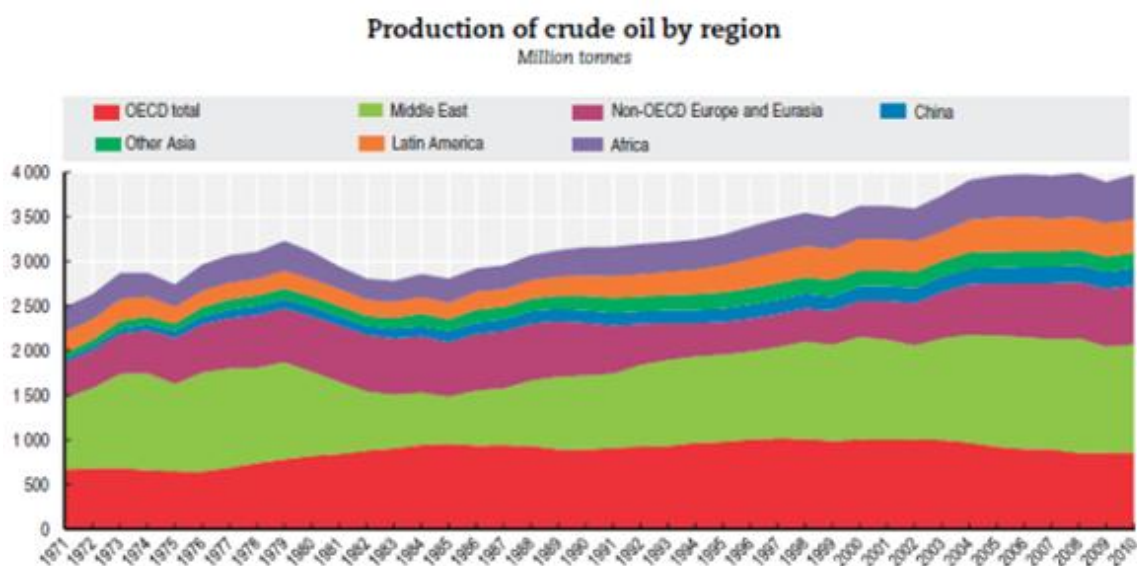
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<sup>54</sup> Carmody, P. and Taylor, I. (2009) "Flexigemony and Force in China's Geoeconomic Strategy in Africa: Sudan and Zambia Compared" *Institute for International Integration Studies*, Discussion Paper No. 277, Pg. 2

<sup>55</sup> Carmody, P. and Taylor, I. (2009) "Flexigemony and Force in China's Geoeconomic Strategy in Africa: Sudan and Zambia Compared" *Institute for International Integration Studies*, Discussion Paper No. 277, Pg. 18

<sup>56</sup> Clarke, D. (2008) "Crude Continent: The Struggle for Africa's Oil Prize" *Profile Books Ltd*. Pg. 79

Graph 2 - World Oil Production by Region<sup>57</sup>



The most predominant oil-rich states in Africa, in terms of estimated proven oil reserves, include Libya, Nigeria, Algeria, Angola, Sudan, Egypt, Uganda, Gabon, Congo Brazzaville, Chad, Equatorial Guinea and Ghana. This data is represented in Table 1.

Table 1 - Estimated Proven Oil Reserves in African States<sup>58</sup>

Rank	Country	Proven reserves (billion barrels), Jan 1, 2013	Proven reserves (billion barrels), Jan 1, 2012	Share of total Africa, Jan 1, 2013
1.	Libya	48.0	47.1	37.6%
2.	Nigeria	37.2	37.2	29.2%
3.	Algeria	12.2	12.2	9.6%
4.	Angola	10.5	9.5	8.2%
5.	Sudan	5.0	5.0	3.9%
6.	Egypt	4.4	4.4	3.4%
7.	Uganda	2.5	1.0	2.0%
8.	Gabon	2.0	2.0	1.6%
9.	Congo (Brazzaville)	1.6	1.6	1.3%

<sup>57</sup> OECD (2011) "Oil Production: Production of Crude Oil by Region" *OECD Factbook 2011-2012*

<sup>58</sup> Rachovich, D. (January 2013) "Top 12 Proven Oil Reserves Holders in Africa, Jan 1, 2013" *Petroleum Insights*

10.	Chad	1.5	1.5	1.2%
11.	Equatorial Guinea	1.1	1.1	0.9%
12.	Ghana	0.66	0.66	0.5%
<b>Total Africa</b>		<b>127.6</b>	<b>124.2</b>	<b>100</b>
<b>Total World</b>		<b>1637.9</b>	<b>1520.1</b>	
<b>Total OPEC</b>		<b>1204.7</b>	<b>1112.9</b>	

Proven oil reserves generally refer to the quantities of oil that “geological and engineering information indicates with reasonable certainty can be recovered in the future from known reservoirs under existing economic and operating conditions.”<sup>59</sup> In Table 1, the top six African states, with regards to proven reserves, include Libya, Algeria and Egypt and are situated in North Africa, holding an accumulative amount of 50.6 per cent of total African reserves. As these states are often considered part of the Middle East region, the focus of this research is instead on oil-rich states in Sub-Saharan Africa. The most predominant state in this region is Nigeria holding 29.2 per cent of Africa’s proven reserves, followed by Angola at 8.2 per cent, Sudan at 3.9 per cent, Uganda at 2.0 per cent, Gabon at 1.6 per cent, Congo Brazzaville at 1.3 per cent, Chad at 1.2 per cent, Equatorial Guinea at a minor 0.9 per cent and Ghana at 0.5 per cent. One of the key reasons for Sudan and Equatorial Guinea having been chosen as case studies for this research is the fact that Sudan represents one of the most oil-rich states in Sub-Saharan Africa, coming in at third place in terms of reserves and Equatorial Guinea represents a more minor, though no less significant, resource affluent state. This enables the two case studies undertaken to represent polar sides of the oil reserve spectrum.

Africa’s oil affluence has resulted in enduring struggles within and between African states. The oil rents generated from the reserves have contributed to the existence and prolongation of authoritarian regimes, resulting in further politically and economically oppressed populations. Table 2 provides information on the top 10 most significant oil producing states with regards to their oil production in barrels per day, the percentage of economic growth in approximately the last 10 years, political framework with regards to stable or unstable democracies or authoritarian regimes, corruption rankings, the amounts of barrels per day that they export and the main beneficiaries of their exported oil.

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<sup>59</sup> Rachovich, D. (January 2013) “Top 12 Proven Oil Reserves Holders in Africa, Jan 1, 2013” *Petroleum Insights*

Table 2 - Data on the Top 10 Oil Producing States in Africa<sup>60</sup>

Country	Production (bbl/day)	Average GDP Growth (+last 10 yrs)	Political Framework	Corruption Rank (Out of 176 countries)	Export (bbl/day)	Main Export Country
Nigeria	2,211,000	6.77%	Stable Democracy	139	2,102,000	United States
Algeria	2,125,000	3.70%	Unstable Democracy	105	1,694,000	Europe
Libya	1,790,000	8.00%	Unstable Democracy	160	1,580,000	Italy
Angola	1,948,000	11.20%	Stable Democracy	157	1,851,000	China
Egypt	680,500	3.90%	Unstable Democracy	118	163,000	India
Sudan	486,700	4.00%^	Unstable Authoritarian	173^^	383,900	China
Equatorial Guinea	322,700	15.50%	Stable Authoritarian	163	395,000	United States
Congo (Brazzaville)	274,400	0.50%	Unstable Authoritarian	144	211,800	China
Gabon	241,700	2.30%	Stable Democracy	102	213,500	United States
Chad	115,000	3.70%	Unstable Authoritarian	165	115,000	United States

\* In this regard, if a country is referred to as unstable, it is determined that it is experiencing some intrastate volatility especially in terms of political conflict. Some of the countries that have been deemed democracies are only democratic in theory, meaning that they have elections and a multiparty system of rule. In many of these cases the elections are proved to be fraudulent and anything but free and fair, often showing evidence of intimidation and violence by the ruling party against the civilians and political opponents.

^ Sudan's average GDP growth includes South Sudan as the average includes data taken from before the secession of the south.

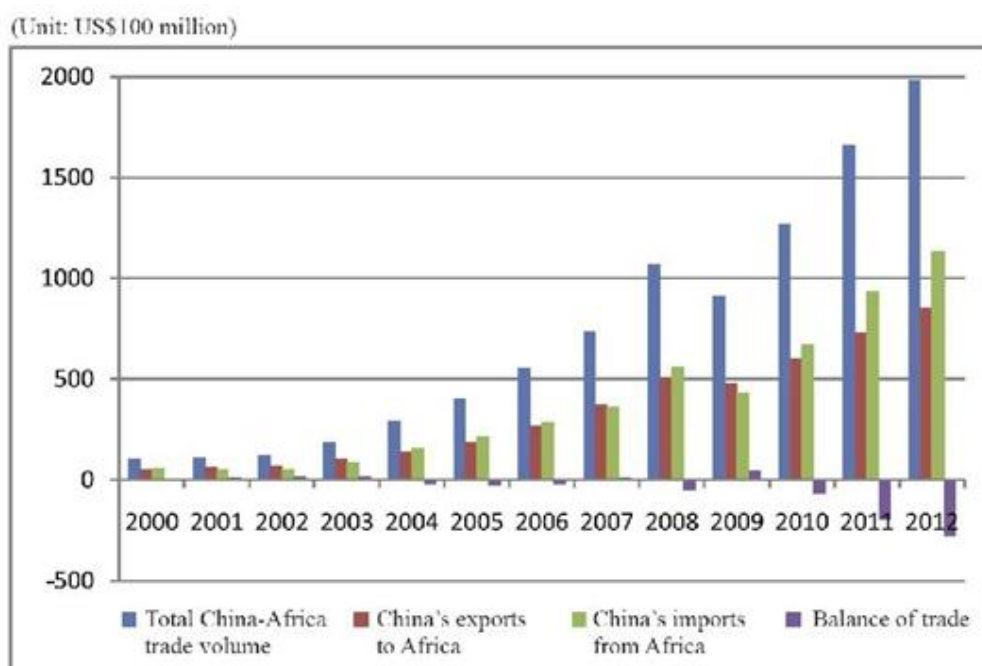
^^At present there is no data available for South Sudan. As a result, the data presented above refers to both states.

Most if not all countries presented above have experienced turbulent political histories since gaining independence from former colonisers. Some have managed to become stable democracies while others continue to be ruled by unstable authoritarians. All the countries present in Table 2 are considered to be in the most corrupt half of the world, the least corrupt, Gabon scoring 102 out of 176, while the most corrupt, Sudan, scoring 173 out of 176. There is also a small correlation between a country's political framework and its corruption ranking. From the data presented in Table 2, out of the top six most corrupt states, four of them have authoritarian regimes governing the populace.

<sup>60</sup> Data taken from; Said, S. (April 2013) "Top 10 Oil Producing Countries in Africa 2013"; Trading Economics (2013) "Indicators: Average GDP Growth"; Transparency International (2012) "Corruptions Perceptions Index"; and EIA (2012) "Global Trade Atlas: Crude Oil Exports by Destination"

In recent years, bilateral trade between Africa and China has progressively expanded in products and services traded including the monetary value of the increased trade. The African continent and China have become strategically significant trading partners, with China the largest beneficiary of Sub-Saharan Africa’s natural and energy resources and in reciprocation Africa receives large quantities of Chinese-made manufactured products, aid and infrastructure.<sup>61</sup> Graph 3 highlights China and Africa’s trade volume from 2000 to 2012 which emphasises the vast growth in bilateral trade over the past decade.

**Graph 3 - China and Africa’s Bilateral Trade Volume (2000-2012)<sup>62</sup>**



Although bilateral trade is increasing both ways, China’s imports from Africa are becoming greater than Africa’s imports from China resulting in an increasingly positive balance of trade for Africa. This is potentially due to China’s growing energy demands and is significant for the continent because Africa is becoming of greater strategic importance to China, thus more influence and power is placed in the control of African states, rendering them increasingly independent.

<sup>61</sup> US EIA (August 2013) “Oil and Natural Gas in Sub-Saharan Africa” *Independent Statistics and Analysis*

<sup>62</sup> The People's Republic of China (August 2013) “White Paper on China-Africa Economic and Trade Co-operation” <http://www.chinese-embassy.org.za/eng/znlj/t1070912.htm>, Retrieved 2 September 2013

# 3

## Case Study 1:

### Sudan and South Sudan

*“Christ was sold for 30 pieces of silver and our people are being sacrificed in exchange for barrels of oil.”<sup>63</sup>*

The case of Sudan focuses on testing the first part of the hypothesis, in terms of oil investment opportunities in the form of abandoned facilities. Chapter 3 begins with a profile of Sudan, comprised of a brief discussion of the country’s political background, its socio-economic environment and a history of the conflict in the state which led to the South’s secession. This profile assists in providing a context for the ensuing section of the chapter which deals with Sudan’s natural resource history, starting with the discovery of oil and moving on to a discussion regarding the location of the reserves and position of the concessions, the main international and domestic oil companies operating in the area and the process of investing in Sudan’s oil. This part of the case study focuses on the independent variables of which the *Nature and Degree of Chinese Involvement in African Oil* depends on. The first independent variable is *China’s Foreign Economic and Oil Policy in Africa* which deals with China’s specific policies with regards to its involvement in Sudan. The second independent variable is the *Host Government’s Policies with Regards to Oil Extraction*. In this case the government of Sudan is examined with regards to its oil laws and regulations, as well as, its PSAs and consortiums that have been formed between the national and international oil companies. The final independent variable is the *Host Country’s Availability of Reserves in Terms of Abandoned Facilities and New Opportunities*. With regards to Sudan’s conflict-filled history and the subsequent departure of US-based oil companies, new

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<sup>63</sup> Sudan Catholic Bishops Conference (2000) “Bishops in Plea to IGAD”

opportunities in the form of abandoned facilities arose for other international states, in this case China, to invest in Sudan's oil. The final two sections of this chapter focus more specifically on the US in Sudan centring on the former's foreign policy in Sudan and China in Sudan with an examination of Sudan's crude oil exports in which China is the predominant beneficiary. There is also closer attention paid to both countries' international oil companies operating in the region.

**Map 1 - Sudan's Position in Africa**<sup>64</sup>



## Profile of Sudan

### *A Political History*

Sudan is one of the most conflict-ridden states in Africa, which stems from the Berlin Conference of 1888. Sudan was colonised by Britain and Egypt in 1898 and a year later, the French, who had colonised South Sudan, passed the country off to the same colonisers who held authority over the north. When Sudan gained independence in 1956, the original borders were not replaced, but instead the north was given control over the south, which is home to people of a different culture and religion. Following independence, various governments and regimes in Khartoum in the north waged war and denied the south equality, social justice, freedom and participation in the running of the state.<sup>65</sup>

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<sup>64</sup> Pitt Rivers Museum (2010) "Africa" <http://www.prm.ox.ac.uk/cosmetics.html>, Retrieved 10 September 2013

<sup>65</sup> Teny-Dhurgon, R. (1995) "South Sudan: A History of Political Domination - A Case of Self-Determination" University of Pennsylvania – African Studies Centre

Sudan's political history is unstable and saturated with coups d'état. The most recent occurred on 30 June 1989, which witnessed the coming into power of the Revolutionary Command Council for National Salvation (RCC-NS), led by Umar Hassan Ahmad al Bashir, which took on a more ruthless form of rule by banning all other political parties and arresting several political leaders.<sup>66</sup> In an attempt to increase its legitimacy, the RCC-NS devised a meeting with members from various opposition parties, most of which sent delegates – the Sudanese People's Liberation Movement founded in 1983 by the south, was noticeably absent. The outcomes of this meeting were inadequate in stabilising the region as the ruling party controlled the agenda and disallowed any criticism to its rule. Although there have been numerous attempts to overthrow al-Bashir's regime since his inauguration, none have as yet succeeded and his regime is currently still in power in the north.

On 11 July 2011, as a result of the issues between the north and the south, South Sudan seceded to form its own separate and independent state led by President Salva Kiir Mayardit. This independence is significant especially with regards to the position of the oil reserves, as a vast majority of them are found in South Sudan. Politically, the new government in the south faces numerous challenges both domestically and internationally, predominantly a result of the lack of preparation, scarcity of funds and other social and cultural issues. Some of the more serious problems include border disputes with the north, issues over oil reserves, ethnic diversity and economic challenges. The lack of existing economic infrastructure such as roads, railways, water systems and health and social welfare services comprise several other issues facing South Sudan. This lack of infrastructure restricting amongst others access to markets also prevents the maximum exploitation of the natural resources that are found in the region.<sup>67</sup>

### *Socio-economic Climate*

The socio-economic situation in Sudan has a long history of a lack of commitment to implementing long-term sustainable and balanced economic development plans and strategies which has created a situation of high unemployment and generally a low GDP of US\$ 1600 per capita in 2010. The economic characteristics of Sudan also indicate great diversity in

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<sup>66</sup> Federal Research Division of the Library of Congress (1988-1999) "Sudan – Institutions of Government" *The Country Studies Series*

<sup>67</sup> Bakhshi, A. (2011) "The Secession of South Sudan" *Tehran Times*

population, standard of economic development defined by Gross National Income (GNI) and GDP per capita and the Human Development Index (HDI). In 2012, Sudan’s population was averaged at 37.2 million people and South Sudan’s at 10.84 million.<sup>68</sup> On average Sudan has a higher population coupled with a lower standard of economic development. According to the World Bank, Sudan’s economy is among the lower-middle income bracket. The United Nations Development Programme-Human Development Index (UNDP-HDI) ranks Sudan 171 out of 186 countries. The average life expectancy is 61.8 years, the adult literacy rate is 71.1 per cent<sup>69</sup> and the combined enrolment ratios of Sudan are lower than those of other Arab and various countries.<sup>70</sup> This is clear from Table 3 below, which portrays Sudan’s HDI to be significantly lower than other states.

**Table 3 - Human Development Index Sudan (1990 – 2012)<sup>71</sup>**

<b>Human Development Index</b>				
<b>Year</b>	<b>Sudan</b>	<b>Low human development</b>	<b>Arab States</b>	<b>World</b>
2012	0.414	0.466	0.652	0.694
2011	0.419	0.464	0.650	0.692
2010	0.411	0.461	0.648	0.690
2005	0.390	0.424	0.622	0.666
2000	0.364	0.385	0.583	0.639
1995	N/A	N/A	0.546	0.618
1990	0.301	0.350	0.517	0.600

The economy of Sudan is considered to be in a state of disarray. The main causes of this have been the unstable government structure, the influx of refugees from other states and internal migration, a climate which has resulted in a lower than normal level of rainfall for the desert region contributing to the frequent failure of staple food and cash crops and most importantly,

<sup>68</sup> UN Data (2013) “Sudan” *World Statistics Pocketbook, United Nations Statistics Division*

<sup>69</sup> International Human Development Indicators (2013) “Sudan – Country Profile: Human Development Indicators” *United Nations Development Programme, 2013 Report*

<sup>70</sup> Nour, S. (2013) “Economic Development Challenges in Sudan and the Need for Skill Upgrading and Technological Development” in *Technological Change and Skill Development in Sudan*, Pg. 18

<sup>71</sup> International Human Development Indicators (2013) “Sudan – Country Profile: Human Development Indicators” *United Nations Development Programme, 2013 Report*

the violent civil conflicts.<sup>72</sup> After South Sudan gained independence, its socio-economic condition was fragile and experienced low levels of development. It is poorer than the north and in dire need of the development of stronger education systems, infrastructure and medical facilities, as well as, the attainment of food security in order to provide for its population.<sup>73</sup>

### *A Conflict-ridden State*

Since independence, there have been two main civil wars devastating Sudan, one from 1955 to 1972 and the latest, from 1983 to 2005, recently ending with the signing of the Comprehensive Peace Agreement.<sup>74</sup> These dates mark the official beginning and end to the regions civil wars, however, in addition to these wars it must be noted that conflict has been continuous with varying degrees of hostility throughout its past. Religious affiliation has been one of the contributing factors to civil unrest, acting as a principal marker for national identity. Religion also played a part in identifying and dividing the north from the south as the collective population of Sudan consists of roughly 70 per cent Muslims, the majority of whom live in the north. The remaining 30 per cent are a combination consisting of Christians and traditional indigenous beliefs, which predominantly live in the south.<sup>75</sup> Whilst of clear significance, religion alone is not the exclusive contributing factor to the continuous conflict. Instead, the focus of communities in South Sudan in achieving political freedom, African identity and equal economic opportunities, contribute to the religious tensions that are deeply embedded in almost all of the grievances experienced by the Southerners. Of these complexities, ethnic disparities are possibly the second largest contributing factor towards civil unrest in the region, apart from the control and access to oil reserves. As the conflict in Darfur reveals, the Arab elite's hostility is aimed at specific, non-Arab ethnic groups. Consequently, the violence directed towards African tribes throughout the Sudanese region, has been labelled genocide. Khartoum has characterised the war a 'jihad' in order to gain support from the Arab world, although al-Bashir's troops have been found guilty of killing any and all Africans even ones who practice the Muslim religion.<sup>76</sup>

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<sup>72</sup> Fadlalla, M. (2004) "Short History of Sudan" *iUniverse*, Pg. 118

<sup>73</sup> O'Neill, K. (2011) "South Sudan Now Needs Socio-Economic Development" *Policy Mic*

<sup>74</sup> Berkley Centre for Religion, Peace and World Affairs (May 2011) "Sudan: Race and Religion in Civil War" *Case Study Series*, Georgetown University

<sup>75</sup> Berkley Centre for Religion, Peace and World Affairs (May 2011) "Sudan: Race and Religion in Civil War" *Case Study Series*. Georgetown University

<sup>76</sup> Compass Direct News (March 2012) "Christians Targeted in Sudan's 'Ethnic Cleansing'"

In terms of conflict surrounding natural resources, the Sudanese government has tampered with South Sudan's political rights in order to gain authority over the resources located in the south. This infringed on the area's regional autonomy through the abolition of the right to tax the extraction of natural resources in its territory.<sup>77</sup> As a result of the government's inclination to control the oil reserves, it began replacing southern troops with northern army units and redrew provincial boundaries, thereby placing the oil fields in northern territory and consequently removing the jurisdiction of the oil from the south.<sup>78</sup> After South Sudan's secession, this caused further conflict between the two regions over border disputes and the access to natural resources. The regions natural resources and energy reserves are examined in further detail in the succeeding section.

## **International Interest in Energy Resources**

### *The Discovery of Oil*

Sudan is currently ranked 30th in the world in oil production, with approximately 514,300 barrels being produced per day<sup>79</sup> and 5 billion barrels of proven oil reserves as of January 2013.<sup>80</sup> In 2011, Sudan was Sub-Saharan Africa's third largest oil producer and exporter<sup>81</sup>. Although disruption in oil production occurred in 2012, a consequence of disputes regarding oil transit fees, South Sudan remained the regions third largest oil producer in 2013, this measure taken after secession with the north,<sup>82</sup> and accounts for approximately 73 per cent of its total export revenue.<sup>83</sup> Oil was first discovered in Sudan in the late 1970s in the southern region of the state, but production only officially beginning in the 1990s.<sup>84</sup> Most of the reserves are located in the Muglad and Melut basins which extend over both Sudan and South Sudan. The majority of these oil reserves, approximately 3.5 billion barrels, are found in the south, while the northern reserves amount to approximately 1.5 billion barrels. To transport

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<sup>77</sup> Alier, A. (1990) "Southern Sudan: Too many Agreements Dishonoured" Pp. 219-224

<sup>78</sup> Melvill, D. (2002) "Restoring Peace and Democracy in Sudan" *Institute for Global Dialogue*, P. 6

<sup>79</sup> CIA World Factbook, (January 2012) "Sudan Oil Production" *Index Mundi*

<sup>80</sup> Oil and Gas Journal, (December 2012) "Worldwide Look at Reserves and Production" *Oil and Gas Journal*, Vol. 110, No. 12

<sup>81</sup> Nour, S. (2011) "Assessment of the Impact of Oil: Opportunities and Challenges for Economic Development in Sudan" *African Review of Economics and Finance*, Vol. 2, No. 2

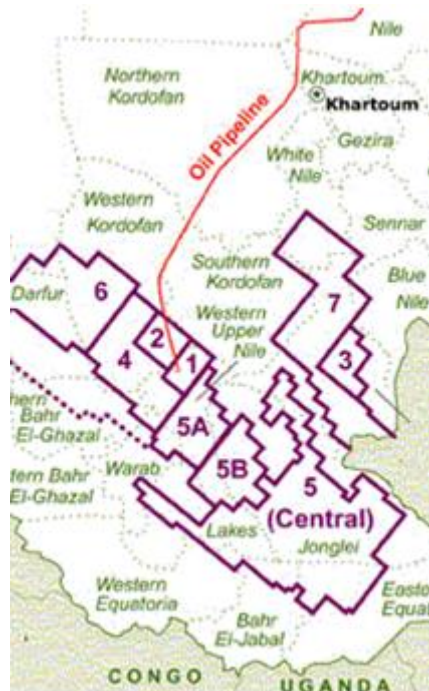
<sup>82</sup> Akongdit, A. (2013) "Impact of Political Stability on Economic Development: Case of South Sudan" Pg. 163

<sup>83</sup> Fikreyesus, D. (2012) "Oil and U.S. Foreign Policy towards Africa" Political Science Dissertations, Georgia State University

<sup>84</sup> Lupai, J. (May 2013) "Oil: Is it a Curse or a Blessing in South Sudan?" *Sudan Tribune*

the oil from these fields for refinery and exportation, a pipeline stretching through the landlocked South Sudan to Port Sudan at the Red Sea in the north was built.<sup>85</sup> The position of these reserves and the route of the pipeline are shown on Map 2.

Map 2 - Sudan and South Sudan Oil Block Concessions and Pipeline<sup>86</sup>



In Sudan, the Ministry of Finance and National Economy regulates all domestic refinery and oil imports. The Sudanese Petroleum Corporation, an arm of the Ministry of Petroleum, is responsible for exploration, production and the distribution of crude oil and petroleum in accordance with regulations set out by the Ministry’s protocol. The main state-owned oil company operating in Sudan is the Sudan National Petroleum Corporation (Sudapet) and its correspondent in South Sudan, the Nile Petroleum Corporation (Nilepet). On secession, South Sudan nationalised Sudapet’s assets in the south at the end of 2011 and transferred them to Nilepet. Both state-owned companies are active in their respective country’s oil exploration and production and are additionally often minority shareholders in projects with international oil companies motivated by their limited technical knowledge and financial resources.<sup>87</sup> Table 4 highlights China’s frequent presence in Sudan and portrays the other main

<sup>85</sup> U.S. Energy Information Administration, (September 2013) “Oil” *Sudan and South Sudan*

<sup>86</sup> Miller, M. (2003) “Oil and Gas Concessions in Sudan” *Afrol News*

<sup>87</sup> U.S. Energy Information Administration, (September 2013) “Oil Sector Regulation” *Sudan and South Sudan*

international and domestic oil companies currently investing in oil in Sudan. Evidently, the state has attracted a range of global players, especially Asian companies.

**Table 4 - Oil Companies Operating in Sudan and South Sudan 2013<sup>88</sup>**

Consortium/subsidiary	Company	Country of origin	Share (percent)
Greater Nile Petroleum Operating Company (GNPOC)	CNPC	China	40
	Petronas	Malaysia	30
	ONGC	India	25
	Sudapet	Sudan	5
	Nilepet	South Sudan	5
Dar Petroleum Operating Company (DPOC)	CNPC	China	41
	Petronas	Malaysia	40
	Nilepet	South Sudan	8
	Sinopec	China	6
	Egypt Kuwait Holding	Egypt	3.6
	Other partner(s)	--	1.4
Sudd Petroleum Operating Company (SPOC)	Nilepet	South Sudan	41.9375
	Petronas	Malaysia	33.9375
	ONGC	India	24.125
Petro Energy E&P	CNPC	China	95
	Sudapet	Sudan	5
Star Oil	Ansan Wikfs	Yemen	66
	Sudapet	Sudan	34

<sup>88</sup> U.S. Energy Information Administration, (September 2013) “International Oil Companies” *Sudan and South Sudan*

## *Investing in Oil in Sudan*

After the discovery of oil, Sudan received greater attention in the international arena. In an effort to maximise these resources, the government of Sudan has been found to offer favourable terms and rates for several companies contributing to the state, receiving greater interest from foreign investors ranging from multi-national oil companies, to national oil companies and private and individual investors.<sup>89</sup> In 1959, Italian-based oil company, AGIP, was granted the first exploration permit in the Red Sea. These efforts proved unsuccessful with no reserves being discovered up until the 1970s. In 1974, several US oil companies were granted concessions. American Pacific International was awarded 3 blocks, ADOPE Corporation of US-based TEXAS awarded 1 block and Chevron Oil Company was granted a concession in the Red Sea. In addition, licenses in the south-western and south-eastern interior basins were granted. In 1975, Chevron's license in the interior was transformed into a PSA. In 1993, State Petroleum Corporation was awarded Blocks 1, 2 and 4, which can be seen in Map 3 and in 1995, China National Petroleum Corporation (CNPC) signed an Exploration and Production Sharing Agreement (EPSA) over Block 6.<sup>90</sup> Since the discovery of oil, several other international oil companies have also been granted concessions and have invested in the oil sectors of both Sudan and South Sudan. As the interest of this paper lies with Chinese and US-based oil companies, these remain the focus of this chapter.

**Map 3 – A Detailed View of South Sudan's Oil Concessions<sup>91</sup>**



<sup>89</sup> Sharfi, Y. (2004) "Introduction" in *Oil Opportunities in Sudan*, Samasu International Company Ltd, Pg. 2

<sup>90</sup> Sharfi, Y. (2004) "History of Oil Exploration" in *Oil Opportunities in Sudan*, Samasu International Company Ltd, Pp. 3-5

<sup>91</sup> Miller, M. (2003) "Oil Concessions in Central and Southern Sudan" *Human Rights Watch*

When viewed from a Liberalist standpoint, oil companies that become involved in the extraction and investment of oil in Sudan need to co-operate with the government and with other oil companies already involved in the area, in order for all parties to experience the maximum financial benefits that are available.<sup>92</sup> This co-operation can be seen in the form of PSAs and EPSAs that have been formed between foreign oil companies and the government of Sudan and the consortiums that have been formed between various oil companies. Co-operation is a necessity in this regard in order for foreign companies to be awarded concessions by the state and to be granted the opportunity to become involved in the extraction and production of oil in order for them to meet their domestic energy needs to diversify their energy sources. Through China's various infrastructure and development projects in Sudan and post-secession South Sudan, it is evident that the country's oil companies have gone even further with their co-operation with the government, ensuring access to the oil reserves in exchange for investment in the development of other sectors of the country and its economy.

In September 2013, China granted a loan to South Sudan of an amount between US\$1 billion and US\$2 billion for the development of infrastructure, mining and agricultural projects.<sup>93</sup> In the past, Sudan has also been a receiver of significant aid and foreign direct investment (FDI) from China, encouraged by mutual respect and South-South co-operation. China's investments in both Sudan and South Sudan clearly predispose it to favour a quick and peaceful resolution to the North-South dispute. The oil pipelines in the north were constructed and are operated by a Chinese-led consortium whose upfront construction costs have yet to be recovered, resulting in China benefitting financially from a resolution to the conflict. In addition to oil, Chinese companies have been set up in various sectors of South Sudan, including infrastructure, agriculture and telecommunications.<sup>94</sup> The Chinese ambassador to South Sudan, Ma Qiang, commented on the granting of the recent loan to the south by stating that, "We want to enhance the friendship and the very good relationship with South Sudan...to encourage a lot of Chinese companies to join the development of South

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<sup>92</sup> Moravcsik, A. (Unknown) "Liberalism and International Relations Theory" *Centre for European Studies*, Paper No. 92 - 6

<sup>93</sup> Tapula, T. (September 2013) "China to help South Sudan develop mining sector: How can South Africa get involved?" *Centre for Chinese Studies*

<sup>94</sup> Francis, C. Madasamy, P. Sokkary, S. and You, S. (2012) "China and the Sudan-South Sudan Oil Fee Impasse: Implications of Chinese Foreign Aid, Diplomacy and Military Relations" Pp. 16-17

Sudan”<sup>95</sup> The investment of China and Chinese companies in various sectors of Sudanese and South Sudanese infrastructure and development projects and the emphasis on South-South co-operation refers to its foreign policy in the African state, especially with regards to its oil policy. This relates to the first independent variable, *China’s Foreign Economic and Oil Policy in Africa* on which *The Nature and Degree of Chinese Involvement in African Oil* is dependent. Through its various investment and development projects in oil-rich African states, an aspect of its international oil policy, its aim is to forge relationships and encourage co-operation in order to ensure access to energy reserves. This rests on the notion that the more involved China is in other aspects of Sudan and South Sudan’s infrastructure, economic and development sectors, the greater the degree of its involvement in and access to African oil will be.

The legal framework of investing in oil in Sudan includes the Petroleum Resources Act of 1998 and the Petroleum Regulations of 1973 which assist in regulating the exploration and production of oil and gas reserves both onshore and offshore in Sudan. Amendments to the Petroleum Resources Act stipulate that the Minister of Energy and Mining, with the approval of the Board of Petroleum Affairs, has the right to conclude agreements for the exploration and production of oil or gas in Sudan. All agreements signed by the Sudanese government with an international oil company are PSAs or EPSAs, which encompass the rights and obligations of the government and the oil company. Under the PSA or EPSA, the oil company recovers its operations costs as an agreed and negotiable percentage of the total production, with the profit divided between the government and the oil company according to a certain percentage as agreed to by both parties. Various benefits under these agreements accrue to the oil companies, for example, equipment owned and used by the company in oil extraction, production or any petroleum operations are exempt from customs duties. In addition, the oil discovered and exported by the oil company is exempt from any export taxes. Exchange rights are also provided for in the PSA or EPSA and the oil company is given the right to sell its share of oil or gas and keep the proceeds outside of Sudan.<sup>96</sup>

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<sup>95</sup> Qiang, M. (September 2013) “China to Help South Sudan Develop Mining, in Talks on Development Loan” *Reuters*

<sup>96</sup> Sharfi, Y. (2004) “Legal Framework” in *Oil Opportunities in Sudan*, Samasu International Company Ltd, Pg. 15

The Ministry of Petroleum and Mining passed the Petroleum Act of 2012 and the Petroleum Policy, which established legal frameworks and regulations to promote private sector investment in South Sudan. The Act also established the National Petroleum and Gas Corporation (NPGC) which is the main policymaking and supervisory body of the hydrocarbon sector and is authorised to make decisions on the government's behalf.<sup>97</sup> The Investment Promotion Act of 2009 provides investor protection in several areas including guarantees against expropriation, protection for intellectual property rights and mechanisms for dispute resolution. South Sudan has also become an attractive investment destination as a result of increases in new business registration and high comparative advantages of doing business in the state. South Sudan also plans on developing public-private partnerships focused on facilitating investment in key sectors of the country.<sup>98</sup> Several aspects discussed highlight some of the economic benefits of investing in oil in Sudan and more recently, South Sudan. The legal framework and investing provisions that are operational refer to the government of Sudan and the government of South Sudan's policies with regards to oil production and extraction, relating to the second independent variable, the *Host Government's Policies with Regards to Oil Extraction*. These policies stipulate the rights of the oil companies, the concessions that are made to them, the partnerships that the companies have with the government, details regarding profit, equipment and taxes, legal regulations, investor protections and the development of public-private partnerships. These laws and regulations regarding the exploration and production of oil all contribute to the nature and degree of Chinese involvement in Sudan's oil reserves, as the government is ultimately responsible for and has control over which oil companies can be awarded concessions. This reinforces the importance of co-operation in the international arena with regards to financial and resource security.

The third and final independent variable is the *Host Country's Availability of Reserves in Terms of Abandoned Facilities and New Opportunities*. With regards to the case study on Sudan, emphasis is placed on the examination of the availability of reserves in terms of abandoned facilities, specifically by Western companies. Sudan and South Sudan also have a variety of emerging opportunities in the form of recent oil reserve discoveries in new geographical areas. Oil has recently been discovered in the Anza Basin in Kenya, portrayed

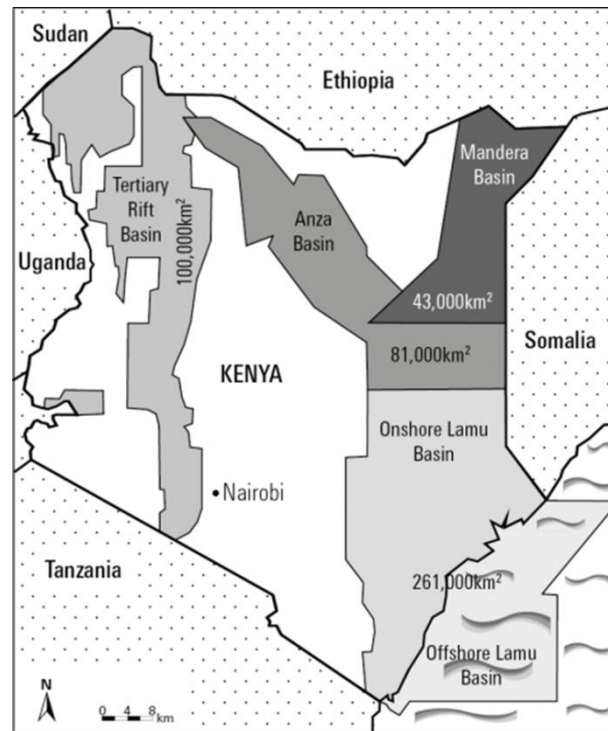
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<sup>97</sup> U.S. Energy Information Administration, (September 2013) "Oil Sector Regulation" *Sudan and South Sudan*

<sup>98</sup> Majok, E. (2012) "Investing in South Sudan" in *South Sudan Petroleum Sector*, South Sudan Investment Authority

in Map 4, indicating additional areas for exploration along the South Sudan and Kenyan border. These exploration licences are expected to be issued in approximately two years.<sup>99</sup>

Map 4 - Kenya's Four Hydrocarbon Basins<sup>100</sup>



There are also new opportunities becoming available through the construction of new refineries. Two small refineries are already in various stages of construction, with anticipation of a further two to three additional ones expected to be built in the near future. Early opportunities are also being made available throughout the oil supply chain in energy, transport, training, data management and petroleum laboratories to access the available natural resources of this region. The construction of an additional pipeline for export and domestic use between South Sudan's oil fields is also being planned.<sup>101</sup> This will improve the ability to transport the oil and will assist in maximising the exploitation of the reserves currently in use in order to achieve the maximum benefits from the oil opportunities available in South Sudan.

<sup>99</sup> Majok, E. (2012) "Investing in South Sudan" in *South Sudan Petroleum Sector*, South Sudan Investment Authority

<sup>100</sup> Vasquez, P. (2013) "Kenya's Four Hydrocarbon Basins" in *Kenya at a Crossroads: Hopes and Fears Concerning the Development of Oil and Gas Reserves*, International Development Policy

<sup>101</sup> Majok, E. (2012) "Investing in South Sudan" in *South Sudan Petroleum Sector*, South Sudan Investment Authority

### *United States Oil Investment in Sudan*

US foreign policy framework differs from other states, especially China. In the past, the West has been known for its approach to and interactions with other states, by placing significant focus on human rights, good governance and democracy at the forefront of its foreign policies. This approach is supported by the Washington Consensus which, established in 1989, consists of ten policies that the US government believed were necessary elements of first stage policy reform that all countries should adopt to increase economic growth. This framework included fiscal discipline, public expenditure priorities, tax reform, financial liberalisation, exchange rates, trade liberalisation, the increase of FDI, privatisation, deregulation, secure intellectual property rights and the reduction in the role of the state.<sup>102</sup> These ideas proved to be highly controversial and consequently contributed to the creation, in the early 1990s, of a new synthesis which was described as an emerging Post-Washington Consensus. Renewed interest in poverty reduction and governance issues and the emphasis on the importance of institutions was placed at the forefront of this new approach. The growing recognition of the importance of democratic regimes in creating transparent and accountable states was also a focal point of the Post-Washington Consensus.<sup>103</sup>

After oil was discovered in Sudan, international oil companies saw it as an opportunity for investment and a chance to diversify their sources of energy and to ensure a constant supply to meet their domestic needs. US-based oil company, Chevron, was amongst the initial major oil companies to be granted a concession which occurred in 1974. This led to Chevron discovering exploitable oil in the region in 1978 and by 1983 was in the process of developing the Unity and Heglig oilfields – the location of these fields is shown on Map 5 in Blocks 1 and 2.

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<sup>102</sup> World Health Organisation (Unknown) “Washington Consensus” *Trade, Foreign Policy, Diplomacy and Health*

<sup>103</sup> Onis, Z. and Senses, F. (November 2003) “Rethinking the Emerging Post-Washington Consensus: A Critical Appraisal” *Economic Research Centre*

Map 5 - South Sudan's Oil Block Concessions<sup>104</sup>



Chevron invested more than US\$900 million into oil exploration but payoffs were limited.<sup>105</sup> With the onset of the second civil war, the atmosphere in Sudan became volatile. In 1984, rebel troops killed three expatriate employees which resulted in Chevron terminating all operations in Block 1. In the early 1990s, the US-based oil company disinvested entirely from its other concession areas in the region.<sup>106</sup> Chevron's decision to sell its concessions in Sudan was also closely related to the US policies towards Sudan during that period, in addition to insecurity, poor relations with the domestic government and pressure from the US government.<sup>107</sup> In 1997, as a result of the human rights violations, the conflict in Darfur and the genocide that was occurring within Sudan, the US placed the country under economic,

<sup>104</sup> United States Agency for International Development (2012) "Sudan Oil and Gas Concession Holders - Sudan Maps"

<sup>105</sup> Moro, L. (2008) "Oil, Conflict and Displacement in Sudan" Pg.128

<sup>106</sup> Goldsmith, P. Abura, L. and Switzer, J. (2002) "Oil and Water in Sudan" *Scarcity and Surfeit: The Ecology of Africa's Conflicts*, Pretoria, South Africa: Institute for Security Studies, Pg. 222

<sup>107</sup> Patey, L. (2006) "A Complex Reality: The Strategic Behaviour of Multinational Oil Corporations and the New Wars in Sudan" Danish Institute for International Studies, Pg. 16

trade and other financial sanctions. In 2006, further comprehensive US sanctions were placed and maintained on Sudan, but the regional government in South Sudan was exempt from these sanctions in order to facilitate reconstruction efforts in this war-torn region.<sup>108</sup>

When Chevron decided to withdraw from Sudan, its previously owned concession areas, specifically Blocks 1, 2 and 4, were put up for sale. This opened up investment opportunities for other international oil companies, specifically actors who were more concerned with energy security rather than good governance and human rights. Chevron sold its concessions to the Sudanese company Concorp International in 1992. Concorp then sold off the exploration and production blocks to the Canadian oil company, State Petroleum Corporation.<sup>109</sup> In 1994, Arakis Energy, also Canadian-based, bought out State Petroleum Corporation and acquired Blocks 1, 2 and 4 of the original Chevron concessions. Arakis faced difficulties in securing the finances required to fulfil its exploration and production agreements with the Sudanese Government. This resulted in it selling 75 per cent of its shares in 1996, to three other oil companies, CNPC which gained 40 per cent, Malaysian-based Petronas which gained 30 per cent and Sudapet which gained 5 per cent and with which it jointly formed the Greater Nile Petroleum Operating Company (GNPOC).<sup>110</sup>

Discussions have recently been entered into between the US and South Sudan regarding the former's investment in the newly independent state's oil industry and the construction of an additional pipeline through Kenya to the Indian Ocean. It is currently unclear whether US oil companies will be granted concessions in the areas of these new found interests which are currently dominated by Asian investors.<sup>111</sup>

### *Chinese Investment in Sudan*

Regardless of US policies and sanctions towards Sudan, the state managed to develop and eventually commence producing oil in 1999. This achievement was realised mainly through

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<sup>108</sup> Fatal Transactions (2008) "Whose Oil?" *Sudan's Oil Industry: Facts and Analysis, April 2008*, Pg. 11

<sup>109</sup> Ziada, I. (Unknown) "Oil in Sudan: Facts and Impact on Sudanese Domestic and International Relations" *Sudan Tribune*, Pg. 5

<sup>110</sup> Rone, J. (2003) "Sudan, Oil and Human Rights" *Human Rights Watch*, Pp 162-166

<sup>111</sup> Nduru, M. (July 2013) "South Sudan Invites US Companies to Invest in Oil Industry" *McGraw Hill Financial*

the investments made by Chinese and Malaysian oil companies.<sup>112</sup> During the second half of the 1990s, Chinese companies in partnership with Sudapet formed two joint operating companies, GNPOC and the Petrodar Operating Company (PDOC). These two consortia became the main oil producers in both Sudan and South Sudan.<sup>113</sup> State-owned CNPC was established in 1988 and serves as China's oil and gas corporation, of which PetroChina is an arm. Apart from CNPC's 40 per cent shareholding in the GNPOC in Blocks 1, 2 and 4, the Chinese company also has a 92 per cent interest in Block 6, a 41 per cent share in the PDOC consortium in Blocks 3 and 73 per cent shares in Block 15, in addition to majority interests in two other blocks currently under exploration.<sup>114</sup>

CNPC is the biggest foreign player in the Sudanese oil industry and in 2005 more than 60 per cent of Sudan's oil output went to China, supplying 5 per cent of its oil needs. While China imports significantly more oil from Angola, China considers Sudanese oil as a more reliable source of supply because of the state-owned CNPC's direct involvement within Sudan.<sup>115</sup> The company also plays an active role in oil field services having constructed two pipelines in Sudan, which consequently transformed it into an oil exporting state in 1999.<sup>116</sup> China Petroleum and Chemical Corporation, or Sinopec Limited, is another Chinese oil and gas company founded in 2000. Sinopec's investments in oil in Sudan are not as significant as those of CNPC as Sinopec only has a total of approximately 6 per cent shares in the PDOC in Blocks 3 and 7.<sup>117</sup> Although Sudanese oil only contributes to approximately 5 per cent of China's oil needs, Graph 4 reinforces the fact that China is of great financial and strategic importance to Sudan, as over 70 per cent of its growing oil production since 2011, is exported to the Eastern country.

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<sup>112</sup> Ziada, I. (Unknown) "Oil in Sudan: Facts and Impact on Sudanese Domestic and International Relations" *Sudan Tribune*, Pg. 14

<sup>113</sup> Grawert, E. and Andra, C. (2013) "Brief 48: Oil Investment and Conflict in Upper Nile State, South Sudan" Bonn International Centre for Conversion, Pg. 18

<sup>114</sup> Ziada, I. (Unknown) "Oil in Sudan: Facts and Impact on Sudanese Domestic and International Relations" *Sudan Tribune*, Pg. 7

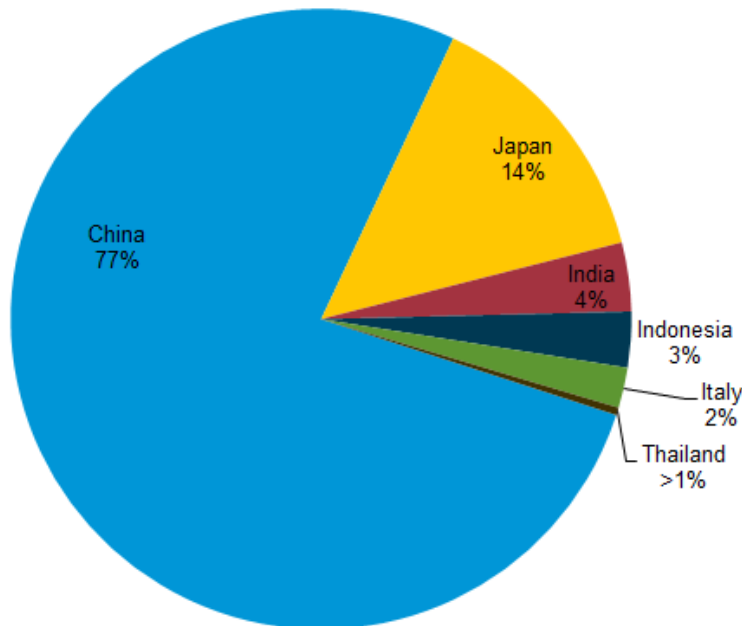
<sup>115</sup> Francis, C. Madasamy, P. Sökkary, S. and You, S. (2012) "China and the Sudan-South Sudan Oil Fee Impasse: Implications of Chinese Foreign Aid, Diplomacy and Military Relations" Pp. 16-17

<sup>116</sup> Ziada, I. (Unknown) "Oil in Sudan: Facts and Impact on Sudanese Domestic and International Relations" *Sudan Tribune*, Pg. 14

<sup>117</sup> Grawert, E. and Andra, C. (2013) "Brief 48: Oil Investment and Conflict in Upper Nile State, South Sudan" Bonn International Centre for Conversion, Pg. 12

#### Graph 4 - Sudan's Oil Exports 2011<sup>118</sup>

Sudan and South Sudan crude oil exports, including lease condensate, by destination, 2011



Evidence indicates that the eventual transfer of Blocks 1, 2 and 4 concessions from US-based Chevron to CNPC was a peaceful one. In this particular case, there is no evidence to suggest that there is a 'New Scramble for Africa' playing out between the East and the West on the continent. Instead it reinforces the Liberalist opinion that economics should determine politics. Essentially international oil companies operating within an oil-rich state treat its dealings as a private business. The exception to this perspective is the pressure that US companies received from the US government to withdrawal from Sudan and the fact that Chinese oil companies are state-owned. Both exceptions incorporate a sense of politics into these 'private' economic enterprises, although it does not detract from the ideas supported by Liberalists.

As a result of the extent of the conflict and genocide that has occurred in Sudan, China has been criticised for its activities and apparent support of the government. The US's withdrawal sees China facing little competition from Western companies and instead it has secure access to oil reserves in the region. This advantage has been potentially detrimental to China's

<sup>118</sup> U.S. Energy Information Administration, (September 2013) "Crude Oil Exports" *Sudan and South Sudan*

already negative international opinion.<sup>119</sup> China in the past has often stressed its foreign policy regarding non-intervention and emphasised its purely commercial involvement in Sudan. Since 2006, potentially as a result of these negative opinions, it appears that its views on diplomacy in Sudan began to alter, specifically with regards to the conflict in Darfur. Using a three-phase plan for deployment, outlined by the United Nations (UN), China began to persuade al-Bashir to accept the plan and adopt measures to alleviate the crisis. In 2007, Chinese president Hu Jintao, visited Sudan and emphasised five principles including respecting Sudan's sovereignty, insisting on dialogue on an equal basis, allowing the African Union and UN to play a constructive role in peacekeeping, promoting stability in the region and improving the living conditions of the local population. The government of Sudan accepted a significant portion of this plan and the Chinese government appointed a special representative for African affairs, whose initial mandate was focused on the issue in Darfur.<sup>120</sup> Although China has been criticised for its involvement in undemocratic or failed states where human rights violations are prevalent, the Asian state has attempted to influence the Sudanese government, without infringing upon its sovereign rights as a nation state and adhering to its own foreign policy of non-intervention. Although the West has criticised China for continuing to pursue economic ties with Sudan through its oil industry, China has assisted in the development of the African state through its various development and infrastructure projects. While the economic benefits of the state's oil production are not necessarily benefitting the general population, the oil-rents, specifically those generated in the south have contributed to the freedom of the people and the political secession of South Sudan.

## Conclusion

This chapter examined one of Africa's most conflict-ridden states since gaining independence from its former colonisers. The region has experienced two civil wars and violent conflicts driven by a variety of different reasons including ethnicity, religion, politics and after the discovery of oil, by US-based Chevron, control over the reserves. After the onset of the second civil war, the murders of three expatriate employees at the Chevron oil concession

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<sup>119</sup> Lee, H. and Shalmon, D. (2008) "Searching for Oil: China's Oil Strategies in Africa" in Rotberg, R. (ed.) *China into Africa: Trade, Aid and Influence*, Brookings Institution Press, World Peace Foundation, Pg. 124

<sup>120</sup> Lee, H. and Shalmon, D. (2008) "Searching for Oil: China's Oil Strategies in Africa" in Rotberg, R. (ed.) *China into Africa: Trade, Aid and Influence*, Brookings Institution Press, World Peace Foundation, Pg. 129

and increased pressure from the US government, Chevron withdrew from Sudan and sold its concessions. As a result of these facilities being 'abandoned', further investment opportunities emerged for other international oil companies. A percentage of these concessions were eventually bought by Chinese-based CNPC who subsequently became one of the most dominant companies and states, in Sudan. Sudan is not a democracy and the oppressive and violent military regime under al-Bashir, amongst other reasons, led to the secession of the south in 2011. As most of the reserves are situated in the south, instability has continued, further fuelled by the South's use of the pipeline used to extract the oil for exportation that leads through the north to Port Sudan in the Red Sea.

Bilateral trade between China and Sudan contributes to both states' economies and the ability to meet their domestic needs in the areas that they lack. In the case of China this refers to its energy shortage, while with Sudan, its scarcity of manufactured products. China has also been actively involved in the development of infrastructure in Sudan and in doing so has been criticised by the West for supporting a violent and undemocratic regime, although there is evidence that it is attempting to positively influence al-Bashir without complete interference. As a consequence of the US's different approach to its foreign policy in Sudan, China has been a dominant actor in the region, receiving 77 per cent of Sudan and South Sudan's oil exports in 2011. Discussions have ensued between the US and South Sudan regarding the former's investment in the newly independent state's oil industry, also with regards to the construction of a pipeline through Kenya to the Indian Ocean, to lessen and discourage dependence on the north. Sudan presents an interesting case as it not only provides opportunities for oil investment in the form of abandoned facilities, but through further exploration, it has the potential to also provide opportunities through the discovery of new reserves located in South Sudan. An aspect that has interested US-based oil companies since its secession from the north. Both Chinese and US oil companies have co-operated in their respective PSAs and consortiums, positively reinforcing the hypothesis that China tends to focus its investments in African oil-rich states where previously established Western oil companies have withdrawn. From the evidence provided, the West and East are not locked in a political confrontation in Sudan, but are instead open to co-operation in order to gain the maximum benefits available from Sudan's oil reserves. Essentially, energy security and economic growth are the determining factors behind the decisions and actions taken by all parties involved in Sudan and South Sudan's oil sectors.

# 4

## Case Study 2: Equatorial Guinea

*“The essential message is that a new Gulf crisis is upon us, involving the Gulf of Guinea. All manner of American interests coalesce around this critical source of export crude... Indeed, the US might well be moving towards a declaration that the Gulf of Guinea is an area of ‘vital interest’.”<sup>121</sup>*

Chapter 4 examines Equatorial Guinea and focuses on newly discovered offshore reserves which provide for new investment opportunities. This chapter’s organisation is similar to that of Chapter 3 and begins with an examination of Equatorial Guinea’s political history, followed by its socio-economic climate and past conflicts. The succeeding section deals with the West African state’s natural resource history, starting with the discovery of oil and the position of these reserves in the Gulf of Guinea. The predominant international oil companies with interests in the area are then discussed, followed by an examination of all three independent variables. An examination of China’s policies towards Equatorial Guinea is provided in the context of the first variable, *China’s Foreign Economic and Oil Policy in Africa*. The second independent variable, the *Host Government’s Policies with Regards to Oil Extraction* also examines Equatorial Guinea’s laws and regulations with regards to oil extraction, with specific focus on environmental conservation in the Gulf of Guinea. Government and oil company PSAs and consortiums are also mentioned here. The final independent variable considers the *Host Country’s Availability of Reserves in Terms of Abandoned Facilities and New Opportunities*. As a result of its declining production, the case of Equatorial Guinea specifically focuses on new opportunities available in terms of newly

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<sup>121</sup> Clarke, D. (2008) “Crude Continent: The Struggle for Africa’s Oil Prize” *Profile Books Ltd*. Pp. 38 - 39

discovered offshore reserves, rather than abandoned facilities. The final two sections focus on the US and its companies' dominant presence in Equatorial Guinea and China's increasing presence in the West African state.

Map 6 - **Position of Equatorial Guinea in Africa**<sup>122</sup>



## Profile of Equatorial Guinea

### *A Political History*

Colonisation ended in 1968 for Equatorial Guinea with its former Spanish colonisers leaving the newly independent country in a large state of underdevelopment. Since independence, Equatorial Guinea's political arena has been highly undemocratic, saturated with authoritarian leaders, instability and coups d'état. In 1979, Teodoro Obiang Nguema, the nephew of former authoritarian leader, Macias Nguema, led a successful coup d'état which overthrew the latter's government. Under Obiang's leadership, Equatorial Guinea had, by the mid-1990s turned into a criminal state, suffering from an autocratic political system, ethnic and regional tensions, under-development and vast human rights violations.<sup>123</sup>

In 1995, Equatorial Guinea's 1991 constitution was amended which gave the President greater power including dismissing cabinet members and judges, making laws by decree,

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<sup>122</sup> Greenwich Mean Time (2013) "Location Map of Equatorial Guinea"

<http://www.greenwichmeantime.com/time-zone/africa/equatorial-guinea/> Retrieved 21 October 2013

<sup>123</sup> McSherry, B. (2006) "The Political Economy of Oil in Equatorial Guinea" *African Studies Quarterly*, Vol. 8, No. 3, Pp. 23-26

dissolving the Chamber of People's Representatives, calling legislative elections and negotiating treaties. The President is also the commander in chief of the armed forces, enabling him to maintain close regulation over the military. The government is dominated by the Presidency, his close circle of advisors predominantly comprising of members of his family and ethnic group, which enables him to continue to maintain authority regardless of the ceasing of a one-party rule in 1991. Obiang was subsequently re-elected president in 1996, 2002 and 2009.<sup>124</sup> Although Equatorial Guinea is essentially a multiparty constitutional republic with elections, the 2009 elections, which saw Obiang receive 95.37 per cent of votes, had weak independent monitoring which raised suspicions of fraud.<sup>125</sup> While Obiang's rule has been witness to the reopening of schools, the expansion of education and health care, the tolerating of religious freedom and the restoration of infrastructure in contrast to the brutal, anarchic and repressive Macias regime, corruption remains rife, democratic performance is poor and the country's human rights record is dismal.<sup>126</sup>

Further, since the discovery of oil, misallocation and corruption on the level of the government has been extensive. Obiang's regime has control over the oil revenues which has resulted in few members of the population reaping the financial rewards of the country's oil wealth. Few oil rents have been invested into programs to improve the quality of life for the population,<sup>127</sup> oil-led development has had harmful effects on democracy and the political stability of the country and Equatorial Guinea's weak institutions and poor policy-making have contributed to the worsening of the economic problems associated with oil-led development.<sup>128</sup>

### *Socio-economic Climate*

The population of Equatorial Guinea, estimated at 740,500 in 2012 is relatively small and reflects the geographical size of the country.<sup>129</sup> The UNDP-HDI ranks Equatorial Guinea at

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<sup>124</sup> CIA World Factbook (2012) "Principal Government Officials" *Equatorial Guinea: Government*

<sup>125</sup> United States Department of State (2011) "Equatorial Guinea" Country Reports on Human Rights Practices for 2011, *Bureau of Democracy, Human Rights and Labour*

<sup>126</sup> CIA World Factbook (2012) "Principal Government Officials" *Equatorial Guinea: Government*

<sup>127</sup> McSherry, B. (2006) "The Political Economy of Oil in Equatorial Guinea" *African Studies Quarterly*, Vol. 8, No. 3, Pg. 26

<sup>128</sup> McSherry, B. (2006) "The Political Economy of Oil in Equatorial Guinea" *African Studies Quarterly*, Vol. 8, No. 3, Pg. 32

<sup>129</sup> International Human Development Indicators (2013) "Population" *United Nations Development Programme*, 2013 Report

136 out of 186 countries, the average life expectancy in the country is 51.4 years and the adult literacy rate is 93.8 per cent.<sup>130</sup> Table 5 shows that Equatorial Guinea is graded higher than Sudan in HDI and is ranked closer to what is considered medium human development rather than low human development. In comparison to the other Sub-Saharan African states it has a higher HDI, but is still lower when compared to the rest of the world.

**Table 5 - Human Development Index Equatorial Guinea (2000 – 2012)**<sup>131</sup>

Human Development Index				
Year	Equatorial Guinea	Medium human development	Sub-Saharan Africa	World
2000	0.49	0.54	0.40	0.63
2005	0.52	0.58	0.43	0.66
2006	0.52	0.59	0.44	0.67
2007	0.53	0.60	0.44	0.67
2008	0.54	0.61	0.45	0.68
2009	0.55	0.62	0.46	0.68
2010	0.54	0.63	0.46	0.69
2011	0.55	0.63	0.47	0.69
2012	0.55	0.64	0.47	0.69

Since oil was discovered, Equatorial Guinea’s economy has been one of the fastest growing economies in the world. It slowed down in 2010 but 2011 saw an annual growth of 7 per cent. This upturn in economic growth was sustained by renewed activity in the oil sector and public investment. The slowing of world economic growth resulted in Equatorial Guinea’s growth dropping back to 4 per cent in 2012 but was expected to gradually pick up again to 6.6 per cent by the end of 2013, the return to higher growth being dependent on the world price of oil and gas staying high. Equatorial Guinea is heavily dependent on oil, which contributes 78 per cent towards its GDP. Little progress has been made in diversifying the economy even though the government has substantial funds. In order to do so, oil revenues would need to be invested into various other sectors such as services, agriculture and

<sup>130</sup> International Human Development Indicators (2013) “Equatorial Guinea– Country Profile: Human Development Indicators” *United Nations Development Programme*, 2013 Report

<sup>131</sup> International Human Development Indicators (2013) “Equatorial Guinea– Country Profile: Human Development Indicators” *United Nations Development Programme*, 2013 Report

fisheries.<sup>132</sup> Based on the theory of Dutch Disease, which refers to a boom in resource exports creating economic stagnation in a state<sup>133</sup>, the declining terms of trade and price fluctuations Equatorial Guinea is experiencing are likely to create serious future problems for the economy of the country. Poor linkages to the rest of the economy and Dutch Disease have already affected the economy and are likely to further threaten it in the future.<sup>134</sup> This is supported by economists, Hans Singer and Raul Prebisch who argue that primary commodity exporters suffer declining terms of trade over the long term. Declining terms of trade have presented problems in many other countries and although it has not yet affected Equatorial Guinea's oil industry, the economy is relying far too much on the production of oil to the extent that future declines would potentially devastate the economy.<sup>135</sup> There is also an acute youth unemployment problem in the country and job creation is limited because of the small size of the non-oil sector. Oil accounts for 78 per cent of GDP, but only employs 4 per cent of the labour force. Equatorial Guinea's youth also have few qualifications and do not meet labour market needs, which is a reflection of the country's poor education system.<sup>136</sup>

### *A Conflict-ridden State*

Conflict in Equatorial Guinea has been predominantly a result of political differences and ethnicity. The country has a history of ethnic conflict between the Bubi and the Fang ethnic groups. This conflict has been fuelled by past and present political regimes having openly discriminated against the Bubi people, who dominate Bioko Island.<sup>137</sup> Macias killed a majority of Bioko's Bubi politicians and this extensive brutality and favouritism for his own clan bred deeper ethnic tensions in the country, including developing divisions between the numerous Fang clans. As a result of the Fang's domination of the mainland and the Bubi's of Bioko Island, these tensions took on a definitively regional element.<sup>138</sup>

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<sup>132</sup> African Economic Outlook (2012) "Equatorial Guinea" Pg. 2

<sup>133</sup> Ross, M. (1999) "The Political Economy of the Resource Curse" *World Politics*, Vol. 51, No. 2, Pg. 305

<sup>134</sup> McSherry, B. (2006) "The Political Economy of Oil in Equatorial Guinea" *African Studies Quarterly*, Vol. 8, No. 3, Pg. 30

<sup>135</sup> McSherry, B. (2006) "The Political Economy of Oil in Equatorial Guinea" *African Studies Quarterly*, Vol. 8, No. 3, Pg. 27

<sup>136</sup> African Economic Outlook (2012) "Equatorial Guinea" Pg. 2

<sup>137</sup> Decalo, S. (1985) "African Personal Dictatorships" *The Journal of Modern African Studies*, Vol. 23, No. 2, Pp. 209-237

<sup>138</sup> Liniger-Goumaz, M. (1989) "Small is Not Always Beautiful - The Story of Equatorial Guinea" London: C. Hurst

After Obiang came into power, the situation in Equatorial Guinea improved, but gross human rights violations have continued, albeit with a decline in brutality his regime remains one of the worlds most repressive.<sup>139</sup> After the discovery of oil, the government's newfound wealth increased its repressive capabilities. The Fang ethnic group have been the main beneficiaries of the oil-led growth which has created animosity amongst the Bubi clan, especially because most of the oil reserves are found in the vicinity of Bioko Island. Movement for secession has grown in Bioko and among Bubi exiles in Spain. As Equatorial Guinea continues to develop economically as a result of its oil wealth, the chances of ethnic and regional violence is expected to increase.<sup>140</sup>

The influence that resource wealth will have on the future of Equatorial Guinea's civil peace or conflict is presently uncertain, yet its oil-wealth has already contributed to interstate tension and conflict with neighbouring Gabon. The conflict deals with the disagreement over sea borders, specifically with regards to control over the Mbanie, Cocotiers and Congas Islands. This dispute first emerged when Gabonese president Omar Bongo Ondimba went to Mbanie Island, the ownership of which is disputed, to raise the Gabonese flag in 1972 which resulted in the two countries almost going to war.<sup>141</sup> As the oil reserves are found in the Gulf of Guinea, the financial implication of this border dispute contributes to its severity. In 2004, both presidents agreed to settle the dispute through mediation by the UN. Although the dispute has been festering since 1972, it was largely forgotten until the prospect of oil in the Gulf of Guinea renewed interest in the Islands. Negotiations were held in 2004 on finding a solution through a joint development zone and to strike a deal over territorial waters around Mbanie Island so that the potential reserves could be exploited.<sup>142</sup> No resolution was achieved and in 2011, Equatorial Guinea and Gabon undertook further negotiations under UN mediation. While this is another step towards peaceful settlement, there has been no guarantee or actual settlement as of yet.<sup>143</sup>

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<sup>139</sup> McSherry, B. (2006) "The Political Economy of Oil in Equatorial Guinea" *African Studies Quarterly*, Vol. 8, No. 3, Pg. 35

<sup>140</sup> McSherry, B. (2006) "The Political Economy of Oil in Equatorial Guinea" *African Studies Quarterly*, Vol. 8, No. 3, Pg. 42

<sup>141</sup> Xinhua, I. (2011) "UN to Mediate on Corisco Bay Dispute" *Menas Borders*

<sup>142</sup> Lawson, A. (2005) "Gabon and Equatorial Guinea to End Land Row" *IOL News*

<sup>143</sup> Xinhua, I. (2011) "UN to Mediate on Corisco Bay Dispute" *Menas Borders*

## International Interest in Energy Resources

### *The Discovery of Oil*

Viable offshore oil reserves were discovered in 1995 in the Gulf of Guinea, by American-based oil company Mobil,<sup>144</sup> - in 1998, it merged with Exxon to form ExxonMobil.<sup>145</sup> Equatorial Guinea is currently ranked 34th in the world in oil production and is Sub-Saharan Africa's fourth largest oil producer,<sup>146</sup> producing approximately 332,680 barrels per day as of 2013. Oil accounted for approximately 99 per cent of the country's export earnings in 2011 and in 2013 it was confirmed that the country holds 1.1 billion barrels of proven oil reserves,<sup>147</sup> evident in Table 6.

**Table 6 – Overview of Data for Equatorial Guinea<sup>148</sup>**

Petroleum (Thousand Barrels per Day)	2012				2013
	Equatorial Guinea	Africa	World	Rank	Equatorial Guinea
Total Oil Production	297.37	9,365	87,481	36	332.68
Crude Oil Production	276.87	8,569	74,139	35	311.68
Consumption	4.00	3,297	88,663	125	2.47
Estimated Petroleum Net Exports	293.37	6,068	--	163	330.21

<sup>144</sup> McSherry, B. (2006) "The Political Economy of Oil in Equatorial Guinea" *African Studies Quarterly*, Vol. 8, No. 3, Pg. 23

<sup>145</sup> Frans, J. (2004) "The Oil Boom in Equatorial Guinea" *African Affairs*, Vol. 103, No. 413, Pg.530

<sup>146</sup> Al-Bagouri, S. (2013) "Oil in Equatorial Guinea: Growth without Development" *African Perspectives*, Vol. 11, No. 37

<sup>147</sup> US Energy Information Administration (May 2013) "Equatorial Guinea"  
<http://www.eia.gov/countries/country-data.cfm?fips=EK#pet>, Retrieved 12 November 2013

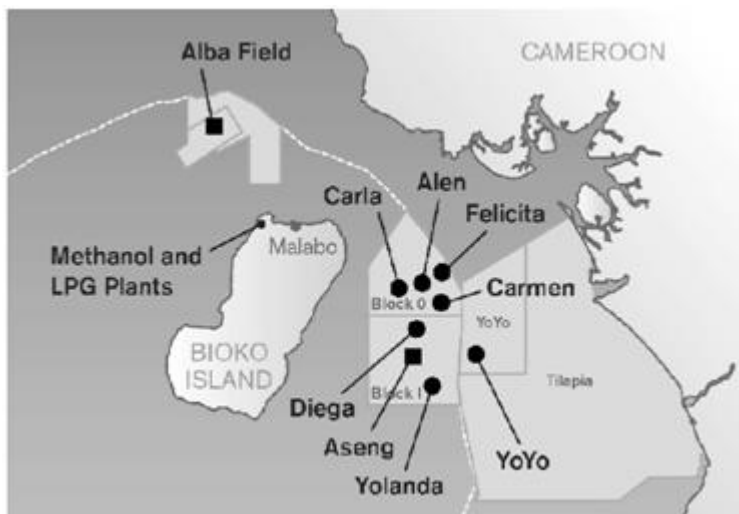
<sup>148</sup> US Energy Information Administration (May 2013) "Equatorial Guinea"  
<http://www.eia.gov/countries/country-data.cfm?fips=EK#pet>, Retrieved 12 November 2013

Petroleum (Thousand Barrels per Day)	2012				2013	
	Refinery Capacity	0	3,220	88,097	110	0
Proved Reserves(Billion Barrels)	1.10	124	1,526	38	1.10	

Although Equatorial Guinea is amongst Sub Saharan Africa’s top oil producing states, it does not have any oil refining capability. To mitigate this deficiency, the government has announced plans to construct a 20,000 barrel per day refinery in Mbini, but the development of this project has been slow.<sup>149</sup> As previously mentioned, Equatorial Guinea’s oil reserves are located offshore in the Gulf of Guinea. Maps 7 and 8 below show the main oil blocks and concessions in the Gulf of Guinea. Map 8 illustrates the Zafiro oil field, which is one of the most significant oil reserves in Equatorial Guinea.

Map 7 - Equatoguinean Oil Blocks<sup>150</sup>

Map 8 - Zafiro Oil Field<sup>151</sup>



The Zafiro oil field, historically the pillar of the country’s oil production, is experiencing declining output, as the reserves are nearing depletion. This is leading to the drive to start

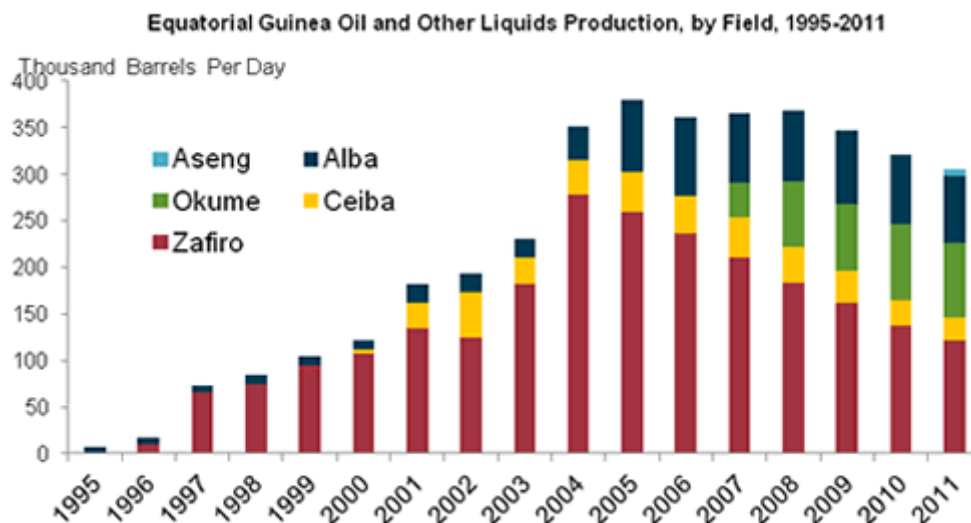
<sup>149</sup> US Energy Information Administration (May 2013) “Equatorial Guinea” <http://www.eia.gov/countries/country-data.cfm?fips=EK#pet>, Retrieved 12 November 2013

<sup>150</sup> Noble Energy (2012) “West Africa” *Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934*

<sup>151</sup> Green, M. (2008) “Mann Sentenced Over Coup Plot” *The Financial Times*

production in other fields. Zafiro, operated by an ExxonMobil-led consortium, was the first deep-water field to produce oil in Equatorial Guinea with production at 121,000 barrels per day in 2011. Despite the recent start of the Alen and Aseng fields, this new production has not been sufficient enough to offset the natural declines occurring in the Zafiro field. Alen field is located in the Douala Basin and extends from Block 0 to the northern-most part of Block 1 and is expected to produce approximately 37,000 barrels per day. Aseng oil field is situated in Block 1 and is predominantly operated by US-based Noble Energy.<sup>152</sup> Graph 5 highlights the country’s declining oil production and the amount of oil that is produced at each of the various oil reserves.

**Graph 5 - Equatoguinean Oil Production (1995-2011)<sup>153</sup>**



The Ceiba and Okume fields, portrayed in yellow and green on the graph above, are located just offshore the mainland. These fields are operated by the Hess Corporation with Irish-based Tullow Oil and GEPetrol. Ceiba reached its peak from 2005 to 2007; this peak has steadily declined and is now producing around 26,000 barrels per day. The Okume field reached its peak in 2010 at 81,000 barrels per day and has now also begun to steadily decline. The Alba field, operated by Marathon Oil Corporation, is located north of Bioko Island and produces approximately 70,000 barrels per day.<sup>154</sup>

<sup>152</sup> US Energy Information Administration (May 2013) “Equatorial Guinea” <http://www.eia.gov/countries/country-data.cfm?fips=EK#pet>, Retrieved 12 November 2013

<sup>153</sup> US Energy Information Administration (May 2013) “Equatorial Guinea” <http://www.eia.gov/countries/country-data.cfm?fips=EK#pet>, Retrieved 12 November 2013

<sup>154</sup> US Energy Information Administration (May 2013) “Equatorial Guinea” <http://www.eia.gov/countries/country-data.cfm?fips=EK#pet>, Retrieved 12 November 2013

Equatoguinean oil is predominantly exported to crude markets in the US, Europe and Asia. Of these, the US is one of the largest importers of oil from the state and received approximately 41,000 barrels per day in 2012. The largest foreign investors in the country are predominantly US-based oil companies, specifically ExxonMobil, Hess Corporation and Noble Energy. Notwithstanding these significant investments by US companies, Chinese companies are found to be playing an increasingly important role in Equatorial Guinea's oil and hydrocarbon sector. GEPetrol, formed in 2001, is Equatorial Guinea's national oil company. It is essentially responsible for managing the government's interest in PSAs and other joint ventures with foreign oil companies, as well as, for the marketing, oil licensing and hydrocarbon policy implementation.<sup>155</sup>

### *Investing in Oil in Equatorial Guinea*

Equatorial Guinea is not one of the top 30 oil producing nations in the world, but from an African perspective, it is highly significant. The country's oil revenues also make it less reliant on foreign donors when compared to non-oil-rich states. As a result of this, Obiang's regime is eager to cultivate good relations with donors and international organisations. Foreign governments are also not willing to jeopardize the chances of their nationals and companies obtaining business opportunities in Equatorial Guinea.<sup>156</sup> Equatorial Guinea's oil and gas industry is dominated by US companies, although Chinese presence has been increasing. Every year since 1999, Equatorial Guinea has been either China's third or fourth largest African supplier of oil.<sup>157</sup>

Equatorial Guinea is seeking to deepen its ties with Chinese oil companies as the country works on improving power infrastructure and increases the extraction and production of oil. Equatorial Guinea approached Chinese-based Sinopec in 2012 regarding the construction of a 20,000 barrel per day refinery.<sup>158</sup> China National Offshore Oil Corporation (CNOOC), the country's third largest national oil company, is China's largest offshore oil producer and has

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<sup>155</sup> US Energy Information Administration (May 2013) "Equatorial Guinea"

<http://www.eia.gov/countries/country-data.cfm?fips=EK#pet>, Retrieved 12 November 2013

<sup>156</sup> Frans, J. (2004) "The Oil Boom in Equatorial Guinea" *African Affairs*, Vol. 103, No. 413, Pp. 535-538

<sup>157</sup> Shinn, D. (2013) "Africa, China, the United States and Oil" *Centre for Strategic and International Affairs*

<sup>158</sup> Ma, W. (2012) "Equatorial Guinea Deepens Ties with Chinese Energy Firms" *Downstream Today*

interests in several oil blocks in the Gulf of Guinea.<sup>159</sup> CNOOC signed an agreement with Equatorial Guinea in 2006 to explore a 2,287 square kilometre oil block off the coast of the country, in waters ranging in depth from 30 to 1,500 meters. This exploration was disappointing, resulting only in the discovery of non-commercial amounts of oil. CNOOC's additional wells are being drilled in consortium with South Korea's SK Innovation Company, who is providing deep-water drilling technology. GEPetrol has signed numerous PSAs with various international companies in the past and has shares in the majority of exploration rights and concessions. Additionally, Equatorial Guinea signed a total of six PSAs for onshore and offshore oil blocks in 2012 with companies such as Noble Energy, British Dana Petroleum and US-based Murphy Oil Corporation.<sup>160</sup> The financial terms set out in the contracts with the oil companies are more favourable to these foreign oil companies, compared to other petro-states in the region. Equatorial Guinea's further attraction to investors is the relatively low signature bonuses. Given these attractive terms, investor interest in the country's oil sector is likely to continue. The past enthusiasm related to its future prospects as a petro-state should be treated with caution as there have been few significant oil and gas discoveries in recent years.<sup>161</sup>

International states and companies have been involved in investment in several different sectors of the Equatoguinean economy. FDI has filtered into the country and has grown exponentially since the discovery of oil. In 2007, China provided Equatorial Guinea with a US\$2 billion credit line and has contributed to the construction of a new capital city, locally known as Malabo II.<sup>162</sup> Improved diplomatic relations between China and Equatorial Guinea have resulted in continuous development in co-operation and trade over many different spectrums. Their diplomatic relations are also based on certain criteria, stated in the 'Joint Communiqué on the Establishment of the Diplomatic Relations between the People's Republic of China and the Republic of Equatorial Guinea' which states the following: the Chinese government supports the government and people of Equatorial Guinea in the struggle against imperialism and new and old colonialism and the governments of the two states agree to develop diplomatic relations of friendship and co-operation on the principles of the mutual respect of sovereignty, territorial integrity, non-aggression, non-interference, equality and

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<sup>159</sup> CNOOC Limited. (2005) "Key Operating Areas"

<http://www.cnooltd.com/encnooltd/aboutus/zygzq/overseas/1961.shtml>, Retrieved 14 November 2013

<sup>160</sup> Ma, W. (2012) "Equatorial Guinea Deepens Ties with Chinese Energy Firms" *Downstream Today*

<sup>161</sup> Frans, J. (2004) "The Oil Boom in Equatorial Guinea" *African Affairs*, Vol. 103, No. 413, Pp. 532-535

<sup>162</sup> Behar, R. (2008) "China's New Oil Supplier" *Fast Company*

mutually beneficial, peaceful co-existence.<sup>163</sup> These diplomatic criteria also form part of China's foreign policy towards Equatorial Guinea. In terms of *China's Foreign Economic and Oil Policy* which *The Nature and Degree of Chinese Involvement in African Oil* is dependent on, in 2012, Equatorial Guinea signed a series of preliminary agreements with Chinese oil companies as a by-product of the fifth FOCAC in Beijing. The agreements included a memorandum of understanding to explore and develop oil blocks and concessions and an oil-supply deal with Sinochem Corporation, a Chinese multinational predominantly engaged in the production and trading of chemicals, the exploration and production of oil and operation of the state fertilizer monopoly, in exchange for trade credit to finance infrastructure projects.<sup>164</sup>

In terms of the second independent variable, the *Host Government's Policies with Regards to Oil Extraction*, as a result of the country's oil reserves largely residing in the Gulf of Guinea, it is of necessity that the exploitation of oil, with regards to environmental challenges, must integrate into the Large Marine Ecosystem. Under it, a regular Environmental Impact Assessment must be undertaken in order to prevent damage to the marine environment and its resources during the oil extraction process, in order to combat marine pollution by offshore activities and avoid the depletion of marine living resources while simultaneously exploiting minerals. Equatorial Guinea is part of the Guinea Current Large Marine Ecosystem that includes several states in the region.<sup>165</sup> The legal framework surrounding offshore oil exploitation with states surrounding the Gulf of Guinea, which are part of the Guinea Current Large Marine Ecosystem, is based on the exercise of the sovereign rights and the exclusive jurisdiction of Coastal States in the Exclusive Economic Zone and on the Continental Shelf.<sup>166</sup> Equatorial Guinea also passed a national environmental law on 27 November 2003 which regulates the environment of the state and the activity and care of the environment. According to its terms, a prospective Contractor must take all judicious and necessary steps in accordance with generally accepted practices in the international petroleum industry, the

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<sup>163</sup> Chinese Foreign Ministry (October 2006) "Equatorial Guinea"  
<http://www.china.org.cn/english/features/focac/183538.htm>, Retrieved 2 September 2012

<sup>164</sup> Ma, W. (2012) "Equatorial Guinea Deepens Ties With Chinese Energy Firms" *Downstream Today*

<sup>165</sup> Rodrigue, D. (2007/2008) "Offshore Petroleum Exploitation and International Law: Legal and Environmental Aspects for Coastal States of the Gulf of Guinea" *Oceans and Law of the Sea*, The United Nations Nippon Foundation of Japan Fellowship Programme 2007/2008

<sup>166</sup> United Nations Convention on the Law of the Sea of 10 December 1982 (UNCLOS), (1982) "Part V: Exclusive Economic Zones" and "Part VI: Continental Shelf"  
[http://www.un.org/depts/los/convention\\_agreements/texts/unclos/UNCLOS-TOC.htm](http://www.un.org/depts/los/convention_agreements/texts/unclos/UNCLOS-TOC.htm), Retrieved 30 October 2013

Hydrocarbons Law and the terms of the Contract. The Hydrocarbon Law was passed on 3 November 2006 and is viewed as the fundamental Law of Equatorial Guinea. It dedicates and designates as the property of the people of Equatorial Guinea all resources found in the national territory, including the subsoil, continental shelf, islands and the Exclusive Economic Zone of the seas, stating that it is by the mandate and delegation of the people, to whom the resources ultimately belong, that the government undertakes to manage them.<sup>167</sup>

Although the Equatoguinean government has been found to provide attractive deals for international states and companies wanting to invest in its oil, consequently encouraging exploration and FDI, it has strict environmental laws monitoring oil extraction in the country, focusing on the entire Gulf of Guinea. The intense focus on environmental conservation has the potential to impede on the more relaxed policies that the government would have had without them, but these laws simultaneously convey an attractiveness of their own that would potentially encourage environmentally conscious international companies to want to invest in Equatorial Guinea's oil sector. As Equatorial Guinea and other states surrounding the Gulf are developing countries, there potentially exists a deficiency of means and structures necessary for the implementation of these laws specifically to manage legal frameworks for the prevention of environmental harm from offshore oil and gas exploration and production activities.<sup>168</sup> The increasing importance of the Gulf of Guinea in the global economy and as an oil exporting region reinforces the need to ensure stability in the area. If the Gulf remains stable in the future, it will grow as a reliable supplier of oil, whereas, future unrest will create shocks to the global economy, the region will become a vector for violence, terror and disrespect for democratic norms, human rights and environmental standards and laws.<sup>169</sup>

The third independent variable deals with the *Host Country's Availability of Reserves in Terms of Abandoned Facilities and New Opportunities*. Equatorial Guinea's energy resource, specifically its oil history, is relatively recent and the US has not and does not appear to currently have the inclination to abandon its facilities in Equatorial Guinea, resulting in the focus here being on new available opportunities. Equatorial Guinea's oil production is

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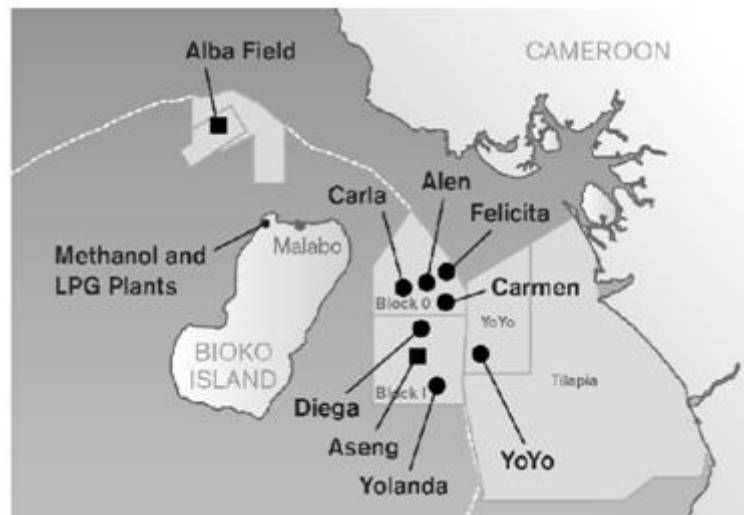
<sup>167</sup> The Republic of Equatorial Guinea (2006) "Hydrocarbons Law of the Republic of Equatorial Guinea No. 8/2006, of 3 November" [http://sonagas-ge.com/wp-content/uploads/2012/12/ley\\_001\\_en.pdf](http://sonagas-ge.com/wp-content/uploads/2012/12/ley_001_en.pdf), Retrieved 5 November 2013

<sup>168</sup> Moreno, C. (2009) "Oil and Gas Exploration and Production in the Gulf of Guinea: Can the New Gulf Be Green?" *Houston Journal of International Law*, Vol. 31, No. 2

<sup>169</sup> Mane, D. (2004) "The Emergence of the Gulf of Guinea in the Global Economy" *International Monetary Fund*, Pg. 10

declining, making it necessary for it to focus on exploring other areas for potential reserves and to also begin production on the reserves that it has discovered but has as of yet not been a priority. In this regard, I am referring to the Carla, Felicita, Carmen, Yoyo, Yolanda and Diega oil fields that have been discovered but where production has not yet started. These oil fields can be seen in Map 9.

**Map 9 - Equatoguinean Oil Blocks<sup>170</sup>**



In May 2013, US-based Noble Energy, which has a 38 per cent interest in Block 1, explored the Carla south field in Block 1 and encountered good quality oil reserves at the target level. The Carla field has two sections, Carla north in Block 0 located under the Alen field and Carla south in Block 1 which is expected to begin producing oil in 2016.<sup>171</sup> Although the Carla oilfield seems promising for the future production of oil, it is not an example of an opportunity for new international oil companies to invest in, because existing companies already have interests in it. This is also the case with the Diega and Carmen oil fields, located in Blocks 1 and 0. The Carmen oil field is operated by a consortium consisting of Noble Energy, holding a 45 per cent interest, GEPetrol holding 30 per cent and Glencore holding the remaining 25 per cent interest.<sup>172</sup> The Yoyo, Yolanda and Felicita oil fields have been found to contain gas-condensate, yet it appears that there have not yet been any plans made to start production in the near future. As a result of there being little opportunity for additional oil companies to invest in Equatorial Guinea due to most concessions having already been

<sup>170</sup> Noble Energy (2012) “West Africa” *Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934*

<sup>171</sup> OGJ Editors (May 2013) “Carla South Well Finds Oil Pay off Equatorial Guinea” *Oil and Gas Journal*

<sup>172</sup> FMC Technologies (2011) “Offshore Field Development Projects: Carmen”

claimed, excluding new reserves or potential future discoveries, state co-operation is essential. This is currently occurring, demonstrated by the international oil companies which are already co-operating with the government of Equatorial Guinea and other oil companies operating within the country, in the form of PSAs and consortiums. Various international companies have shares in and only own a small percentage of the concessions while working in partnerships with the government and other states operating within the same country. Although US and Chinese-based oil companies have not yet operated in the same consortium in Equatorial Guinea, this as a result of the increase in exploration in the Gulf of Guinea and the desire to continue to import oil from the area with declining production, there is a high possibility that these two states will become involved with each other in one of the oil fields in which extraction and production is planned for the future.

#### *United States Oil Investment in Equatorial Guinea*

The US established diplomatic relations with Equatorial Guinea in 1968. According to the US Department of State, their bilateral relations are based on three major pillars, the protection of human rights, good governance, democracy and US national security, specifically focused on the access to energy resources.<sup>173</sup> The US also seeks to encourage improved human rights, the development of a working civil society, greater fiscal transparency and increased government investment in Equatorial Guinea's population in areas such as health care and education.<sup>174</sup> The US reopened its embassy in authoritarian Equatorial Guinea in 2002, reflecting a shift in US foreign policy priorities in the state. This shift in policy was based on oil interests and energy security. The reopening of the embassy also coincided with the rise in oil production and increased investment from US companies.<sup>175</sup> It is interesting when examining the US's policies towards Sudan and South Sudan in comparison to its policies towards Equatorial Guinea. US oil companies withdrew from Sudan because of pressure from their government stemming from the civil war and genocide. Additionally, sanctions were imposed on this African state to try to persuade the government of Sudan to stop the human rights violations that were occurring. While the Equatoguinean government has also been accused of committing human rights violations against its people, these have perhaps not been to the

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<sup>173</sup> Bureau of African Affairs (August 2012) "U.S. Relations with Equatorial Guinea" U.S. Department of State

<sup>174</sup> Bureau of Democracy, Human Rights and Labour (2011) "US – Equatorial Guinea Relations" Country Report on Human Rights Practices for Equatorial Guinea in 2011

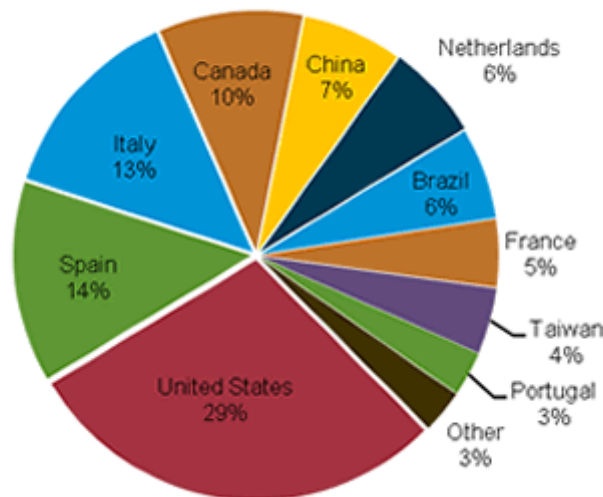
<sup>175</sup> Fikreyesus, D, (2012) "Oil and U.S. Foreign Policy towards Africa" *Political Science Dissertations*, Georgia State University

extent of the situation in Sudan, but nevertheless, the US is the largest receiver of oil exports from Equatorial Guinea and US oil companies are prevalent in the region. In 2006, US Secretary of State, Condoleezza Rice, went as far as welcoming Obiang to the US calling him the US's 'good friend'.<sup>176</sup> The US has also been highly critical towards China's engagement in Sudan, but has not questioned its involvement with Equatorial Guinea.<sup>177</sup> Hypocrisy and double-standards appear to be involved in the US's policies towards certain African oil-rich states.

Graph 6 below shows that as of 2010 the US received the largest percentage of Equatoguinean oil exports than any other international state. By comparison, China only received 7 per cent of those exports, placing 5th behind the US, Spain, Italy and Canada. Equatorial Guinea's oil exports are clearly a lot more diverse in the number of different markets that its oil is exported to, as opposed to Sudan and South Sudan's oil which is highly reliant on the Chinese market.

**Graph 6 – Equatorial Guinea Oil Exports 2010<sup>178</sup>**

**Equatorial Guinea's Oil Exports, by Destination, 2010**



<sup>176</sup> The Committee on Foreign Affairs (2007) "Is There a Human Rights Double Standard? US Policy Towards Equatorial Guinea and Ethiopia" *Joint Hearing before the Subcommittee on International Organisations, Human Rights and Oversight and the Subcommittee on Africa and Global Health*, Pg. 9

<sup>177</sup> Hellstrom, J. (2009) "China's Emerging Role in Africa: A Strategic Overview" *Swedish Defence Research Agency (FOI)*, Pg. 13

<sup>178</sup> U.S. Energy Information Administration (2012) "Crude Oil Exports" *Equatorial Guinea*

Equatorial Guinea's trade with the US has been mutually beneficial, where exports to the US are dominated by oil and energy resources and imports from the US, include machinery, metals, medical products and chemical and rare earth metals.<sup>179</sup> Investments by the US in Equatorial Guinea are in the form of FDI, the majority concerning the oil sector, followed by the forestry and fishing sectors. The US is currently the main country investing in Equatorial Guinea followed by Italy and France.<sup>180</sup> There has been increasing substantial investment in exploiting the oil reserves with significant new expansions planned for the future. Oil and gas exploration has also led to the expansion of the previously underdeveloped services sector. Recent FDI in forestry and the growing demand from Asia have also boosted economic expansion in the non-oil sector, although this has been fairly modest.<sup>181</sup> Equatorial Guinea is actively soliciting further foreign investment especially from US companies, particularly with regards to the investment in agriculture and other non-oil industries in order to assist in diversifying the hydrocarbons sector that its economy is so reliant on.

#### *Chinese Oil Investment in Equatorial Guinea*

China established diplomatic relations with Equatorial Guinea in 1970. US companies dominate the country's oil industry and Chinese companies are only slowly increasing their influence at present but receiving little return in oil, compared to that of the US. China and Equatorial Guinea signed an economic, technological and trade co-operation agreement and in August 1996, they held their first meeting in the West African State.<sup>182</sup> China has had a long history in the country, but not with regards to its oil industry. The Chinese have mainly engaged in public works and infrastructure development projects to ensure long-term economic benefits. Chinese entrepreneurs are also gradually increasing their presence in import and export activities.<sup>183</sup> In recent years, greater amounts of timber and crude oil have been exported to China, in return mechanical and electrical products have been imported by Equatorial Guinea, which has resulted in faster trade development.<sup>184</sup>

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<sup>179</sup> Bureau of African Affairs (August 2012) "U.S. Relations with Equatorial Guinea" U.S. Department of State

<sup>180</sup> Export Enterprises (2013) "Equatorial Guinea: Investing" *Credit Agricole*

<sup>181</sup> UNCTAD WID Country Profile: Equatorial Guinea. (2006) "Equatorial Guinea" Page 1

<sup>182</sup> Chinese Foreign Ministry (October 2006) "Equatorial Guinea"

<http://www.china.org.cn/english/features/focac/183538.htm>, Retrieved 2 September 2012

<sup>183</sup> Afribiz (August 2011) "Equatorial Guinea: Trade and Economic Partnerships 2011"

<sup>184</sup> Ministry of Commerce, People's Republic of China (February 2011) "Brief Statistics of China-Equatorial Guinea Trade and Economic Co-operation"

In 2011, Chinese Commerce Minister Chen Deming, head of the Chinese Trade and Economic sector went to Equatorial Guinea to discuss the past 40 years of Chinese and Equatoguinean diplomatic relations. Over the past 4 decades, the relations between the two states have been based on development and friendly exchanges in various sectors which have become more frequent. In recent years, both parties explored a joint agreement on co-operation in oil, projects and credit, which increased the comprehensive and quick development of bilateral trade and economic relations between the two states. Enhanced co-operation between both parties, which is focused on economic development, is also in line with common interests. In the past, China has provided aid to Equatorial Guinea in the development of infrastructure, such as roads, ports, healthcare and telecommunications, thus assisting in the social and economic development of the African state.<sup>185</sup> It has also worked closely with African states regarding the construction of hydropower stations and power grids, which is assisting in alleviating the power shortage crisis facing many African countries. In Equatorial Guinea, China assisted in the construction of the Malabo Gas Plant in 2010. This particular power plant enables the country to have a complete power supply system, from power generation to power transmission and power transformation. The construction of this improves the power supply conditions in Malabo City and Bioko Island while simultaneously promoting agricultural irrigation and ecological tourism in the surrounding areas.<sup>186</sup>

Currently, there is great momentum for the development of bilateral trade which has laid a solid foundation for future growth in mutual co-operation. At present, the relationship between China and Equatorial Guinea is positive and economic co-operation and bilateral trade will only be further strengthened in the future.<sup>187</sup> Equatorial Guinea's trade value in 2010 amounted to US\$1,054 billion, of which US\$0,598 billion was exports to China. Chinese companies' contracted projects and labour services have also experienced quick development in Equatorial Guinea. In 2010, the accumulated turnover of Chinese companies

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<sup>185</sup> Ministry of Commerce People's Republic of China (2011) "Minister Chen Called on President of Equatorial Guinea Teodoro Obiang" *MOFCOM*

<sup>186</sup> The People's Republic of China (August 2013) "White Paper on China-Africa Economic and Trade Co-operation" <http://www.chinese-embassy.org.za/eng/znlj/t1070912.htm>, Retrieved 18 November 2013

<sup>187</sup> Ministry of Commerce People's Republic of China (2011) "Minister Chen Called on President of Equatorial Guinea Teodoro Obiang" *MOFCOM*

in these contracted projects reached US\$4,507 billion and China's accumulated non-financial direct investment amounted to US\$9,764 million.<sup>188</sup>

## Conclusion

Equatorial Guinea's President, Teodoro Obiang Nguema has been accused of being highly oppressive, corrupt and of committing human rights violations against his population. Equatorial Guinea's oil was discovered in the Gulf of Guinea off the states mainland, by US-based oil company, Mobil. The discovery of oil had great consequences for the future of the state and resulted in an increase in the amount of FDI that was entering the country, especially from US-based companies which dominate the states oil industry with regards to oil extraction and production. Equatorial Guinea has failed to use its oil rents to develop the state further and is consequently underdeveloped in health care systems and education. The government has also failed to diversify its economy which is over reliant on the oil and gas sectors. This will undoubtedly be a huge negative implication for the country's economic and development future, especially as a result of its declining oil production. It is necessary that the government focuses on developing the oil fields that have been discovered and exploring potentially new and undiscovered reserves in order to increase production and exportation.

The US's approach to Equatorial Guinea differs to that of China and it appears that both states and their respective oil companies co-operate with the government of Equatorial Guinea, as well as, with other international oil companies operating in the area through PSAs and consortiums. As a result of Equatorial Guinea's declining production in its current operational reserves, new opportunities for international states to invest in its oil sector are limited and will potentially only stem from the discovery of new reserves in the future. Although CNOOC is China's only oil company operating in the area Equatorial Guinea is seeking to deepen its ties with the Asian state and its oil companies. From the evidence provided in Chapter 4, China's involvement in Equatorial Guinea is not neo-colonialist in nature, but instead developmental through its assistance in many other sectors of the African state. The information stipulated in the establishment of diplomatic relations, the development of infrastructure supporting its social and economic development and the

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<sup>188</sup> Ministry of Commerce People's Republic of China (2011) "Minister Chen Called on President of Equatorial Guinea Teodoro Obiang" *MOFCOM*

construction of the Malabo Gas Plant, conveys the importance of Equatorial Guinea's relationship with China, it being highly beneficial for the African country even though it may merely be part of China's oil strategy. As a result of declining oil production, state cooperation in this context, between China and the US, is of the utmost importance if all three parties involved are to achieve their desired outcomes. There is no evidence to suggest that China and the West are locked in a political confrontation in Equatorial Guinea, whereas the majority of evidence presented reinforces the idea that China is another economic competitor interested in purchasing Africa's oil.

# 5

## **Findings and Analysis**

China's oil investment behaviour and the manner in which the US and China are co-operating with one another in Africa, highlighted in the case of Sudan and Equatorial Guinea has contested the idea that the West and East are locked in a political confrontation in Africa. As the US and China are two of the most substantial and predominant international actors involved in Sub-Saharan African oil, for these two countries to achieve the maximum economic benefits that are available and to ensure that their respective domestic energy demands are met, it is in their best interests to co-operate with one another and avoid political rivalry. This conviction has formed the basis of China's foreign policy towards Africa, in particular with regards to its strategy concerning oil producing states. In asserting this, China and the West do still face economic competition in Africa over natural resources and various markets and investment opportunities. From the evidence presented in the cases of Sudan and Equatorial Guinea, the hypothesis stating that when China chooses to invest in African oil-rich states, it tends to focus on areas or countries where Western companies are not present, presenting itself in the form of previously 'abandoned' facilities by Western companies, or new exploration opportunities that become available through recent discoveries of deep offshore oil, is proven to be true.

In the case of Sudan, with China's inevitable involvement with oil companies from other countries, it has avoided conflict by co-operating with various states through consortiums and has in fact chosen to invest in oil where other, especially Western companies from the US and Europe are not present. As Chen Fengying of the China Contemporary International Relations Institute states, "Africa is a prime site because China confronts foreign competition. Chinese companies must go to places for oil where American and European companies are

not present.”<sup>189</sup> This is evident in Sudan, whereby Chinese oil companies became involved in its oil sector and filled the oil niche, whether by co-incidence or not, once US companies had withdrawn. Sudan’s oil sector became open to investors from other states and after it changed hands a number of times, a portion of the oil concession that once belonged to US’s Chevron, was bought by China’s CNPC. In the case of Equatorial Guinea, the country’s oil sector is dominated by US oil companies who are the predominant international actors operating in the country. Although China’s oil investment is on the incline in Equatorial Guinea, it appears to be operating in concessions in the Gulf of Guinea where US companies are not present. As a result of China and the US having opposing ideologies concerning their foreign policies in Africa, their opinions on the importance of human rights and the fact that China has been criticised in the international arena for supporting authoritarian regimes accused of human rights violations on its people, China in an effort to protect and maintain its investment in a conflict-free environment, is co-operating with the US in African states. This is being achieved by avoiding US oil companies and by not directly engaging in consortiums with them and instead forming partnerships with other Asian companies from South Korea and Malaysia. The reason for this is to ensure that China’s external political and ideological differences, which can influence its oil strategy, does not negatively impact on its access to oil reserves and vastly reduce its influence on the continent and most importantly its domestic energy supply.

The evidence provided and discussed in this paper leans more towards a Liberal perspective rather than a Realist one. The reason for this is that international countries and companies that are investing in Africa’s economies and oil are not doing so on the basis of self-interest in terms of relative state power, a characteristic of Realism. Instead, China is pursuing self-interest in terms of net economic benefit on the continent and emphasising the consumer-producer mutually-beneficial relationship between both parties. This approach is reinforced in its foreign policy towards oil producing states on the continent. There is also no evidence of a zero-sum outcome in these interactions, but instead positive-sum balances of trade have occurred for many of these states trading with China. Additionally, China would seek to avoid political rivalry with Western powers and would consequently gravitate towards abandoned or new deep offshore sources of oil in order to maximise economic gain and access to resources. According to the Liberalist idea that economics determines politics,

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<sup>189</sup> Fengying, C. (2004) *The China Contemporary International Relations Institute in Beijing*, quoted in Washington

China is seen as just another economic competitor interested in purchasing Africa's oil and as a result, economic gain has determined its political actions on the continent and moulded its oil strategy in certain states.

With regards to oil exploration, production and investment in Africa, there does not appear to be a 'New Scramble for Africa' between the major international players in the direct meaning of the term. In saying that, it does not mean that Africa is not becoming an increasingly significant oil producer or source of investment for international states. The reason for it not being a neo-colonial scramble for Africa is because the governments of the oil-rich African states firstly have control over their reserves and secondly, they are responsible for deciding which oil companies and states are granted access to their reserves in the form of PSAs and consortiums in which the majority of cases include the African country's main national oil company. African governments are also looking at foreign investments as an advantage to their economies. Most African countries have benefitted from China's investment in natural resources, providing these states with more revenue to invest in national priorities.<sup>190</sup> The Chinese are sought after investors in Africa because they do not only provide up-front capital for projects, but also serve as a balance to US and European interests. Host governments and countries are no longer entirely reliant on Western actors and are consequently in a stronger position from which to negotiate the conditions for new and further investments, emphasising their independence and sovereign rights.<sup>191</sup> Essentially, China's role in Africa is more developmental rather than neo-imperial.

All three variables examined in each of the case studies, *China's Foreign Economic and Oil Policy in Africa*, the *Host Government's Policies with Regards to Oil Extraction* and the *Host Country's Availability of Reserves in Terms of Abandoned Facilities and New Opportunities*, contribute to the *Nature and Degree of Chinese Involvement in African Oil*, to varying propensities. China's foreign economic and oil policy in Africa affects the nature and degree of Chinese involvement in African oil as it is a decisive element in determining relations between Chinese oil companies and governments and also influences how and where China chooses to invest. Host government's policies with regards to oil extraction can be viewed as one of the forces effecting oil investment, but it also directly influences the dependent

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<sup>190</sup> Mogae, F. (2007) *Speech at John F. Kennedy School of Government*

<sup>191</sup> Lee, H. and Shalmon, D. (2008) "Searching for Oil: China's Oil Strategies in Africa" in Rotberg, R. (ed.) *China into Africa: Trade, Aid and Influence*, Brookings Institution Press, World Peace Foundation, Pg. 110

variable as certain policies shape trade relations between the two parties involved, where some policies are more appealing than others. Host government policies have an effect over which country China is involved in, as well as, the level and degree of its involvement. The availability of resources in the host country is one of the main determining factors influencing the degree of involvement by Chinese oil companies, directly connecting the central research question.

In the political economy of China's oil strategy in Africa, it appears that economics is the driving force behind the Asian states involvement on the continent and unlike the West, politics has little to do with the decisions that it has made when it comes to securing energy reserves. In Chapter 3, which addresses the case study of Sudan and South Sudan, when China initially became involved in the country's oil extraction, production and exportation, it did not interfere with the political-based conflict that was occurring. Once it had made significant connections with the state and its oil companies through PSAs and reinforcing their relationship through bilateral trade and non-oil sector investments, China encouraged and essentially convinced al-Bashir's government to agree with at least part of the plan stipulated by the UN to put an end to the conflict in Darfur. In this case it appears that China was true to its foreign policy of non-intervention, but politically when things went too far and became too negative, it strategically used the economic connections that it made to work from the inside out in order to ensure that its energy and economic flow with Sudan did not get disrupted.

China is not attempting to drive out the West from a geographical rivalry perspective, but rather its economic activities have been found to benefit several African countries resulting in China often being received more favourably by the host countries over its Western counterparts. This is evident in Sudan as China's support of its oil industry enabled Sudan to, from a strictly economic perspective, develop its trade industry and infrastructure. When the US withdrew, it did so partly in protest of the atrocities that the Sudanese government was inflicting upon its civilian population. This withdrawal left a significant gap in its oil-dominated economy. If a country such as China did not take the place of former US companies operating in Sudan, the country would be destined to a future of increased poverty for the already poor, oppressed and targeted population. In involving itself economically in the state China, most certainly unintentionally, gave the population of Sudan a second chance

even though the oil rents were not equally distributed amongst the population and were instead misused by the leadership. In not interfering with the politics of Sudan after China bought oil concessions from the government, when South Sudan seceded in 2011, it was able to continue to be deeply involved in the oil extraction and production process and continue to grow in PSAs and consortiums with the government of South Sudan and other international companies. By not playing a significant role in the politics and tension that was playing out between Sudan and South Sudan, China was able to gain the maximum benefits from the two countries and their respective governments and energy reserves, an important aspect of China's strategy in Africa. It appears that China's non-interference strategy has been a success as it has not limited or restricted its involvement in the countries that it has interests in. Any and all of the countries that are in Africa present a potential financial or strategic opportunity for China. This has and will, continue to enable it to additionally develop its empire and further strengthen its economy and potentially rise as the new global hegemony in the future.

China's recent policy change into a 'one state, two systems' approach with regards to economic liberalism, has resulted in it housing one of the world's fastest growing economies. As it sees Africa to be of great strategic importance as a location for financial FDI, a source of energy imports, diplomacy and an ally in the international arena, it has paid great attention to forging strong and deep relationships with many African heads of state. In China's oil diplomacy, two main goals predominate. In the short term, its goal is to secure oil supplies to help meet growing domestic demands and in the long term, to position China as a global player in the international oil market.<sup>192</sup> This has resulted in the growth of bilateral trade between the two regions, as well as, a steady increase in Chinese presence and investment all over the continent. The relationship, based on the newly formulated White Paper, also emphasises the mutually beneficial aspect which is vastly different from previous African relations with the West who have formerly had control over African states as a result of there being no other significant and mutually powerful international actors interested in trading and investing in the continent. As depicted on Graph 3, in the 'China and Africa's Oil' section in Chapter 2, China is receiving more commodities from Africa than Africa is importing from China, resulting in a positive balance of payments for the continent. Africa has become an immensely substantial player in the international market over the last few years and as a

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<sup>192</sup> Taylor, I. (2006) "China's Oil Diplomacy in Africa" *International Affairs*, Vol. 82, No. 5, Pg. 938

result of its abundance of natural resources, it has become the dominant player in trade with China from a financial perspective resulting from this positive balance of payments.

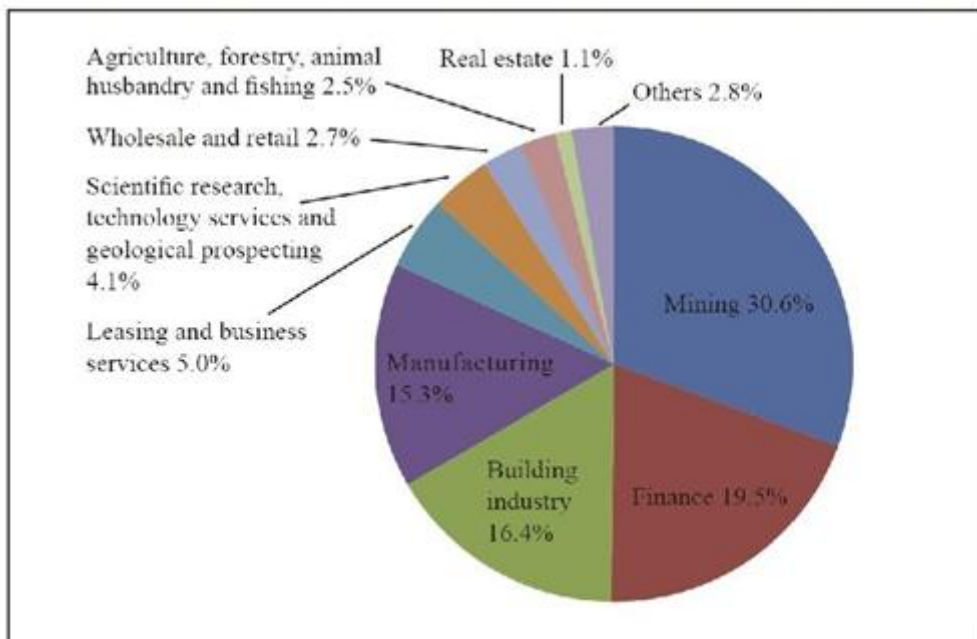
With regards to investment in the oil sector, China is becoming increasingly involved in the actual extraction process. This reduces the amount of actors that the oil would go through if China was merely buying the final extracted and refined product. Instead, there is an increasing presence of Chinese oil companies operating on the continent and in some countries these companies have also played a direct role in the construction of refinery plants. The reason for its deeper involvement in the oil process is to ensure it has a secure and confirmed supply of oil to meet its domestic demands and to ensure that this supply continues at a reduced and stable price. Essentially, to summarise China's oil strategy in Africa, it is informative to refer to Ian Taylor's paper on Chinese oil diplomacy in Africa in order to understand the reasons behind its approach. Taylor states that, "The strategy chosen is basically to acquire foreign energy resources via long-term contracts as well as purchasing overseas assets in the energy industry. This policy is based on the desire to circumvent an over-reliance on the global oil market through either actually acquiring major stakes in Africa's oilfields or safeguarding access to them."<sup>193</sup>

Apart from oil, China also has great interests in the other resources that Africa has to offer, including copper, bauxite, uranium, aluminium, manganese and iron ore. Interest in other industries not only provides it with a necessary domestic supply in these products, but it simultaneously reinforces existing relationships and establishes new ones between it and other influential actors on the continent, increasingly expanding its range of involvement which has the potential for additional benefits in the future when more oil reserves or other natural resources are discovered on the continent. Although most of China's direct investment in Africa is in the mining industry, which includes oil extraction, Graph 7 shows the percentage of its investments in the various other sectors on the continent. It also has great interests in Africa's finance, building and manufacturing industries.

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<sup>193</sup> Taylor, I. (2006) "China's Oil Diplomacy in Africa" *International Affairs*, Vol. 82, No. 5, Pg. 942

Graph 7 - The Distribution of China's Direct Investment in Africa 2011<sup>194</sup>



The future of Sino-African oil relations is likely to see deeper and further involvement, with Chinese presence increasing even more on the continent in a wider variety of sectors and industries. It is unlikely that instability or tensions will arise between the US and China on African soil, especially with respect to the US's recently discovered domestic reserves. Since these discoveries, US oil imports have been on the decline. In 2005, they stood at 12.5 million barrels per day, but by the end of 2014, they are expected to halve to six million barrels per day. Domestic production for the US, which stood at 6.4 million barrels in 2012, is also expected to rise to 7.9 million barrels in 2014, the highest level since 1988.<sup>195</sup> These discoveries are significant for both oil-rich African states, as well as, African-based Chinese oil companies because the US will depend less on foreign sources of crude and focus more on domestic production. This will result in them potentially relying less on African oil, consequently creating further opportunities for Chinese investment on the continent in the future.

<sup>194</sup> The People's Republic of China (August 2013) "White Paper on China-Africa Economic and Trade Co-operation" <http://www.chinese-embassy.org.za/eng/zjnl/t1070912.htm>, Retrieved 18 November 2013

<sup>195</sup> Anderson, R. (January 2013) "US Oil Production to Jump by a Quarter by 2014" *BBC News*

## Conclusion

In conclusion, it is apparent from the evidence presented in the case studies of Sudan and Equatorial Guinea that China's strategy in Africa reflects a Liberalist perspective with regards to its placing of economics and the access to oil reserves at the forefront of its approach on the continent. Chinese oil companies have been found to co-operate with the host government and other oil companies operating within oil-rich states in the form of PSAs and consortiums. In terms of the supposed West versus East controversy, the fact that China chooses to invest in oil in areas where the US has withdrawn, as demonstrated in Sudan and in areas where new opportunities are available, as in Equatorial Guinea, emphasises this co-operative approach and defends the claim that China is merely another economic competitor interested in purchasing Africa's oil, as opposed to being locked in a political confrontation with the West. With regards to the view that China is a neo-colonialist figure in the recent 'New Scramble for Africa' phenomenon, through an examination of its foreign policy towards the continent and specifically towards oil-producing states, the right to sovereignty and mutual benefits between the two states is emphasised and China's developmental role in Africa is accentuated. Consequently, the extent to which this phenomenon has been supported in the past is disregarded.

With assistance from the evidence presented in each case study and an examination of the variables, the hypothesis, which states that if China chooses to invest in African oil-rich states, it then tends to focus on areas or countries where Western companies are not present, is proven to be true. This is a result of China avoiding political rivalry with Western powers within a commercial environment, consequently causing the Asian state to gravitate towards abandoned or new deep offshore sources of oil. China avoids this conflict by co-operating in the international arena, specifically on the African continent, which is of necessity to achieve its aims stipulated in its oil strategy. China evades conflict with the West by avoiding direct interactions with its oil companies through forging PSAs and consortiums with oil companies from other countries, especially Asian ones. By avoiding political conflict with Western interests in Africa, China is granted further secure access to energy reserves on the continent allowing it to meet its domestic demands, while achieving desired economic benefits, thereby reinforcing the notion that political rivalry is a poor motivation to structure trade relations. China's rising role in Africa has many consequences for the continent and all other

international actors involved in investing in its oil reserves. Africa and China have both become significant diplomatic, investment and trading partners and it is expected that both states will become more deeply involved and intertwined in the future.

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