The Politics of Oil

China and Sudan – A Well-Oiled Relationship

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Perhaps the most controversial of China's oil interests, and one that well demonstrates China's commitment to lock in oil deals in Africa, is its relationship with Sudan.

China has been faced with international criticism for much of its business practice in acquiring natural resources. At the forefront of this criticism is its growing influence in Africa. On the one hand, China has been contributing much needed infrastructure to many of the underdeveloped African nations. On the other hand, China's practices are believed to be exacerbating some of the political problems in certain countries, maybe even increasing instability in some cases.

Beijing is the leading developer of oil reserves in Sudan, and currently possesses 40 percent of the African country's local production, which amounts to six percent of China's total oil imports.

One of the poorest countries in the world, Sudan has long sought to extract oil riches. For various reasons, including a lack in financial capacity, it was unable to do so on its own. In the 1960s and 1970s, Chevron Corporation took the lead but later abandoned its concessions due to the civil war in the 1980s. In 1996, Arakis Energy Corp., a Canadian firm, began developing the Heglig and Unity fields, which were estimated to contain between 600 million and 1.2 billion barrels. The fields were not located near the Red Sea, which prompted Arakis to enter into a consortium with the Greater Nile Petroleum Operating Company (GNPOC), to raise capital for a nearly 1,000-mile pipeline from the oil fields to the Suakim oil terminal near Port Sudan. In 1998, Arakis sold out to a larger Canadian company, Talisman Energy Inc.

Then in early March 2003, Talisman sold its complete 25 percent stake in the Greater Nile Oil Project to ONGC Videsh. This came after a lawsuit, filed in 2001 by the Presbyterian Church of Sudan, which claimed that Talisman aided the Sudanese military in a "brutal ethnic cleansing campaign." Human rights groups had campaigned against the company for years, claiming that the oil revenues paid to the Sudanese government were used to buy arms to fight the civil war, which resulted in the loss of an estimated two million people.

Today CNPC is the largest shareholder in GNPOC. The other shareholders in the consortium are Petronas (Malaysia), Sudapet (Sudan) and ONGC (India). What makes China's involvement

in Sudan so controversial, and any company's for that matter are the atrocities taking place within Sudan and China's undying support of the Sudanese government.

China is providing diplomatic protection to a government accused by the United Nations of genocide in the western region of Darfur. Various human rights groups have repeatedly accused Sudan of systematically massacring civilians and chasing them off ancestral lands to clear oil-producing areas. For years rebels have attacked oil installations in Sudan, hoping to deprive the government of any means to pursue a civil war that has claimed so many lives. Yet, today, Chinese laborers are shielded from these attacks, working under the protection of Sudanese government troops armed mostly with Chinese-made weapons.

In 2000, Sudanese resistance forces were said to be collecting photographs of Chinese-made weapons to prove the increase in Beijing's support for Khartoum. In July 2000, WorldNetDaily reported that Sudan had acquired 34 new jet fighters from China. In June 2001, the Mideast Newsline reported that Sudan had built three weapons factories with Chinese assistance in order to drive a halt to rebel advances. China reportedly provided arms support to Sudan in exchange for oil.

There is no real evidence, however, that this arms support is still taking place today. Meanwhile, China maintains that its role in Sudan is highly beneficial to the Sudanese people. According to Liu Guijin, Special Representative of the Chinese Government on African issues, "the root cause of the Darfur issue is poverty and underdevelopment. On the issue of development, China has done a great deal of tangible and solid work in helping Sudan boost its economy." Also, as Liu points out, it's "not that China does not want to obtain oil from a safe country that has more natural resources, it is just that good places have all been taken up by (Westerners)."

At this point, in its struggle to secure energy to support its economic growth, China might be stuck between a rock and a hard place because the country has invested so much already in Sudan's energy infrastructure. It is hard to imagine that the Chinese government actively endorses the atrocities occurring in Darfur. According to Erica Downs, Research Fellow at the Brookings Institution, China is "stuck in a situation where it does not want to lose the capital it has invested in Sudan."

On the other hand, it could very well be the Darfur crisis that makes Sudan a particularly attractive business partner to China. "It's the political situation that gives the Chinese government political and economic advantage. A typical Western firm would find it difficult to operate there and Chinese firms do not have qualms about that."

It is difficult to determine exactly how much money China has invested in Sudan. One source states that "China reportedly invested $20 billion in Sudan, apart from soft loans, grants and other forms of aid." According to a study made by PFC Strategic Studies, the Sudanese government could collect as much as $30 billion or more in total oil revenue by 2012.

Today Sudan, the third largest producer of crude oil in sub-Saharan Africa, contains 5 billion barrels of conventional proven reserves, according to the Energy Information Administration. This is more than 19 times more the proven 262 million barrels estimated in 2001. Approximately 15 companies are operating in Sudan. These companies are mainly from Asia (China, Malaysia and India). For the most part, western companies withdrew due either to pressure from international human rights groups or security concerns, although some representation of western companies still remains. For example, Total (France/Belgium) has a permanent representative in Khartoum, and the company says it will resume its activities when "peace is restored, when intercommunity relations have appeased and when security is effective and sustainable."

While the US promotes better business practices in the global business environment, China's policy of not interfering with another country's internal affairs make it an ideal partner to many nations participating in questionable practices. China's growing influence in Africa is therefore counterproductive to western objectives of promoting human rights and abolishing corruption. China's growing involvement in Africa could actually make African governments more corrupt.

China has come under international scrutiny for its disregard of human rights issues. By publicly announcing its support of nations such as Sudan, China could lose credibility with the United Nations. However, as a permanent member of the U.N. Security Council, China has the ability to control sanctions imposed on various countries. For example, China has been a major stumbling block to US efforts to impose economic sanctions on Sudan due to its veto power.

China is not likely to switch tactics anytime soon as it maintains its philosophy of not interfering with another country's internal affairs. Its method is not to change the internal structure of these countries, but rather to focus on its political, diplomatic and trade relationships for its own economic gain.

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