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Institute of Diplomacy and International Studies

China-Africa Economic Relations in the Post Mao era:

Case study of Sudan //

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Declaration

I, Shazia Chaudhry hereby declare that this research project is my original work and has not been presented for a degree in any other university.

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Abstract

The twenty first Century has seen a new era of closer ties between China and Africa than ever before. China-Africa formal relations began when Zheng He visited African coastal towns during the early fifteenth century. These early relations were largely based on trade exchange, which with time developed into project assistance and training of guerrillas for freedom movements against colonial regimes. During Mao's era (1949-76), China helped African nations, by providing weapons and moral support, in their struggle for independence. Following the wave of national independence throughout most of Africa, China provided economic aid to many African countries.

After Mao's death in 1976, China's new government brought a total revolution in China's foreign policy as the country focused more on modernization of its economy and did not give much attention to foreign relations, especially with African countries.

From the early 1990s, China re-engaged with Africa but with a new strategy of win-win relationship. Since early this century, China has been giving special emphasis to enhance its trade exchange with African nations, by mainly importing oil and minerals from Africa and exporting manufactured goods, such as electronics, machinery and equipments. Chinese government has been encouraging public and private enterprises to invest in many African countries. According to a UN report, now China has also become the main investor in Africa's infrastructure building.

China has also made a key contribution in the economic development of many resource rich countries like Sudan, Nigeria and Angola. Likewise China has been investing heavily in Sudan's oil industry and infrastructure building (like construction of dams, bridges, roads, hydroelectric power stations, schools, hospitals etc.), textile industry, and

agriculture sector. With China's assistance, Sudan has become one of Africa's major oil exporters, which has enabled Sudan to achieve remarkable economic growth in recent years.

China's increased interest in Africa is attracting huge international attention and ongoing debates. Following the forums of 2000 and 2003, in 2006, third Forum on China-Africa Cooperation took place in Beijing, which was attended by 48 African delegations made up of political leaders, businessmen and journalists. Through FOCAC, China reshaped its foreign policy towards Africa, which is based on equality and mutual benefits. One of the Forum's key objectives was to establish a new partnership for Africa's trade and economic development. China also pledged to establish preferential trade and industrial zones in Africa.

China has been giving bilateral aid in terms of grants, interest-free and unconditional loans to many African Least Developed countries to boost their economies. China Exim Bank and some other financial institutions are the sole providers of concessional financing for Africa's development projects.

This study examines China-Africa economic relations as well as China's new approach and expanded relations with Africa in the post Mao era in many ways, including enhanced economic and trade cooperation, cultural and educational exchange, medical and public health, military exchange, and development assistance.

Abbreviations

AGOA	African Growth and Opportunity Act
AERC	Africa Economic Research Consortium
CDB	China Development Bank
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
COSATU	Congress of South African Trade Union
CPA	Comprehensive Peace Agreement
ECOWAS	Economic Community of West African States
EU	European Union
Exim Bank	Export-Import Bank
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Co-operation
GDP	Gross Domestic Product
GNPOC	The Greater Nile Petroleum Operating Company
IMF	International Monetary Fund
MFA	Multi Fiber Act
MOFCOM	China Ministry of Commerce
MPLA	Popular Movement for the Liberation of Angola
NBSC	National Bureau of Statistics of China
NGOs	Non-Governmental Organizations
ODA	Official Development Assistance
OECD	Organization of Economic Cooperation and Development

ONGC	Oil and Natural Gas Corporation
PETRONAS	Petroliam Nasional Berhad (Malaysia's National Petroleum Corporation)
PRC	People's Republic of China
RER	Real Exchange Rate
SINOPEC	China Petroleum and Chemical Corporation
SINOSURE	China Credit and Export Insurance Corporation
SWAC	Sahel and West African Club
SSA	Sub-Saharan Africa
TAZARA	Tanzania-Zambia Railway
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
USSR	Union of Soviet States Republic
WB	World Bank

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CHAPTER ONE

An Introduction to the Study

1.0 Introduction

Economic relations between two nations are established due to number of factors, like the trade exchange, investments between the two partners, aid flows, provision of technical assistance, and the like. The importance of good international economic relations may be understood by taking a look at China and Africa.

China-Africa economic relations can be traced as far back as the early fifteenth Century when the Ming Dynasty diplomatic missions were sent to some African countries by the Chinese emperor.¹ Since then, these relations have gone through many changes. During Mao's period, China supported the struggle for independence of many African nations and, also provided foreign aid to many African countries. Africa, on the other hand, supported China's entry into the United Nations in October 1971. After the death of Chinese president Mao Zedong, Chinese government introduced economic reforms and continued to help Africa with different forms of aid projects, and took significant measures to enhance their trade and investment relations with African nations. The decade of 1990s, saw China's relations with Africa enter a new period of development, largely based on reciprocity and mutual benefits.

This study has been undertaken to analyze this new wave of relationship which is mainly focused on economic and technological cooperation for mutual benefits of China and Africa. Since 2000, three Forums have been held to strengthen China-Africa cooperation in the areas of investments and business, agriculture, trade, finance, infrastructure, energy

¹ Philip Snow, op cit. Also see Feroze Manji and Stephen Mark, op cit, p. 35.

and resources, education, and science and technology.² China has been supporting many African countries with different forms of aid projects, interest free loans and debt relief to strengthen the national economies.

In addition, the study explores some sensitive issues including how African economies are responding to China-Africa fast growing ties and some aspects of China's new African policies; to what extent China is contributing to Africa's development and future prospects of this relationship. The reason behind this study is to gain deeper understanding of the drivers behind China-Africa economic relations since post Mao period. This chapter provides an introduction to the entire study and covers the problem statement, objectives, justification, literature review, theoretical framework, hypotheses and research methodology.

1.1 Statement of the Problem

Recent China-Africa relations have won mixed responses from the international community because some critics do not fully approve Chinese economic involvement in Africa. Following the 2006 Forum on China-Africa Cooperation, this relationship has taken a new direction for Africa's economic development and poverty relief. This study seeks to analyze China's rapidly growing interests in trade and investments, provision of aid to develop national economies, as well as promote social and economic well being of African nations. For the purpose of this study, the China-Africa relations will be examined from post Mao era to fill existing gaps in the literature of China-Africa economic relations. The study will address the following broad questions by undertaking the case study of China-Sudan economic relations:

² Forum on China-Africa Cooperation Beijing Action Plan (2007-2009).

What is China's role in Africa's development, and how are African economies responding to Chinese involvement in trade, investments, aid projects and financial services?

The expansion of trade between China and Africa has been generally welcomed but concerns have been expressed about how China's rapidly growing presence might affect African nations' sustainable economic development. There is also a critical question on whether China-Africa relations are merely opportunistic or whether they are based on mutual benefits. Many Africans are concerned about its possible impact on local industries, employment and most importantly the environmental challenges. There is also fear of imbalance and inequality in this relationship, therefore, the case study of Sudan examines whether the new relationship between China and Sudan is truly based on win-win strategy and analyses China's motives behind these fast growing ties.

1.2 Objectives of the Study

The broad objective of this study is to analyze Africa-China relations, since post Mao era, and the nature of China's economic ties with Africa, since the beginning of new Century. Therefore, China-Africa economic relations will be analyzed, especially focusing on China-Sudan economic relations in the post-Mao era.

The specific objectives of this study are as follows;

- To analyze the historical features of China-Africa relations.
- To explain the prospects of continued economic relations, looking at trade balance and equality in the present relationship between China and Africa.
- To examine the impact of China's recent economic engagement in Africa and Sudan in particular.

- To offer recommendations and point to areas of further research on China-Africa economic relations.

1.3 Justification of the Study

The Study attempts to gather information that will facilitate deeper understanding of the nature of China-Africa economic cooperation in various areas such as China-Africa trade and investment, development assistance and debt relief.

The study is important as it will assess the importance of Chinese presence in the continent and how both the partners are economically benefiting from this relationship. It will provide the prospects of China-Africa long term relations in future. This research will also provide information about China's public and private sectors, as well as financial institutions involved in the provision of development assistance to African countries.

The study is also important, because it identifies factors associated with recent changes in China's economic engagement with African countries, such as Sudan, and their growing markets for each other's exports.

The study will provide an important insight to the policy makers, in different areas of China-Africa cooperation. This piece of work will add to the existing literature on China-Africa economic relations, as available literature does not take any such detailed account of China-Africa economic relations since Mao's death. The analysis will help researchers, especially those who are focusing their study on Sudan-China trade and energy cooperation. The study will be beneficial for students of African and Chinese studies and will help them to further analyze these relations. The study will fill the existing gaps in China-Africa historical as well as current relations.

1.4 Literature Review

Relations between China and Africa are presently going through a very interesting phase. China's 'Year of Africa' in 2006 saw huge debates from media and academics. Western governments, international organizations and observers of international affairs are trying to assess the implications of the rapid rise of China's presence in Africa. In 1968, George Yu, a leading researcher on China-Africa studies wrote that "studying China in Africa is like pursuing a dragon in the bush, the dragon is imposing but the bush is dense."³ The notion of the Chinese 'dragon' operating in the African 'bush' is very commonly used by the West to describe China-Africa relations.⁴ However, now it is important to think about different levels and dynamics of the emerging Chinese relations with most of the African states.

China-Africa policy in Historical Perspective

Adshsed⁵ argues that analysis of China's historical involvement in Africa is important to discover the motives of contemporary China-Africa relations. Pointing out that Chinese foreign relations over time have been characterized by multiple approaches, he argues that this provides a suitable framework for considering China's current engagement in Africa.

³ George T. Yu, 'Dragon in the Bush: Peking's presence in Africa', *Asian Survey*, 8, 12, (1968), p.1026, in Daniel Large, 'Beyond 'Dragon in the Bush': The study of China-Africa relations', *African Affairs*, 107/426, p.45.

⁴ Emma Mawdsley, 'Fu Manchu verses Dr. Livingstone in The Dark Continent: Popular geopolitical images of Sino-African relations', paper presented at the Royal Geographical Society Annual Conference, London, 29 August 2007.

⁵ S.M. Adshed, *China in World History*, 9(London:Macmillan Press, 1988).

According to Large, study of China-Africa historical relations is important to get an insight into their past relationship but the current period is very different due to the intensity of rapidly growing cooperation from both sides.⁶ China's reengagement in Africa elicited a similar debate in the Western world during the early nineteenth Century, when Chinese laborers imported to work in South Africa were blamed for taking away jobs from local workers. Again in 1960s and 1970s same reaction was repeated as Western analysts talked of the negative dimension of China-Africa relations, while on the contrary, African leaders, like Julius Nyerere saw China's role in Africa as positive, especially in promoting peace and justice around the world.⁷

China is also regarded as a case study in the literature on communist relations with third world countries. Rubinstein⁸ argues about Soviet and Chinese influence in the Third World, and examines different features of their relations with Africa. However, Fritz Schatten expresses his views and argues that during 1963-64, Chinese premier Zhou Enlai toured Africa creating excitement among the media, academics and European and American governments. He argues that during that time when most of the African countries were getting their independence, and the Soviet-China competition was going on in Africa; China was not regarded as a serious threat to Africans for spreading

⁶ Daniel Large, op cit.

⁷ Headline of article in *Wall Street Journal*, 29 September 1967, quoted in Jamie Monson, 'Liberating Labor? Constructing Anti-Hegemony on the TAZARA Railway in Tanzania, 1965-76', p. 198 in Chris Alden et al op cit, p. xv.

⁸ Alvin Z. Rubinstein (ed.), *Soviet and Chinese influence in the Third World*, (Praeger Publishers, New York, 1975).

communism. In his view, China played a major role in Africa's development without any self interest.⁹

Yu argues that China definitely had a key role for Africa in its foreign policy.¹⁰ After sometime, China faced setbacks in its strategic objectives in Africa (for example Asian-African conference was aborted in 1965), Yu also wrote about 'China's failure in Africa'.¹¹ Yu examines Chinese foreign policy in Africa through the Tanzanian example and argues that wider dynamics of Chinese foreign policy could be analyzed using the case study of Tanzania and demonstrates how China-Tanzania relations extended beyond bilateral connection such as the mutually advantageous 'triangular' relations involving Sweden in development projects (like TAZARA railway).¹² He further argues that Tanzania had a problem in maintaining the special bond without being economically and politically dependent on China.¹³

It has been noticed, that whenever China engaged with Africa, she used a different strategy to re-establish its relations but some how, the new episode always had some connection with previous ties. According to Peter Van Ness, contemporary relations between China and Africa can be better understood by looking at their history of relations

⁹ 'The Chinese in Africa' in Fritz Schatten, *Communism in Africa* (London: George Allen and Unwin Ltd, 1966), pp. 187.

¹⁰ George T. Yu, 'Sino-Africa Relations: A Survey', *Asian Survey*, 5, 7 (1965), p. 330. in Daniel Large, op cit. p. 50.

¹¹ George T. Yu, 'China's failure in Africa', *Asian Survey*, 6,8, (1966), pp. 461-8.

¹² George T. Yu, *China's African policy: A Case study of Tanzania* (New York: Praeger, 1975), p. x, and 86, in Daniel Large, op cit. p. 52.

¹³ *Ibid*, p. 53.

and characterizes China's post colonial interaction with the third world as "a shifting pattern of engagement and indifference."¹⁴

Philip Snow, who has undertaken comprehensive research on China-Africa relations, examines the human essence of China's encounter with the African continent. He further examines China-Africa relations during Mao Zedong's period when China gave Africa some important material and political support, in the continent's struggle against colonialism. He argues, that the Chinese experience of Africa differed from that of the West, because they developed a special relationship which was based on mutual respect.¹⁵

However, according to Jackson, China's relations with the Third World depicts Africa as part of a wider approach to non-aligned, developing countries. Jackson did a detailed study of Chinese foreign policy towards Angola and Mozambique and regards the country's strategies, as operating within the framework of China's Third World foreign policy.¹⁶

Debates on China-Africa Studies during Current period

There have been an increasing number of studies on the economic relations between China and Africa since the 1990s. Chris Alden¹⁷ reviews the evolution of Sino-Africa economic relations since the 1970s, and writes about China's rise as a power in world economy and politics, and argues that China's multi-billion dollar investments in oil and

¹⁴ Peter Van Ness, 'China and the Third World; Patterns of engagement and indifference', in Samuel S. Kim (ed.), *China and the World: Chinese foreign Policy faces the new Millennium*, Westview Press, Boulder Co. 1988), pp. 151-168.

¹⁵ Philip Snow, *The Star Raft: China's Encounter with Africa* (London: Weidenfeld and Nicolson, 1988).

¹⁶ Steven . Jackson, 'China's Third World foreign policy: The case study of Angola and Mozambique, 1961-93' *The China Quarterly* 142 (June 1995), pp. 388-422.

¹⁷ Chris Alden, *China in Africa* (London: Zed Books, 2007).

minerals to the entry of thousands of traders, laborers, and cheap consumer goods, China's economic and political re-engagement is redefining Africa's traditional ties with the international community. He argues that emerging relationship between Africa and China is going to determine whether this engagement will be that of a development partner, competitor, or a new hegemony. He further argues that in order to understand Chinese involvement on the continent, it is important to understand all other aspects of China's relations including social, economic and diplomatic motives. According to him, only then it is possible to assess new challenges and opportunities for African and Western nations.¹⁸

Edwards and Jenkins¹⁹ study trade-poverty links while Kennan and Stevens²⁰ attempt to identify possible winners and losers among African countries as China becomes more prominent in global trade and investment. This is a recent study by an OECD staff team and it emphasizes trade and FDI, focusing on China's role in specific commodity and energy markets. The study points out that the sheer size of China's economy, its phenomenal rate of growth, its appetite for natural resources, and its growing economic and political power indicate that China will reshape the world economy. China is expected to provide the competition and opportunities across the border to major trading partners in OECD countries, to developing countries and to other emerging economies. Through this work, the OECD development centre aims at decisions and strategies that

¹⁸ Ibid., pp. 349-359.

¹⁹ Edwards, C, & Rhys. J., *The Effect of China and India's Growth and Trade Liberation and Poverty in Africa*,(IDS: 2005).

²⁰ Kennan, J. & C. Stevens, "Opening the package: The Asian Drivers and Poor Country Trade" (Sussex University: Institute of Development Studies, 2005).

can maximize the benefits and minimize the risks that can possibly arise for African countries and China as well.²¹

Hannah Edinger²² and her colleagues provide a detailed analysis of China's fast growing ties with Africa, especially since the onset of 21st Century. They argue that China's increasingly growing interest in trade and investment with Africa is a focus of attention from the international community. There are two schools of thought; one who thinks, China's new wave of relationship is based on its need of natural resources, while others believe that China's motives are purely altruistic. Instead, they strongly believe that China's increased economic activities are playing a key role in the continent's development.

This team of academics argues that the current China-Africa political and economic relations have flourished through China's increasing commitment for bilateral trade flows, investments, development projects at both political and commercial levels. The study touches on different related issues like social and environmental risks of construction and infrastructure projects by undertaking few case studies.

A World Bank study by Broadman, analyses trade and investment relations between Asia and Africa, focusing on political economy, governance and institutional issues. The analysis covers, the lessons that can be drawn from China and India's success stories that might be applicable for Africa. This study examines major factors that specifically affect trade and investment between Asia and Africa. The study significantly focuses on FDI policies, trade agreements, domestic market conditions, business environments,

²¹ Goldstien, Andrea, Nicholas Pinaud, Helmut Reisen and Xiabao Chen, *The Rise of China and India: What is in it for Africa?* (Paris: OECD, 2006), p. 29.

²² Hannah Edinger, 'New Impulses from the South: China's engagement of Africa, (Centre for Chinese Studies: Stellenbosch University South Africa, 2008).

competitiveness of market structures, institutional setups, supply constraints (such as poor infrastructure), information access and some other related issues.²³ As this study is based on some particular case studies, it's difficult to say that the study's findings are necessarily applicable to all African countries. But definitely it's a good source of data on trade and investments between African and two Asian giants (India and China).

An IMF working paper prepared by Jian-Ye Wang²⁴ provides an assessment of China's economic involvement in Africa and identifies the forces shaping burgeoning China-Africa economic relations. The study explores China's multiple roles in Africa and argues that contemporary China-Africa economic relations are based on Chinese and African policies, their markets for each other's exports, Africa's demand for infrastructure and China's new approach to financing development projects. He suggests that all these factors have together moved commercial activities, trade and investment to the center of China-Africa economic relations. However, this study does not take any account of negative impacts of China's involvement with African partners.

Chinese financial institutions have been playing a strategic role in financing African infrastructure projects. A report prepared by Bosshard²⁵ examines the role of Chinese financiers like China Exim Bank, in strengthening China-Africa economic relations. The report argues that Chinese financiers are responsible for maintaining international standards of good governance and environmental protection while undertaking huge

²³ Broadman, Harry G., *Africa's Silk Road: China and India's New Economic Frontier*, (Washington: World Bank, 2007).

²⁴ Jian-Je Wang, *What Drives China's Growing Role in Africa?*, IMF Working Paper August 2007.

²⁵ Bosshard Peter, "*China's role in Financing African Infrastructure*," (International Rivers Network: 2007), available at <http://www.irm.org>

infrastructure projects like Merowe Dam in Northern Sudan. It further explains how China is currently undertaking efforts to close these gaps in all these important areas.

A comprehensive study by Dr. Martyn Davies and his team of scholars from South Africa on China's development assistance to Africa argues that since the onset of twentieth Century, China's foreign policy towards Africa has gone through major changes and has been shaped mainly by China's increased interest in oil and mineral extraction industries.²⁶

Ana Cristina Alves observes that China's relations with African continent are now based on economic cooperation, investments and trade rather than traditional ideological motives. She argues that by doing so China is trying to bring developing countries closer to each other and strengthen their voice at the same time.²⁷

'*China Returns to Africa*'²⁸ is a comprehensive source of a wide range of information on China's expanding relations with Africa. This hefty volume covers almost every aspect of China's operations within different African countries. All the editors have presented findings and assessments arising from their investigation. It covers diplomatic, economic, political and social aspects of China's relations with the African continent. It is also a good source of data on China-Africa trade and investment relations.

²⁶ Martyn Davies, *How China delivers development assistance to Africa*, Centre for Chinese Studies, University of Stellenbosch, February 2008.

²⁷ Alves A. C., *Chinese Economic Diplomacy in Africa: The Lusophone Strategy*, in Chris Alden, Daniel Large and Ricardo Soares De Oliveira (ed), *China Returns To Africa: A rising Power and a Continent-Embrace*, (London: Hurst & Company, 2008), p. 69.

²⁸ Chris Alden et al (eds), *China Returns to Africa*, (London: Hurst & Company, 2008).

Another study compiled by Feroze Manji and Stephen Marks²⁹ is also a collection of essays written by twelve scholars, argues that the recent rise of China in Africa is full of opportunities for African countries. However they point out that China's recent engagement within Africa could be alarming in the sense that China's self interests may be more than humanitarian, environmental or human rights concerns.

Debates on China in Sudan

China has been in Sudan since 1959 but their relations have never attracted so much international attention compared with the last few years. According to Daniel Large, China has gained a prominent and much more significant position in recent international coverage of Sudan. Although China was a relatively less important economic partner, China's role in the development of Sudan's oil sector brought them closer than ever before. Also the passing of United Nations Security Council Resolution 1769 that authorized an African Union-UN mission for Darfur is another key factor behind their fast growing ties. Large further argues that, this mainly happened due to the increased economic importance of China to Sudan and China-Sudan engagement has acquired wider significance as compared to expanding Chinese relations with other African nations.³⁰

Ali Abdallah Ali distinguishes between two periods in the history of Sudan-China relations; 'before and after oil'. He identifies the important difference between China's economic involvement in Sudan before and after the 1990s and argues that China's economic relations with Sudan during 1980s were not especially important. While trade

²⁹ Feroze Manji and Stephen Marks (eds.), *African Perspectives on China in Africa*, (Oxford: Fahamu, 2007).

³⁰ Daniel Large, *Sudan's Foreign Relations with Asia*, ISS Paper 158, February 2008, p.1.

between these two countries continued. However, there was limited business expansion and efforts to increase trade.³¹

Nour Maglad³² studies China-Sudan economic relations since early 1970s and identifies the importance of trade, foreign direct investments, aid and the changing trends of composition of trade for both China and Sudan. This study basically deals with the impact of Chinese involvement in Sudan's oil sector during 1990s and reveals that oil is the most significant factor behind China-Sudan rapidly growing relationship; however, the growth of oil development has led to negligence of agriculture sector (which is the biggest bread earner for majority of Sudanese population). The study provides very comprehensive data on trade, investments and aid flows between these two partners.

Reeves is of the view that China values its economic relationship with Sudan, including its arms trade and central role in its oil production and exploration.³³ Igiri and Princeton argue that today China is a principal investor in Sudan's oil industry and related transport and infrastructure projects because many American and Canadian firms were forced to withdraw, due to Sudan's civil war. He further posits that China is extending its development assistance for Southern Sudan also, which is specially aimed at strengthening the North-South unity.³⁴

³¹ Ali A.A., *The Sudanese-Chinese relations before and after Oil* (Khartoum: Sudan Currency Printing Press, 2006) in *ibid* p. 2.

³² Nour Eldin A. Maglad, *Scoping Study on Chinese Relations with Sudan*, (Nairobi: AERC, 2008)

³³ E. Reeves, *China, Darfur and the Olympic: tarnishing the torch?* Available at www.dreamfordarfur.org accessed 15 November 2007.

³⁴ Cheryl Igiri and Princeton N. Lyman, 'Giving meaning to "Never Again" Seeking an effective Response to the Darfur Crisis and Beyond', pp. 15-17.

Liu argues that China was able to develop its relations with Sudan on the basis of non-interference policy, pointing out that the main reasons behind China's success is the political instability which forced other investors to withdraw from the country leaving China with few competitors and the fact that Sudan's economic potential had also created attractive business investment prospects for China.³⁵

1.5 Theoretical Framework

Theories enable us to relate variables that show trends, explain them and consequently, predict with a certain degree of precision. The theory of interdependence is used to explain China-Africa economic relations. Interdependence theory is based on the discipline of international relations and provides the framework that facilitates understanding of the cooperative relations between China and Africa to strengthen their economies.

Interdependence is also considered to be a concept of considerable theoretical significance because it negates the realist school of thought where states are treated as autonomous agents within the international system. The meaning of interdependence has been often regarded as ambiguous. According to Rosenau, interdependence is only used as a characteristic of the rapidly growing and complex relations between countries.³⁶

Interdependence, however, has been linked to the fast growing transaction rates which have taken place between states due to globalization which makes this theory highly relevant to the current China-Africa economic relations. Holsti argues that

³⁵ Liu Anpeng, 'Chinese Workers enter Sudan', *World Knowledge*, 9, (2004), pp. 42-43 in Daniel Large, 'From non-interference to constructive engagement? China's evolving relations with Sudan' in *ibid*, p. 280.

³⁶ Rosenau James N., *The Study of Global Interdependence: Essays of the Transnationalization of World Affairs* (London: Frances Printer, 1980).

interdependence has been enhanced as a result of the dramatic growth of means of transportation, communication and exchange of goods, money, and ideas.³⁷

Buzan goes further and suggests that interdependence grows with increased levels of human activities. They try to acquire more knowledge to produce more wealth and move around the globe resulting in an ever increasing intensity in the interactions across the international system.³⁸

In the last three decades, China has been greatly influenced by increasing interdependence with the rest of the global economy. During Mao's era, China was seeking development based on self reliance principle. After his death in 1976, Chinese new leadership realized the importance of give and take and made important economic reforms. These reforms started by Deng in 1978, helped China to strengthen its economy and rise as one of the world's greatest economic powers.

China's re-engagement with Africa is developing under new circumstances where the country is operating under conditions of growing interdependence with the rest of the world and Africa. Now China is playing an increasingly important role in the global economy. It is frequently argued that Chinese activities in Africa are related to its demand for resources needed to fuel its economic development. But since 2000, the three forums have been held to promote China-Africa cooperation, based on equality and mutual benefits.³⁹ China imports significant amount of Africa's gas, oil and some key minerals. In return, Africa has been receiving investments, trade, unconditional loans, and

³⁷ Holsti, K. J. *Change in the International System: Essays on the Theory and Practice of International Relations*, (Aldershot: Edward Elgar, 1991), p. 53.

³⁸ Buzan, Barry, 'Interdependence and Britain's external relations', in Lawrence Freedman and Michael Clarke (eds.), *Britain in the World* (London: Cambridge University Press, 1991), p. 10.

³⁹ China's Ministry of Commerce Africa Division, *Sino Africa Trade and Economic Cooperation*, Corporate Africa, III Quarter (2008), pp. 38-39.

infrastructure projects because China wants to see Africa emerge as an important partner. Thus, a significant interdependent relationship has developed between China and Africa. Available evidence shows that the two partners are rapidly developing a very high level of economic integration, based on merchandise trade, FDI, development assistance and debt relief. Thus, the interdependence theory is a suitable theoretical framework for explaining the fast growing relationship between China and Africa.

1.6 Hypotheses

To achieve the objectives of this study, following hypotheses are used:

- 1) There is a remarkable change in China-Africa relations between Mao's and Post-Mao eras.
- 2) China-Africa economic relations have developed to more than donor-recipient relations.
- 3) China's economic engagement in Sudan has had a positive impact on Sudanese economy.

1.7 Research Methodology

Secondary data

Library research constitutes the main source of data used in this study. Key sources of secondary data include IMF, WB, and UNCTAD publications and National Bureau of Statistics of China's reports. Debt relief data has been collected from China-Africa Cooperation Forum. FDI data sources include publications by NBSC, China-Africa Business Council, Bank of Sudan annual reports and UNCTAD. China's ministry of Commerce has been used as a source of data on trade and investments between Africa and China. Other secondary sources of information used in the study include journals,

articles, magazines, newspapers, books, statistical public documents, online journals and internet.

Primary data

Primary sources of data were also used in the study including interviews with officials of Chinese embassy, Sudanese embassy, researchers, expatriates, economists and political scientists.

1.8 Chapter Layout

The rest of the study is arranged in the following chapters.

Chapter two provides an overview of historical background of China-Africa relations, while chapter three analyzes China's role in Africa's economic development and growth, as well as the scope of Chinese interests in Africa, and predicts the future of China-Africa economic relations.

Chapter four pulls together the information available on China-Sudan trade patterns during late 1990s, and early 2000s. This chapter presents an analysis of the impact of China's engagement in Sudan.

Chapter five provides the summary and conclusions of the study, and gives recommendations and suggestions on areas of further research. It also points out the gaps that need to be filled in future.

CHAPTER TWO

Historical perspective of CHINA-AFRICA relations

2.0 Introduction

“Relations between China and Africa are topical. Once again, a new Wind from the East is blowing across Africa¹”, and it is attracting considerable attention.

Historically, China has been playing different roles in Africa from Africa’s colonial period by supporting African countries in a wide range of areas such as various liberation struggles, providing educational opportunities, technical assistance for various projects and assisting in healthcare.

This chapter examines historical features of China-Africa relations since the pre-colonial era when a famous Chinese explorer Zheng He and his fleet visited the East African coast. The chapter specifically deals with the Chinese attempt to assist the development of many African countries by providing various forms of economic aid and undertaking investments during Mao’s rule as well as during the post Mao period when China was reforming its economy.

2.1 Chinese contact with Africa in pre-colonial era

Chinese traders have been sailing in the Indian Ocean and visiting the east coast of Africa for a long time and especially since the Tang Dynasty (AD 618-907). There is some archaeological evidence which shows that sometime in 1974, Chinese archaeologists found remains of a late thirteenth Century ocean-going junk in which, there were few African imports like tortoise shell, frankincense and ambergris most probably from

¹ John Cooley, *East Wind over Africa: Red China's African Offensive* (New York: Walker and Company, 1965), p. 3.

Somalia. Similarly some time back more than two hundred copper coins of Song and Tang dynasties were discovered in Zanzibar. Few other Chinese coins of pre-modern foreign currency were also found in the coastal towns of Somalia, Kenya, Tanzania and many other towns and islands along the Indian Ocean (see map 2.1).²

Huge quantities of Chinese porcelain were found on the Tanzanian coast by the archaeologist Sir Mortimer Wheeler. According to him this was the largest amount of broken China he had ever seen in his life.³ Broken porcelain pieces from Fourteenth Century were also found near the old Sudanese port of Suakin, on the southern tip of Madagascar and near Eritrean port of Badi, which serves as an evidence of some exchange of goods between Chinese and African traders during these early ages. This also suggests that Chinese of this period were already extremely adventurous and outgoing during these early periods.⁴

In 1071, and again in 1081-3, a group of visitors under the leadership of Zengjiani from Zengdan or Tanzania (see map 2.1) was sent to China. They were sent for some diplomatic mission and Chinese people treated them with great respect.⁵ It is thus clear that Africans were also reaching out to China during these times. Evidence suggests that by the late thirteenth century Mogadishu had established trade relations with China and by early fifteenth century, harbors of East African coastal towns were always busy with local and foreign ships, exchanging goods and articles of their interest.

² Philip Snow, *The Star Raft: China's encounter with Africa*, (London: Weidenfeld and Nicolson, 19880, pp. 5-6.

³ Basil Davidson, *Old Africa Rediscovered*, (London: Longmans, 1959), p. 132.

⁴ Philip Snow, *op cit*, pp. 7-8.

⁵ *Ibid.*

Map 2.1: Chinese Contact with Africa in Pre-Colonial times.



Source: Philip Snow, *The Star Raft* (London: Weidenfeld and Nicolson, 1988)

Zheng He's famous seven voyages to Africa

Zheng He played the role of “Chinese Columbus” but his voyages were very different from Columbus's. Chinese government mostly sponsored each of his voyages and their main aim was to establish diplomatic relations in addition to trade exchange. During 1403-04, Zheng He reached out to Indian Ocean for high profile goods to sell in China. Their galleons were named Treasure Ships as they carried expensive Chinese export goods like handicrafts, silk and porcelain which China was now manufacturing. During those days, the rich East African coastal people had expanded their imports of chinaware and by the mid-fifteenth century Chinese porcelain was greatly appreciated in most of African coastal towns.⁶

In October 1415, during Zheng He's fourth expedition, he invited a party of merchants from Mogadishu to visit Peking and when they arrived in the Chinese court, they were received with great pleasure. Africa was the final destination of Zheng He's fifth voyage of 1417-19 followed by two others in 1421-2 and 1431-3.⁷

Available evidence shows that Zheng He and his fleet spent most of their time near Brava and Mogadishu and they also visited Zhubu which is a small settlement, near the mouth of Juba River. During these visits, Chinese exchanged porcelain, silks and satins, gold and silver, pepper, rice, grain and beans with animals and animal skins, ambergris, myrrh and gum copal. The Chinese were accepted in most parts of Africa because they treated Africans with courtesy and their main objective was trade exchange.

⁶ Ibid, p.21.

⁷ Ibid, pp. 24-5.

The most important feature of Zheng He's voyages' is that the Chinese succeeded in creating silk and satin market for East African coastal inhabitants because satin and silk wear was a sign of status among the people of East African coastal towns.⁸

Similarly, Chinese pottery was also used by the elite society to serve their everyday food and Chinese vessels were widely used in Africa's coastal towns, for example, Sawhili people of Kenya used Chinese snuff boxes and inkwells to keep women's makeup, perfume and oil. Modern Chinese Cups and saucers are still available in Kenyan coastal shops.⁹

During 16th and 17th Centuries, China-Africa relations were passed into the hands of the Europeans. They made their colonies in Asia and Africa and even Chinese porcelain came to Africa through Portuguese, Dutch and British fleets.¹⁰

2.2 Chinese influence in Africa during Mao's era

In 1949, Mao Zedong succeeded in liberating his nation from the Western influence and began to rule China. Now China was independent and they wanted the same for the rest of the world occupied by the European colonizers. In September 1950, Mao sent a message to the South African government in which he protested against apartheid laws because they were also damaging the business of South Africa's Chinese traders. By the early 1950s, Chinese saw that Africans were also struggling for freedom.¹¹

⁸ Ibid, pp. 22-34.

⁹ Philip Snow, op cit.

¹⁰ Letter of Dom Luiz de Meneses, Viceroy of Mozambique, to Antonio Cardim Troes, Lieutenant General, 21 January 1719 in George Theal (ed.), *Records of South-Eastern Africa*, printed for Government of the Cape Colony, 1898, from *Asia Portuguesa* by Manuel de Faria de Sousa, (Lisbon, 1666-79), in Snow, *ibid*, p. 36.

¹¹ Bruce Larkin, *China and Africa: 1949-70*, (Barkley: University of California Press, 1971), p. 150.

African students, who had gone abroad, began getting access to anti-colonial literature to get more awareness against their rulers. They attended youth conferences and joined trade unions where they met representatives of the China ruled by Mao Zedong to exchange ideas and learn from their experience. Chinese gave them hope and good advise to fight for their rights.

Some African leaders like Walter Sisulu of the African National Congress of South Africa visited China in 1953, and there he found that Chinese people greatly appreciated Africans and treated them with lot of respect.¹² Similarly his colleague Lilian Ngoyi, who went to China two years later also received great honor and felt that the Chinese people had a special relationship with Africa.¹³

China's Role in Africa's freedom fight

By 1957, African countries started winning their independence and Chinese government began to establish formal diplomatic relations with them. The Chinese Prime Minister Zhou Enlai came to visit fifty African states in the last weeks of 1963, and assured African governments that he wanted to reestablish the relationship with African friends.¹⁴ Thus, China and Africa were brought together by Enlai's visit, as he remarked, that Africans had the right to take their own initiatives and offered his full material support to African rebels for their struggle to fight against colonialism. Following are some examples of Chinese financial support to African countries during this period;

¹² Mary Benson, *The African Patriots*, (London: Faber, 1963), p. 200.

¹³ Anthony Sampson, *The Treason Cage*, (London: Heinemann, 1958), p. 145 also see Benson, *ibid*, p.218.

¹⁴ George T. Yu, *China's African Policy* (New York: Praeger Publishers, 1975), pp. 16-25.

In November 1956, the Chinese government gave 20 million Swiss Francs as financial grant to the Egyptian government to support their fight on the right over the Suez Canal.¹⁵

During 1960s, number of freedom fighting movements approached Chinese embassies, which by that time had established in independent African countries. The Chinese assisted them with moral and material help by giving their left over arms from their wars against neighboring rivals Japan and China's Kaishek. The Chinese also provided funds, food, medicines, lorries for transport and uniforms for the guerrillas.¹⁶

Chinese trained Africans in the art of guerrilla warfare in a Chinese military academy, where the trainees were offered different courses on war to politics, including Mao Zedong's communism theory. However, major motive behind this training, was to develop hatred for the European rulers. Later, training was shifted to remote parts of independent African countries, like Ghana and Tanzania, because the guerrilla leaders preferred their young men to be trained in local African conditions. Chinese also faced criticism and reaction, against their teachings, because they were teaching Chinese texts, and Africans had a fear that Chinese were trying to spread communism. However, gradually, the Chinese realized, that the Africans needed to be taught their own African texts, instead of Chinese alone. Chinese also gave the fighters moral support and confidence to rise up against their colonial masters.¹⁷

During mid 1950s, and early 1960s,, many African countries succeeded to get their independence. Chinese government invited African leaders to visit China, because they

¹⁵ Li Xiaoyun, *China's foreign aid and aid to Africa: Overview*, China Agriculture University, College of Humanities and Development, Beijing, 2006.

¹⁶ John K. Cooley, *East Wind over Africa*, (New York: Walker & Co., 1965), p. 156.

¹⁷ Philip Snow, *op cit*, pp. 85-90.

were very keen on improving their people's lives. These African leaders noticed that Mao Zedong's government had succeeded in providing a huge population with the basics requirements of food, shelter, clothes, work and medical care. These African leaders saw China independent in the real sense, as they took no foreign aid and believed on self reliance, and produced their own goods, and spoke their Chinese language, and they had their independent way of thinking. In China, the African leaders found a country which knew what independence meant.

During Mao's period, Chinese government helped African countries with some great economic aid schemes to develop Africa by providing education and training facilities, however, they made no attempt to send advisors to Africa to take the place of Europeans. Several African regimes including Tanzania wanted to try out the Chinese model of education due to its popularity among African leaders. Chinese education was based on practical training and school leavers had to work in some industry before applying for further education. However, few African leaders were not very much interested in adopting the full Chinese curriculum due to Chinese Communist ideas. In fact, the Chinese were only interested in teaching African people how to achieve full independence, because Africa in their view was not yet ready for communism and China's another aim was to keep friendly relations with African nations.¹⁸

Africa's support for China in the United Nations

Africa in the sixties was one of the major non-communist regions where Chinese diplomats were welcome. Africa having numerous small countries, and each possessing a seat in the United Nations, had considerable influence on various UN decisions. At the United Nations General Assembly in 1970, six African states vetoed for China's entry,

¹⁸ Ibid. pp. 90-104.

making it possible for China to receive more votes than Taiwan for the first time. In October 1971, Peking received 76 votes out of 111, the two thirds majority necessary to drive Taiwan out of its seat. 26 votes, out of 76, were from Africa, and here Africans made “an ever lasting impact on China’s international fortunes”,¹⁹ which helped to cement diplomatic relations and friendship with China.

2.3 Chinese aid projects in Africa during Mao’s time

After 1955, China expanded the number of recipients for its foreign aid in Africa. Mao said in 1956 that China must contribute to improve the living conditions of ordinary human beings.²⁰ Therefore, the Chinese government under Mao’s rule felt a duty to help newly independent African nations and spread their good work. Hundreds of development projects were undertaken by the Chinese in many African countries to boost their economies. In the process, they sent technicians, builders, medical teams, agriculturists, teachers and experts to Africa to carry out programs of public welfare. They also took the task of giving aid to poor African states during this time. During 1959-61, China gave 30,000 tons of rice to Guinea, although these were the years of disastrous harvest in certain Chinese provinces. At this point Zhou Enlai remarked by saying that “poor are helping the poor.”²¹

China agreed to give economic aid to African countries on more generous and less conditional terms than the other donors. Zhou also made it clear that this assistance will not be accompanied by political conditions; loans will be interest free and would be used to finance infrastructure building projects. Long periods were allowed for the repayments

¹⁹ Philip Snow, op cit, pp. 114-5.

²⁰ Mao Zedong, *Selected Works*, Volume 5, (Peking: Foreign Languages Press, 1977).

²¹ Zhou’s Report on his African tour, *Peking Review*, No. 4, 1 January 1964.

of these loans. Africa received a total sum of US\$2 billion during the 1950s-60s. Mao also gave minimum of US\$ 30 million to each African country with which China had established diplomatic relations.²² Most of these funds were released through a special aid ministry, known as the Ministry of Foreign Economic Relations. In each Chinese province a foreign aid bureau was set up and was given the assignment to handle an area of aid. Recruits were chosen carefully who were physically fit and experts at their job. Available data reveals that by the end of Mao's period, more than 100,000 Chinese technicians were sent to Africa and more than 500 aid projects were launched.²³

Following were some prominent projects China undertook during Mao's era;

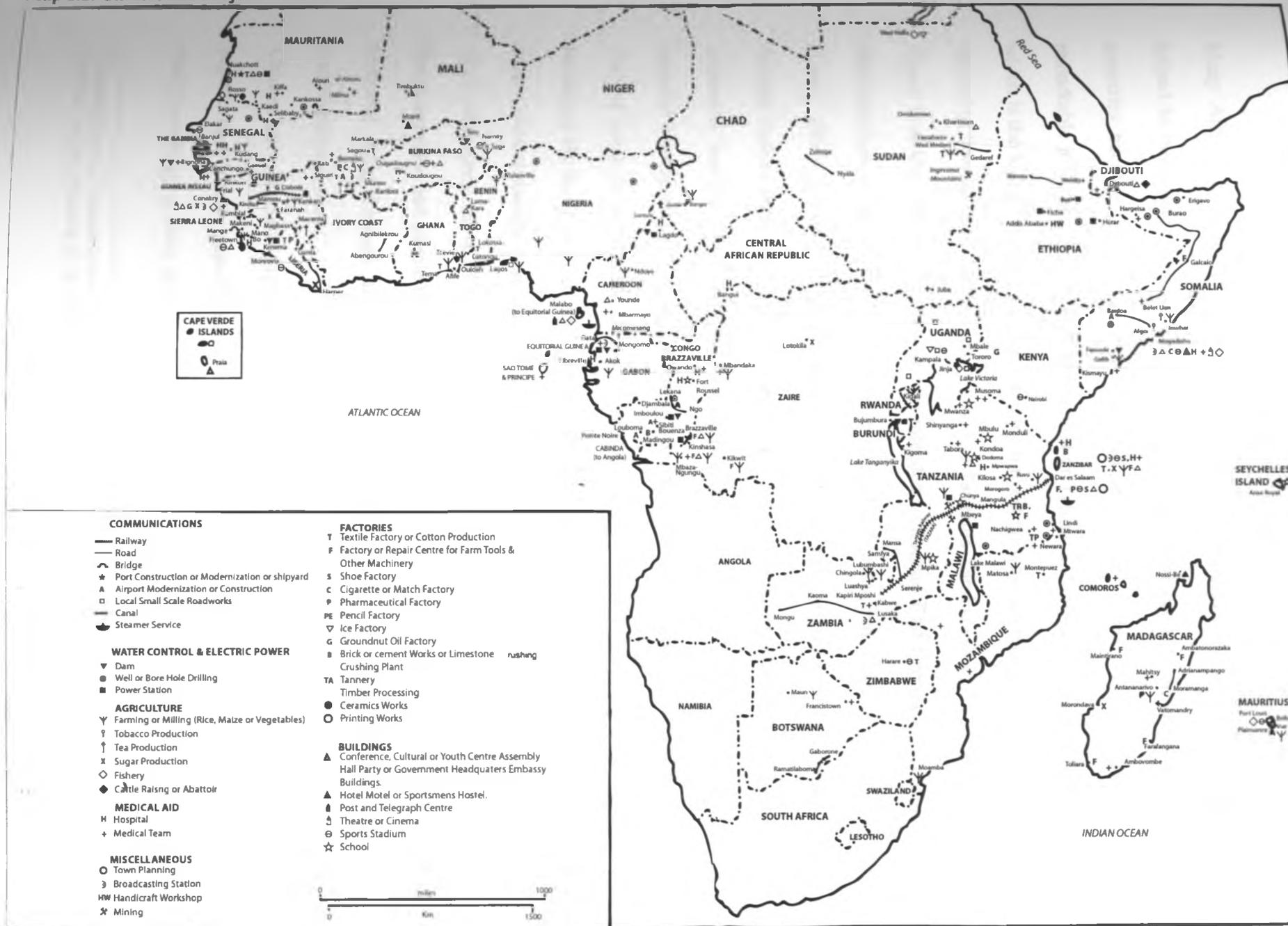
On the request of Guinean government, the Chinese government agreed to assist Guinea to build match and cigarette plant, which was the first development project from China in the SSA in 1960. During 1961-2, China sent seven agricultural specialists to Mali to undertake experiments on sugarcane and tea. Although Europeans had declared that tobacco could never be grown in Somalia and sugar in Mali, the Chinese agriculturists made it happen. In August 1965, China sent the investigation team to Africa to assess the feasibility of building the Tanzania-Zambia railway. In the late 1960s, China successively sent the medical teams to Tanzania, Somalia, Congo, Mali and Guinea.²⁴ Map 2.2 shows details of Chinese aid projects in Africa since 1960. It seems that even at that time China was all over Africa assisting in most spheres of economic development.

²² An interview with Chinese Ministry of Foreign Relations, 21 July 1982, in Philip Snow, op cit, p. 146.

²³ Li Xiaoyun, op cit.

²⁴ Ibid.

Map 2.2: Chinese Aid Projects in Africa Since 1960.



Many African countries lacked modern transport system and the Chinese engineers helped to build roads, bridges, railways, schools, ports and dams in different African countries because the Chinese indeed wanted to develop Africa. One of the most remarkable jobs they did was the construction of Tanzania-Zambia railway (TAZARA), which is the longest railway in Africa, and the longest railway completed anywhere since the end of Second World War till early 80s. The Tanzania-Zambia railway was called the 'Great Freedom Railway' because it was intended to liberate East-Central Africa from their economic reliance upon transport routes through still colonized countries.²⁵

During 1960s, Chinese also built stadiums in almost half of the African continent. African leaders were fond of amphitheaters and on their request, Chinese technicians undertook many modern and technologically advanced projects, like in Benin, they installed a computerized display system to see live telecasts. However, mainly, Chinese made a point of spending their aid for the welfare of ordinary African peasants and herdsmen. By doing this they intended to prove that they could look after African people as no Colonial masters were able to do. Impact of Chinese medical teams was the greatest of all aid projects on the lives of the poorest Africans. Chinese doctors stayed in camps in the countryside and people traveled from the cities to these Chinese clinics because they preferred using Chinese medicines due to their similarity with African herbal and traditional treatments.

Chinese doctors and workers were very modest and they never gave any impression of superiority. Chinese medical teams and technicians also trained the locals and passed on their knowledge as there was widespread ignorance and illiteracy in Africa, during these

²⁵ Jamie Monson, *Liberating Labour? Constructing anti-hegemony on the TAZARA railway in Tanzania, 1965-76*, in Chris Alden et al, op cit, pp. 197-219.

times.²⁶ China's aid projects played a critical role in Africa's economic development, although these Chinese workers left the country as soon as the project was over, because they did not want to interfere, once they had done their job.

Chinese trade with Africa during Mao's period

Under Mao's rule, the Chinese communist government was not interested in doing business with outside world, because they thought that there was a big local market for Chinese products. China needed few raw materials from abroad, and they were determined to survive without heavy imports of foreign industrial plant.

By the mid 1970s, Chinese foreign trade with Africa was restricted to one or two strategic minerals, from Zambia and Zaire. They imported cobalt and copper for electronics, machine tools and production of gamma rays, needed for nuclear research weapons. The Chinese helped Africans by buying surplus produce, and selling them cheap goods in exchange. Main motive behind Chinese business strategy, was to drive out the Europeans, and that was not very easy, as the Africans preferred European brands over Chinese. However, by 1971 the Chinese were successful in replacing Britain from Tanzania as their principal trading partner. But China needed to open up her economy to achieve over all economic development.

2.4 China-Africa relations after Mao's death

In 1976, two Chinese leaders died within eight months of time period: first Zhou Enlai, then Mao Zedong. This brought a huge change within China, and its relations with Africa and the outer world were redefined. Now China decided to fully modernize its economy by importing large quantities of technological plants from other developed countries like

²⁶ Philip Snow, Op cit, pp. 160-174.

Japan, America and Britain. They also borrowed large sums of money from Western banks to rebuild the country's economy. China's state trading companies reached out to other developed and developing countries, and began to sell their manufactured products into their markets. China was an exporter of cheap garments and simple consumer goods and started exporting these products to some African countries like Nigeria, Senegal and Mali etc. Data shows that within four years after Mao's death, Chinese exports to Nigeria rose from US\$ 128 million to US\$ 378 million and the country became China's eighth largest trade partner. By 1980, China's trade with Africa had increased by 70%, to a total value of US\$ 1.1 billion.²⁷

The Chinese also discovered, how to make money out of African produces in many ways, for example, they imported coffee and cocoa from Guinea and Ghana, and re-exported these products to other countries. They imported raw cotton from Sudan, and exported ready made garments, made out of this cotton. They also invested in joint ventures with African partners.²⁸

In 1980, a new Prime Minister, Zhao Ziyang took office. He visited Africa in 1982, and traveled through eleven African countries. He tried to renew China-Africa relations with a fresh spirit, and new ideas, for countries, still fighting for their freedom. Chinese ties with guerrilla movements began to grow closer once again, as from 1983-85 the Chinese helped Zimbabwe by providing tanks and artillery to the army, and fighter bombers to the air force. In 1987, China supplied jet fighters to Zambia, and promised to help and train guerrilla movements in South Africa. Zhao's tour made a positive image on Africans, and another important point he raised, was that Chinese aid should be provided in different

²⁷ Research Institute of International Trade, Peking, in Philip Snow, op cit, pp. 178-9.

²⁸ Ibid.

forms, and both donor and recipient should benefit from that.²⁹ Now they had learnt from their mistakes. Chinese technicians were working on more than a hundred aid schemes all over Africa, and interest free loans worth millions of dollars were announced. China-Africa trade and investments were still much smaller than that of developed Western countries, but who knew what the future would be like.

2.5 Conclusion

Historical background of China-Africa relations has been discussed in this chapter. From the above analysis, it is evident that Zheng He's voyages played a significant role to establish China-Africa trade and diplomatic relation. The exchange of goods gave economic benefits to China and the countries Zheng He visited in Africa.

During the 16th, 17th and 18th centuries, China-Africa relations were not so significant, however, their trade continued. During Mao's era, Beijing established formal diplomatic ties with many African countries. China provided Africa, huge moral and financial support, and trained Africans to fight for their independence against colonial rulers. China also supported many African liberation movements in Angola, Congo, Mozambique, Namibia and South Africa. Chinese economic aid to newly founded African states consisted primarily of soft commercial loans for the development of infrastructure like the construction of high profile projects such as the TAZARA railway between Tanzania and Zambia. After Mao's death, the Chinese new government made major reforms in its economy and since then China's economic relations with Africa have taken a new direction.

²⁹ Ibid.

CHAPTER THREE

An Analysis of China's Role in Africa's Development

3.0 Introduction

China's expanding economic relations with Africa are the most important dynamics in the foreign relations of the continent since early 1990s. Although history of China-Africa economic relations goes back to early 15th Century, the speed and nature of emerging relations are attracting widespread attention. Most of the African leaders and Chinese government officials are appreciating this evolving engagement, as President Jiang Zemin observed, "We had a memorable yesterday...we enjoy a splendid today. The flower of Sino-Africa friendship is blooming with the care and nurturing of the Chinese and African peoples. We will greet a flourishing tomorrow...China, the biggest developing country in the world, is ready to join hands with Africa, the biggest developing continent in the world, to march into the 21st Century full of confidence."¹

This chapter provides an analysis of China-Africa economic relations during post-Mao era. China has become one of Africa's major trading partners and has also been playing key roles such as a growing market, donor, investor, contractor and builder in Africa. The chapter examines Chinese government's new development aid policies, Chinese and African markets for each other's exports, Africa's infrastructure building by China, and

¹ President Jiang Zemin, speech to the organization of African Unity, Addis Ababa, 13 May 2006. in Chris Alden et al, op cit, p. 1.

China's distinct approach to financing. The chapter also explores some negative images of China's engagement in Africa and the prospects of China-Africa economic relations in future.

3.1 Trade between China and Africa

Although China and Africa have been trade partners for a long time, China-Africa trade relations have flourished and grown much faster in the post-Mao period. Available data shows that between 1976 and 1980, China's trade with Africa rose to US\$ 1.1 billion.² Chinese exports to Africa have continued to grow faster than her imports from Africa for most of the period. Trade flows between China and Africa have grown rapidly, especially since the mid 1990s,³ and rose from US\$4 billion in 1995 to US\$40 billion, for instance, in 2005.⁴ Between 2005 and 2006 alone, trade volume increased from US\$40 billion to US\$ 55 billion (see figure 3.1). Africa's exports to and imports from China grew by more than 40% and 35% respectively (see figure 3.2) while African exports to other key trade partners US and EU remained more or less the same.⁵

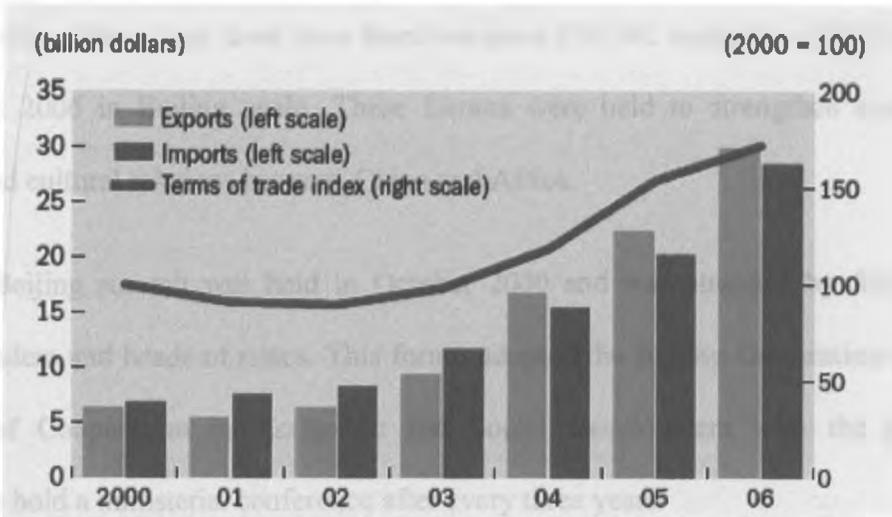
² Philip Snow, op cit, p. 178.

³ Chris Alden et al, op cit, p. 41.

⁴ Moreblessings Chidaushe, 'China's Ground re-entrance into Africa – Mirage or Oasis? In Feroze Manji and Stephen Marks (eds), *African Perspectives on China on China in Africa*, (Nairobi: Fahamu, 2007), p. 115.

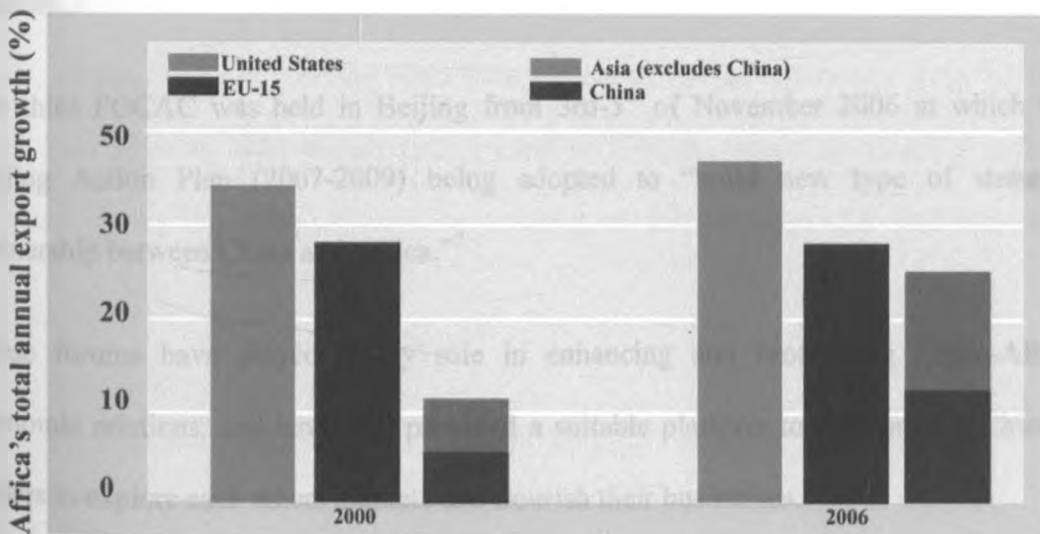
⁵ Jian-Ye Wang and Abdoulaye Bio-Tchane, 'Africa's Burgeoning Ties with China', *Finance and Development*, March 2008, Volume 45, Number 1.

Figure 3.1. Africa's Trade with China (2000-2006).



Source: IMF, Direction of Trade Statistics; Calculated by Jian-Ye Wang and Abdoulaye Bio-Tchane.

Figure 3.2. Africa's export growth with Key Partners (2000-2006).



Source: IMF, Finance and Development, March 2008

The Forums for China-Africa Cooperation (FOCAC)

Forum on China-Africa Cooperation was established in 2000 with the first summit taking place in Beijing. Since then, there have been two more FOCAC summits---2003 in Addis Ababa and 2006 in Beijing again. These forums were held to strengthen economic, political and cultural relations between China and Africa.

The first Beijing summit was held in October 2000 and was attended by forty Four African leaders and heads of states. This forum adopted the Beijing Declaration and the Program of Cooperation on Economic and Social Development with the partners agreeing to hold a ministerial conference after every three years.

The second FOCAC was held in Addis Ababa in December 2003. Its major aim was to further collaborate and strengthen China-Africa relations. This meeting ended with the adoption of Addis Ababa Action Plan (2004-2006) to further consolidate their trade relations.⁶

The third FOCAC was held in Beijing from 3rd-5th of November 2006 at which the Beijing Action Plan (2007-2009) being adopted to “build new type of strategic partnership between China and Africa.”⁷

These forums have played a key role in enhancing and broadening China-Africa economic relations, and have also provided a suitable platform to African and Chinese traders to explore each others markets and flourish their businesses.

⁶ Chris Alden et al, Op cit, pp. 146-150. Also Martyn Davies et al, Op cit, p. 9.

⁷ President Hu Jintao's speech in Nigeria, April, 2006.

Partly as a result of 2006 FOCAC, China-Africa trade reached to US\$ 32 billion during the first half of 2007, which was a 25% increase compared to 2006.⁸ According to Chinese assistant Minister of Commerce Wang Chao, China-Africa trade volume rose further to US\$ 73.3 billion in 2007 and US\$ 53.1 billion in the first half of 2008.⁹ Now China's target is to reach trade volume of US\$ 100 billion by 2010.

China-Africa trade balance

Available data shows that during most of the 1990s, Chinese exports to Africa continued to increase rapidly compared to its imports from Africa. This trend has however changed since year 2000. During the period of 2001-02, for instance, trade exchange between China and Africa was almost balanced and from 2003-07, Africa had a small trade surplus, about US\$ 2 billion each year which was much less than that of Africa's trade with US and EU.¹⁰ While US and EU remain the top two contributors to Africa's exports growth but China will soon overtake due to its increased interest in African trade.¹¹

In this respect, it is worthy noting that China's share of African export rose from 1.3% to 9.3% from 1995 to 2004 respectively. However, African exports to OECD countries decreased during this period.¹² It is also pointing out that in terms of overall economic

⁸ *Xinhua*, 'China's Direct Investment in Africa hit \$480 million in first half', 29 August 2007.

⁹ *Xinhua*, 'More Chinese enterprises eye investment in Africa', 9 September 2008.

¹⁰ Jian-Ye Wang, *What Drives China's Growing Role in Africa?* International Monetary Fund Working Paper, October 2007, p. 5-6.

¹¹ *Ibid.*

¹² Andrea Goldstein et al, *The Rise of India and China: What's in it for Africa?* (Paris: OECD, 2006), p. 45.

relations, Africa is still a relatively small trade partner for China with the continent accounting for only 2.6% of China's total foreign trade in 2004.¹³

Profile of China-Africa trade

During the 1980s and 1990s, China exported mostly clothing, footwear, and light manufactured goods to Africa. But from the beginning of 21st Century, the trend has shifted towards higher technology exports, like electronic goods and machinery, which now account for at least 50% of its total African exports.¹⁴

China has gradually become a major importer of oil, metals, minerals, agricultural products, wood and cotton from the key resource rich African countries such as South Africa, Angola, Sudan, Nigeria, Zambia, DRC, and Congo.¹⁵ China imports almost 100% of Angola's oil production and more than 80% from other African oil producers.

The composition of goods traded between Africa and China does not differ so much from trade between Africa and its major trading partners US, and EU (see figure 3.3). In 2006, oil and gas were the key African exports to China, US and EU. China alone accounted for 63% of its oil imports from Africa, where as US and EU accounted for 84% and 55% of their total fuel imports respectively. However, non-minerals and metals accounted for 13% of the total exports to China and 1% and 6% to US and EU countries respectively.

Africa's major imports from China mainly consisted of manufactured products (45%),

¹³ MOFCOM, *China Year Commerce Book 2005*, p. 126.

¹⁴ The Growing relationship between China and Sub Saharan Africa: macroeconomic, Trade, and aid links; The World Bank Research Observer, Volume 22, (World Bank: 2007), p.1.

¹⁵ Harry G. Broadman, *Africa's Silk Road: China and India's New Economic Frontier* (Washington, DC: The World Bank, 2007), p. 12.

Figure 3.3. Africa's trade with US, EU and China, 2006.

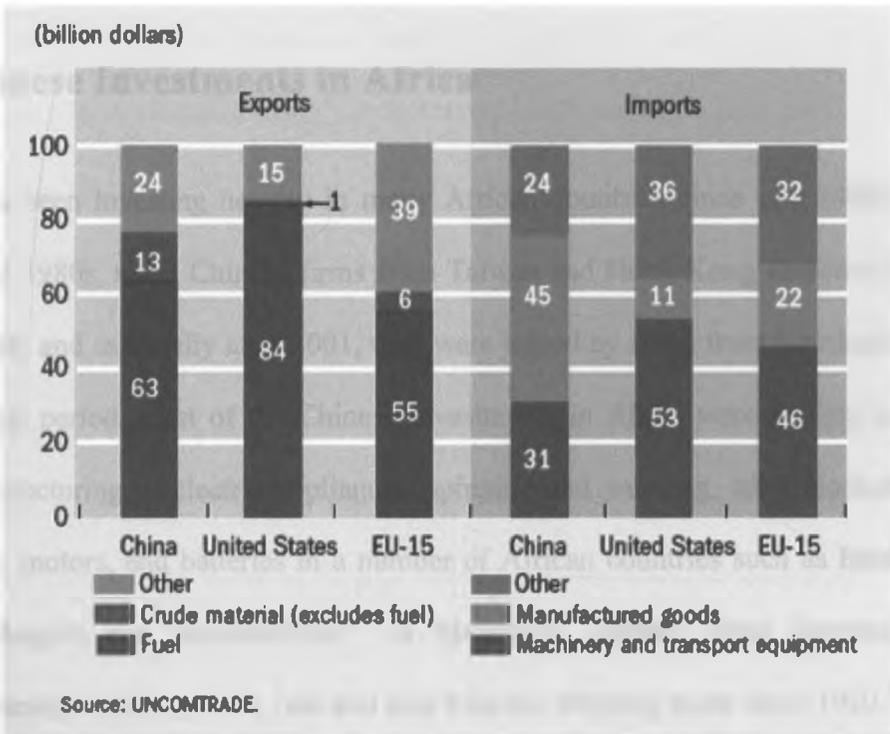
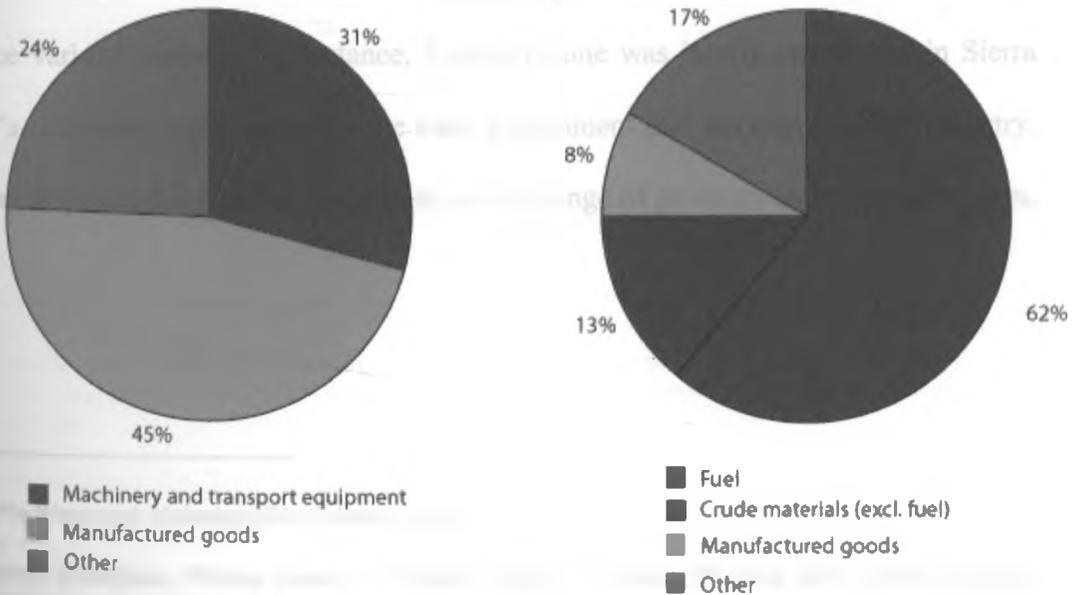


Figure 3.4. Composition of Africa's Trade with China, 2006.



Africa's Imports from China

Africa's Exports to China

Source: UNcomtrade

machinery and transport equipment (31%), which together accounted for about ¾ of total imports (see figures 3.3 and 3.4).¹⁶

3.2 Chinese Investments in Africa

China has been investing heavily in many African countries since mid 1990s. During 1970s and 1980s, some Chinese firms from Taiwan and Hong Kong invested in Africa. Since 1985, and especially after 2001, they were joined by firms from mainland China.¹⁷ During this period, most of the Chinese investments in Africa were in light industries, like manufacturing of electric appliances, spinning and weaving, ethyl alcohol, sewing machines, motors, and batteries in a number of African countries such as Benin, South Africa, Angola and Mozambique.¹⁸ In Mauritius, Chinese firms invested in the manufacturing of shoes, boots, rum and aloe bags for shipping sugar since 1920.¹⁹

In some cases the Chinese firms entered into joint ventures with local governments to produce various products for instance, a factory zone was jointly established in Sierra Leone's industrial export zone, by the local government and the Henan Guoji Industry, and Development Corporation to produce a wide range of products including mattresses,

¹⁶ Jian-Ye Wang and Abdoulaye Bio-Tchane, op cit.

¹⁷ Deborah Brautigam, 'Flying Geese' or Hidden Dragon'? Chinese Business and African Industrial Development', in Chris Alden et al, op cit, pp.51-54.

¹⁸ 'Chinese Companies encouraged to invest in Africa', *People's Daily*, 31 October 2000.

¹⁹ Deborah Brautigam, Op cit, pp. 56-57.

roofing tiles, hair lotions etc.²⁰ Another Chinese enterprise, Hisense group initially exported black and white televisions and electrical appliances to South Africa in 1993 and later established a joint venture to assemble products in 1997. From 1979 to 2001, total of 230 Chinese manufacturing investments were made in Africa²¹ with 83 of the investment projects located in South Africa. Nigeria, Kenya, Mauritius, Ghana, and Zambia were other African countries which attracted Chinese investments during the period.²²

Since late 1990s, Chinese companies have been investing rapidly in Africa, especially in natural resource sector and manufacturing sectors. According to the National Bureau of Statistics of China, total value of foreign investments by China in Africa was US\$ 317 million in 2004 and it rose to US\$ 392 million in 2005.²³ Other sources, however estimate that Chinese FDI was more than US\$ 900 million in 2004. China's direct investment to Africa during the period of 2000-06 was US\$ 6.6 billion according to China's Ministry of Commerce.²⁴

Most of these Chinese investments in Africa are privately owned, spread in trade, manufacturing and processing, services, communications, agriculture and natural

²⁰ Andrew Child and David White, 'Chinese investors Target Virgin Markets', *Financial Times*, 15 March 2005, p.12; Sierra Leonean President expects more Chinese investment', *Xinhua News Agency*, 7 November 2006

²¹ 'Patterns of Africa-Asia trade and investment: Potential for ownership and partnership', Africa Region, Private Sector Unit, Prepared for the Asia-Africa Trade and Investment Conference (Tokyo: World Bank, 2004), p. 63.

²² *Xinhua News Agency*, December 2006.

²³ Jian-Je Wang, Op cit, p. 11.

²⁴ Ibid.

resource. It is however, estimated that Chinese public investments account for about 13 % of total Chinese investments in Africa.²⁵

A World Bank survey in 2005 found that 18% of the Chinese firms wanted to invest in Africa²⁶ implying that many Chinese investors think Africa is a good and lucrative market for them to do business. In fact, “the Chinese are convinced that Africa is ripe for opportunity, and the early bird catches the worm.”²⁷

At the Beijing Summit of the Forum of China-Africa Cooperation in November 2006, China committed to spend US\$ 5 billion development fund for Chinese firms to invest in Africa and encouraged Chinese firms to invest and do business in Africa. As a result, since 2006, number of Chinese firms have been established in many African countries, such as a Chinese joint venture, Hasan Shoes has been producing shoes in Nigeria, a Chinese paper producing factory was established in Tanzania and another Chinese firm Haier began to produce electrical appliances in Angola. The Chairman of a Chinese firm, the Sichuan Hongda Group commented that in China, there is so much competition to get access to African markets but Africa offers a big market and the investment environment is also conducive here.²⁸

²⁵ *People's Daily Online*, 17 January and 14 May 2007, <http://english.people.com.cn>; and Chinese Ministry of Commerce available at <http://preview.english.mofcom.gov.cn>.

²⁶ Harry G. Broadman, op cit, p. 99.

²⁷ Zhao Zhongqui, China's Economic and Commercial Counselor in Freetown, quoted in Andrew Child and David White, 'Chinese investors target Virgin Markets'.

²⁸ 'China, Africa to encourage co-op private sector,' *Xinhua*, 23 October 2006.

Table 3.1. FDI Flows to Africa, 2003-05. (billions of US \$)

	2003	2004	2005
Total FDI to Sub-Saharan Africa	9.1	7.1	13.8
Angola	3.5	1.4	0.0
Equatorial Guinea	1.4	1.7	1.9
Nigeria	2.0	1.9	3.4
South Africa	0.8	0.6	6.3
Sudan	1.3	1.5	2.3
FDI from China	0.3	0.4
ECOWAS-SWAC/OECD	0.9

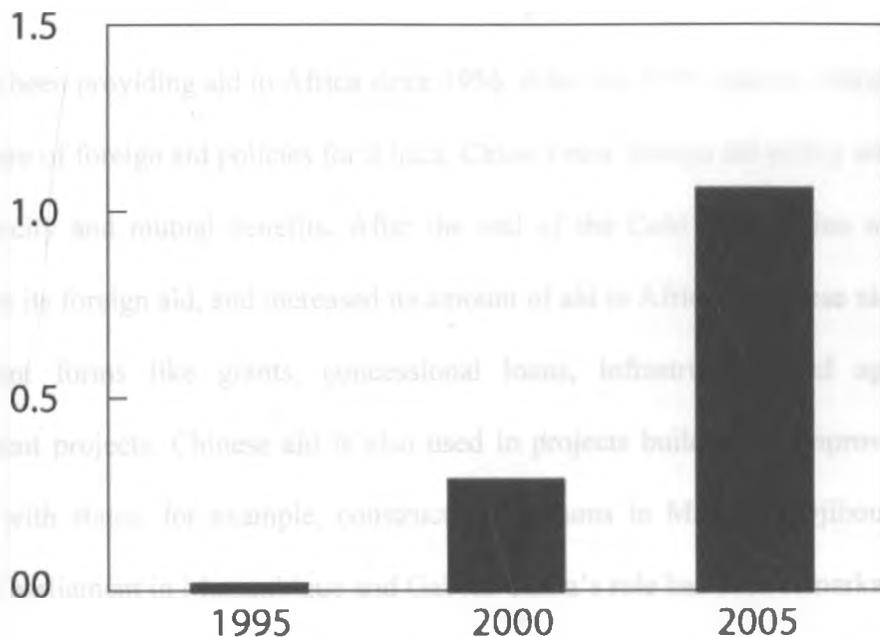
Source: World Bank, World Development Finance 2007, National Bureau of Statistics of China and ECOWAS/SWAC/OECD 2006.

Till early 2000, China was not a major share holder in the African FDI. But since 2004, China began to compete with other foreign investors. One of the factors behind rapid growth of Chinese FDI in Africa is the establishment of Chinese Trade Centers which provide information to local and Chinese businesses and give assistance in set-ups also. Chinese Business and Commercial Counselors are also attached to Chinese embassies to provide information on investments and businesses.²⁹

In October 2007, the Industrial and Commercial Bank of China acquired 20% of Standard Bank Group of South Africa, the largest bank in Africa at a cost of \$5.6 billion.

²⁹ 'China's Interest and Activity in Africa's Construction and Infrastructure Sectors' (Centre for Chinese Studies, Stellenbosch, 2008), p. 40.

Figure 3.5. Africa's FDI to China, 1995-2005 (billions of US \$)



Source: National Bureau of Statistics of China

FDI between Africa and China flows both ways, which means, African FDI to China has also grown rapidly during the last few years. Figure 3.5 indicates that in 1995, China had few investments from Africa, however, by 2005, volume of Africa's investments to China had grown to more than 1 billion US\$.³⁰ Chinese data indicate that a large share of African FDI in China is from Mauritius and South Africa and most of their investments are in mining, paper and manufacturing sectors.³¹

³⁰ Jian-Ye Wang and Abdoulaye Bio-Tchane, op cit.

³¹ Broadman, op cit, p.100.

3.3 Chinese Official Development Assistance and Aid for African countries

China has been providing aid to Africa since 1956. After the 1978 reform, China adjusted the structure of foreign aid policies for Africa. China's new foreign aid policy emphasizes on reciprocity and mutual benefits. After the end of the Cold War, China made new reforms on its foreign aid, and increased its amount of aid to Africa.³² Chinese aid is given in different forms like grants, concessional loans, infrastructure and agricultural development projects. Chinese aid is also used in projects building to improve foreign relations with states, for example, constructing stadiums in Mali and Djibouti, or the houses of parliament in Mozambique and Gabon. China's role has been remarkable in the provision of medical and health care facilities for ordinary African citizens. In this regard, China has also been sending experts and medical teams to develop anti-malaria centers and train African people.³³

During the period of 1980-87, China's aid flows to Africa averaged at US\$ 290 million a year and during 1989-92 it rose to US\$ 310 million a year.³⁴ Available data indicates that since mid 1990s, there has been a significant increase in Chinese aid for Africa. In 2002, Chinese government provided US\$ 1.8 billion for Africa's economic development. China provides technical assistance which is around 50% of the value of contracted projects.

³² Li Xiaoyun, *China's Foreign Aid and Aid to Africa: Overview*, China Agricultural University, College of Humanities and Development, Beijing, 100094,

³³ Chris Alden et al, op cit, pp. 17-18.

³⁴ Jian-Ye Wang, What Drives China's growing role in Africa? Op cit, p. 8.

China's official development assistance (ODA) to SSA amounted to US\$ 1.0-1.5 billion annually for 2004-2005 and by mid 2006, China had provided US\$ 5.7 billion for more than 800 aid projects within Africa³⁵ which is a huge contribution towards the continent's development.

Another important aspect of Chinese aid is the provision of educational facilities, such as awarding scholarships for African students who want to pursue their studies in China and training of professionals in different specialized areas. During the November 2006 FOCAC Summit, it was agreed that "over the next three years China will train 15,000 African professionals; send 100 senior agricultural experts to Africa; build 100 rural schools in Africa; and increase the number of scholarships from current 2,000 per year to 4,000 per year by 2009 for African students. Also an Egyptian-Chinese University was planned to be established in Egypt."³⁶

According to a Chinese diplomat, there are no political conditions attached to China's economic assistance³⁷ which makes Chinese aid more preferred form of development assistance for many African countries.

³⁵ He Wenping, "China-Africa Relations Moving into an Era of Rapid Development," in Africa Institute of South Africa, *Inside AISA*, October/December 2006, pp. 3-6.

³⁶ Forum on China-Africa Cooperation Beijing Action Plan (2007-2009) available at <http://www.fmprc.gov.cn/zflt/eng/zyzl/hywj/t280369.htm>.

³⁷ Barry V Sautman, "Friends and Interests: China's Distinctive Links with Africa," Center for China's Transnational relations, Working paper No. 12, The Hong Kong University of Science and Technology, p. 24.

Chinese Debt Relief for Africa

China has been providing debt relief for many heavily indebted poor African countries. The late Chinese premier Zhou Enlai established principles for China's official development assistance (ODA) in the early 1960s when he visited Africa. China's ODA usually consists of grants, interest-free or low interest loans and repayment is flexible making it possible to reschedule when necessary. Other principles of Chinese aid are to help recipient countries achieve economic independence and master technology provided by Chinese technical assistance (by providing the best possible equipment and materials from China).³⁸

China has specifically been helping African countries since the first 2000 FOCAC where Chinese government agreed to cancel 156 loans owed by least developed African countries which were a total sum of US\$ 1.3 billion. China fulfilled this pledge before the scheduled time.³⁹ Similarly, in the third FOCAC in November 2006, China announced that it would further cancel loans worth US\$ 1.3 billion, 168 interest free government loans owed by 33 African countries.⁴⁰

In 2007, Chinese president Hu Jintao toured Africa and during his visit of Mozambique, he announced to cancel all of Mozambique's debt to China which was a sum of US\$ 20 million. Chinese foreign Minister Li Zhaoxing also announced the cancellation of debts

³⁸ Jian-Je Wang, *op cit*, p. 9.

³⁹ He Wenping, *China Loans....op cit*.

⁴⁰ G. Stamp "China defends its African Relations", BBC News Online 26 June 2006.

for many African countries of his visit during 2007.⁴¹ Chinese debt cancellation relieved African economies from this heavy burden and further strengthened their relations with China.

Other debt creating financial flows by China Exim Bank

China's provision of intergovernmental loans for Africa is another important feature of their rapidly growing economic cooperation. China Exim Bank is one of China's key financial institutions to provide loans and grants. It was established in 1994 and is wholly owned by the Chinese government. During the past few years, it has also become one of world's largest credit agencies with increasingly growing operations in Africa.⁴² It gives loans for investments in energy, mining and industrial sectors; however, its credits are mostly used in the infrastructure building projects.⁴³

China Exim Bank provides trade credits on medium and long terms with a repayment period up to 15 years. China Exim Bank approved 78 concessional loans for Africa during the period of 2001-2005,⁴⁴ thus helping African countries to develop different development projects.

⁴¹ Martin Davies et al, *How China delivers development assistance to Africa?* Centre for Chinese Studies, University of Stellenbosch, February 2008, p. 12.

⁴² Todd Moss and Sarah Rose, 'China Exim Bank and Africa: New Lending, New Challenges', Centre for Global Development Notes, November 2006.

⁴³ Jian-Ye Wang, *What Drives.....op cit*, p. 14.

⁴⁴ Peter Bosshard, *China's role in Financing Africa's infrastructure*, International Rivers Network, May 2007.

Available data reveals that by the end of 2005, China Exim Bank had approved different projects worth US\$ 6.5 billion for Africa⁴⁵ and by mid 2006, China Exim Bank loans to SSA for infrastructure building rose to US\$ 12.5 billion.⁴⁶ By September 2006, there were 259 China Exim Bank projects in 36 African countries and 79% of its agreements to Africa were for infrastructure building only.⁴⁷

It has been noted that most of the China Exim Bank funds are for huge projects, for example, the bank agreed to provide loans worth US\$ 2.3 billion to Mozambique for building of Meopanda Nkua dam and hydroelectric power plant. China Exim Bank also provided US\$ 300 million for the Moamba-Major dam. The bank gave loans of US\$ 1.2 billion to Ghana, including US\$ 600 million toward construction of the Bui dam and US\$ 1.6 billion for an oil project in Nigeria, US\$ 200 million in preferential credit for Nigeria's first communication satellite, a US\$ 2 billion credit to Angola, with a possibility of another US\$ 9-10 billion, and loans and export credits for projects in Congo-Brazzaville, Sudan, and Zimbabwe.⁴⁸

Other businesses by China Exim Bank

China Exim Bank expanded its business considerably during 2001-06, as can be seen in figure 3.6. It has been reported that during 2006, China Exim Bank's operations were

⁴⁵ China Exim Bank, China-Tunisia cooperation Forum, press release, March 2006.

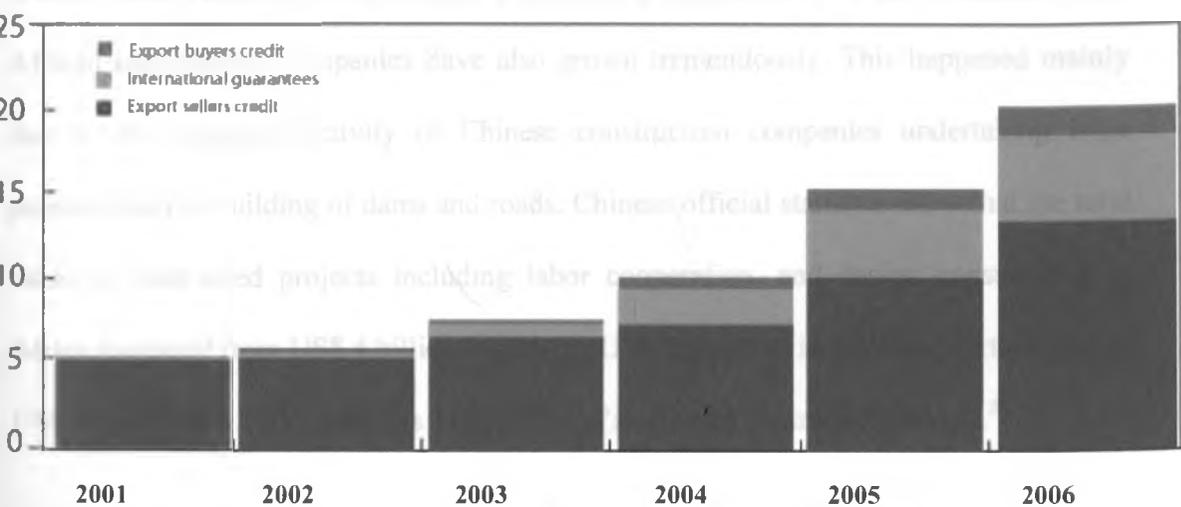
⁴⁶ Broadman, op cit, p. 275.

⁴⁷ Linden Ellis, "China Exim Bank in Africa," *China Environmental Forum*, Woodrow Wilson Center for Scholars, March 22, 2007, available at <http://www.wilsoncenter.org>.

⁴⁸ Moss Tedd and Sarah Rose, op cit

larger than other international credit agencies such as US Exim Bank and the Japan Bank of International Cooperation.⁴⁹ China Exim Bank's role has been phenomenal in the provision of commercial lending for African countries. The bank also provides preferential credits on behalf of the government⁵⁰ but commercial lending gives more opportunities to lenders and hence has a greater impact in Africa.

Figure 3.6. China Exim Bank, Main Operations, 2001-06 (billions of US\$)



Sources: Annual Reports of the Export-Import Bank of China, 2003-2006.

China Exim Bank announced to increase its loans by 15-20% per year and that will be an increase in its lending by US\$ 40 billion by 2010.⁵¹ China Exim Bank also collaborates with other financial institutions operating in Africa. In 2007, a memorandum of

⁴⁹ Jian-Je Wang et al, *Officially Supported Export Credits in a Changing World* (Washington: IMF, 2005).

⁵⁰ Jian-Je Wang, *What Drives....* op cit, p. 14.

⁵¹ Bosshard. opcit.

understanding (MOU) was signed between China Exim Bank and the World Bank in Washington DC to enhance cooperation, giving special emphasis to Africa.⁵²

Chinese Contract Labor and Other Services in Africa

China has been playing a significant role in the construction and engineering projects in many African countries since Mao's time. Chinese firms have been building hospitals, dams, roads, bridges, schools, shopping centers, water and energy producing projects in Africa. Since recently, due to China's increasing engagement on the continent, local African construction companies have also grown tremendously. This happened mainly due to the increased activity of Chinese construction companies undertaking huge projects such as building of dams and roads. Chinese official statistics show that the total value of contracted projects including labor cooperation, and design consultation in Africa increased from US\$ 4 billion in 2004 to US\$ 6.3 billion in 2005 and further rose to US\$ 9.5 billion in 2006, which is 31% of China's offshore contracted projects.⁵³

Tourism is also rapidly growing between Africa and China. There are now 26 African countries which have qualified as 'Approved Destination Status' for Chinese tourists. Countries like Namibia, Botswana, Madagascar, Lesotho, and Ghana have recently joined the list of tourist destinations. Increasing number of African tourists has also been visiting

⁵² Ibid.

⁵³ "Development Financing and China-Africa Cooperation---Concept Paper," prepared by The People's Bank of China and China Development Bank for a seminar during the African Development Bank Annual Meeting, (Shanghai, 2007).

China. Available data indicates that since 2003, number of tourists from Africa have been rising every year.⁵⁴

3.4 Role of China's Public Sector in Africa

China-Africa economic engagement has been involving a number of private institutions apart from the Chinese central government. China's state financial institutions have, for instance, been playing a pivotal role in Africa's economic development. China Exim Bank and China Development Bank (CDB) are two key institutions controlled by the government of China. China Exim Bank is responsible for the preferential credits and the China Development Bank provides support fund for FDI.

Role of China Development Bank (CDB)

CDB was also established in 1994, and its main aim has been to build China's infrastructure which is vital for its economic development. It provides loans to Chinese enterprises as part of 'Going Global strategy'. CDB launched the China-Africa Development Fund which is meant to provide funds to Chinese foreign investments in Africa.⁵⁵ During 2006, China Development Bank undertook more than 100 international projects valued at US\$ 18,760. By 2007, CDB had given loans of US\$ 1 billion for

⁵⁴ Jian-Ye Wang, What Drives... op cit, p.12.

⁵⁵ Jian-Ye Wang, Op cit, p. 15.

Africa with more than 30 development projects undertaken by CDB across Africa which valued at US\$ 3 billion.⁵⁶

Since February 2008, CDB has also been providing commercial loans on short, medium and long terms for Africa. The bank has further plans to invest in the United Bank of Africa (Nigeria) worth US\$ 5 billion, which will provide funding opportunities for resource and infrastructure projects in most of West African countries.⁵⁷ Since 2002, CDB has been giving loans in many international currencies and this has helped to grow its businesses considerably within Africa.

China Export and Credit Insurance Corporation (SINOSURE)

SINOSURE was established in December 2001 and it provides insurance services for Chinese enterprises engaged in economic and trade businesses in Africa and as well as in other parts of the world.⁵⁸

Its main businesses are in African and Asian countries where to establish a new business is highly risky due to civil wars and political instability. However, it has been operating in Europe and America on both short and long-term businesses. According to a report, SINOSURE with the help of local Ministry of Finance will back Botswana power plant

⁵⁶ Xinhua News Agency, China Approves China-Africa development Fund, May 2007. Available at www.chinadaily.com.cn/china/2007-05/14/content_871632.htm.

⁵⁷ Martyn Davies, How China Delivers development Assistance to Africa, (Centre for Chinese Studies: University of Stellenbosch, February 2008). p.25.

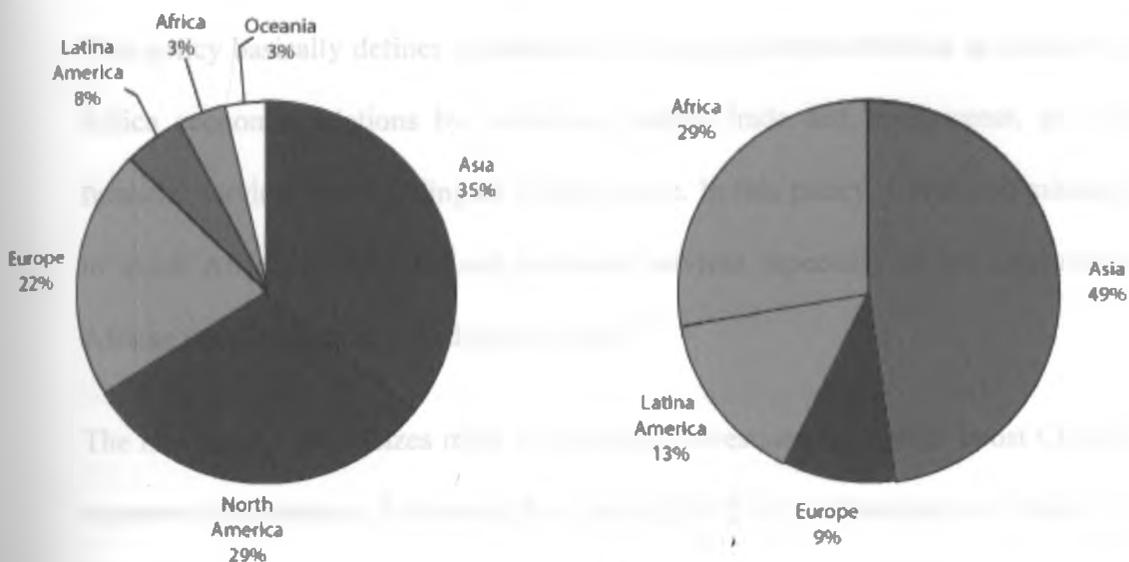
⁵⁸ Jian-Ye Wang, op cit, p. 16.

project.⁵⁹ In 2006, SINOSURE's 3% short term and 29% medium and long term business accounted for Africa as shown in figure 3.7.

Figure 3.7. SINOSURE: Breakdown of Operations by Continent , 2006.

Short-Term Business

Medium and Long-Term Outstanding Liability



Source: SINOSURE Annual Report, 2006.

Apart from China's Industrial and Commercial Bank, Bank of China, Construction Bank, Agriculture Bank and other commercial banks as well as many Chinese enterprises and institutions with the support of provincial and local governments, are doing businesses in African countries.⁶⁰

⁵⁹ Available at <http://www.tradefinancemagazine.com>.

⁶⁰ Ibid.

China's New African Policy

In January 2006, China released its new African Policy, which states China's foreign policy objectives towards Africa. According to this policy, China's mandate is to "establish and develop a new type of strategic partnership with Africa, featuring political equality and mutual trust, economic win-win cooperation, and cultural exchange."⁶¹

This policy basically defines government actions and responsibilities to promote China-Africa economic relations by enhancing mutual trade and investments, provision of financial services and building of infrastructure. In this policy, China committed herself to assist Africa in financial and technical services especially in the improvement of African peoples' health and education areas.⁶²

The new policy emphasizes more on trade and investment to further boost China-Africa economic cooperation. Following this, during 2007 Africa Development Bank's annual meeting; China Exim Bank announced to provide finance of US\$ 20 billion for the development of trade and Africa's new infrastructure projects⁶³ such as the construction of dams in Ghana and Mozambique and installation of telecommunication satellite in Nigeria.⁶⁴

⁶¹ 'China's African Policy', Ministry of Foreign Affairs of PRC.

⁶² Jian-Je Wang, What Drives....op cit, p. 12-13.

⁶³ 'China pledges US\$ 20 billion for Africa', *Financial Times*, 18 May 2007.

⁶⁴ Ibid.

3.5 Role of China's Private Sector in Africa

China's private sector has also been playing an important role in country's trade and investment expansion since China made reforms two decades ago. The study captures some prominent areas where China's private sector is playing a significant role.

Private Traders and investors

Since 1985, China's foreign trade and investment pattern has completely changed due to reduced restrictions. China's private and joint venture enterprises have become prominent and increasingly active in export and import businesses. Chinese entrepreneurs travel to Africa and look for new business and investment opportunities. They sometimes settle here and begin to import Chinese manufactured goods like electronic appliances, textiles, and clothing often compete with local traders.⁶⁵ Also many private companies engage in joint businesses with local partners thereby promoting China-Africa economic relations. Chinese private enterprises are investing millions of dollars in textile, mining, services, agriculture, processing and manufacturing sectors of Africa.⁶⁶

According to an IMF (2007) report, since 1997, a good number of Chinese private firms have been doing business in Africa like Huawei invested US\$ 1 billion, in many African

⁶⁵ ECOWAS-SWAC/OECD, "Africa and China," *Economic Series of the Atlas on Regional Integration in West Africa*, 2006. Available at <http://www.atlas.westafrica.org>

⁶⁶ JianYe Wang and Abdoulaye Bio-Tchane, op cit.

countries and ZTE wants to invest US\$ 400 million for the improvement of Angola's telecom network.⁶⁷

In 2005, China and United Nations Development Program (UNDP) together established China-Africa business council (CABC) for the promotion of Chinese private businesses in number of African countries, such as Cameroon, Ghana, Mozambique, Nigeria, South Africa and Tanzania.⁶⁸ Since its inception, CABC has been playing an instrumental role to organize two-way trade missions. It also does sector studies, and holds workshops, seminars and consultancy services on different issues. Its main objective is to promote Public Private Partnership (PPP), and to provide a mechanism, whereby Chinese government and private sector can meet to enhance China-Africa economic cooperation.⁶⁹

Chinese Private Contractors and Builders in Africa

According to China International Contractors Association's 2005 report, now China is world's sixth largest engineering and construction export country.⁷⁰ Due to China's foreign aid program towards Africa, Chinese private contractors have also become active in Africa.

⁶⁷ Sanusha Naidu, "China and Africa's natural resource sector: A view from South Africa," *On line Africa Policy Forum*, (Washington: Centre for Strategic and International Studies, 2007), available at <http://www.forums.csis.org>.

⁶⁸ Jian-Je Wang, *Op cit*, pp. 18-19.

⁶⁹ 'China-Africa Business Council', in *Corporate Africa*, *Op cit*, pp. 35-36.

⁷⁰ CHINCA, *The medium and long term strategic plan for China's international construction*, 2005.

Until recently, most of the construction companies were state owned enterprises, however, many of these have been privatized which further diversified the market. Some Chinese private owned companies are established in Africa and compete for construction contracts in many African countries. According to a survey, private construction companies show more efficiency in the project implementation as compared to Chinese state-owned enterprises.⁷¹

These construction companies are sometimes sub-contractors of state-owned companies and are specialized in different areas of construction, engineering and building.⁷² According to a study, during the past few years, Chinese firms have overtaken European firms in getting contracts in Africa and in coming years these enterprises will become Africa's top builders and contractors.⁷³

3.6 Factors influencing New Developments of China-Africa ties

It has been noted that China's Africa policy has played a key role in strengthening China-Africa economic relations. Following are major factors behind this development.

⁷¹ Hannah Edinger et al (eds.), *New Impulses from the South: China's Engagement of Africa*, Centre for Chinese Studies, University of Stellenbosch, May 2008. p.42.

⁷² ECOWAS-SWAS/OECD, *Op cit.*

⁷³ CHINCA, *Op cit.*

Chinese and African Markets for each others exports

Some analysts think that China's growing interest in Africa is only due to its needs for energy resources and other commodities from African resource rich countries.⁷⁴ However, Africa being a developing continent also needs new investments and manufactured products for its economic growth and has been importing heavily from China.

Since 2005, within the framework of China-Africa Forum, China introduced a new improved system of zero or reduced tariffs to further enhance its trade African countries. This zero tariff system has facilitated 466 items from 27 African countries entering the Chinese market. As a result, by the end of 2007, China had benefited from African imports worth US\$ 5.4 billion.⁷⁵ Further, Chinese demand of African commodities has increased the raw material prices. It has given a significant boost to the incomes of resource rich African countries by accelerating their economic development like Nigeria has been able to pay off its loans;⁷⁶ Sudan and Angola have become net oil exporters from an importers. Similarly other African countries also want to achieve greater economic development through attracting more FDI from China and other countries.

The investments of over 800 Chinese enterprises have been remarkable in promoting African industries in China and other parts of the world. China has also been playing a

⁷⁴ Stephen Mark and Feroze Manji, Op cit.

⁷⁵ China's Ministry of Commerce Africa Division, 'Sino Africa Trade and Economic Cooperation', *Corporate Africa*, Op cit, pp. 38-39.

⁷⁶ Li Anshan, "China-African relations in the Discourse on China's Rise," *World Economics and Politics*, Issue II, (2006).

considerable role in reducing the long standing hold of Western countries over Africa's trade.⁷⁷

According to a senior Professor in Beijing University,

“The expansion of trade and investments by Chinese entrepreneurs has been enhancing the autonomy of African countries in production, sales and investment, which offers Africa more opportunities in terms of market options, investment partners, product prices, etc. There is no doubt that Sino-Africa trade in resources has the potential to help Africa win greater independence. Now Africans certainly have more doors open than before to do business and investment as China-Africa cooperation represents unity, friendship, and a sincere and beneficial relationship between both the partners.”⁷⁸

Africa's Demand for improvement of Infrastructure

Availability of good infrastructure is crucial to a country's economic success, however, majority of the African countries have poor infrastructure which discourages foreign investors. According to Africa competitiveness report, energy and transportation are the major areas of concern in Africa. The report reveals that African firms lose around 8% of their total sales due to power shortages and inconsistent power supply and extremely slow transportation also costs around 3%.⁷⁹ Therefore, improving the infrastructure is

⁷⁷ Sanusha Naidu and Martyn Davies, 'China fuels its future with Africa's Riches', *South African Journal of International Affairs*, 13:2 (2006), pp. 69-83.

⁷⁸ Li Anshan, "China and Africa: Policy and Challenges", *China Security*, World Security Institute, Volume 3, Number 3, Summer 2007, p. 84.

⁷⁹ World Economic Forum, *Africa Competitiveness Report 2007*, (Washington, World Bank, 2007).

critical for Africa to achieve greater and faster economic development. African countries require huge financing and technology to build and improve their infrastructure, which most of the African countries lack. Most donors contribute little funding for the improvement of infrastructure (see Table 3.2 below). During 2005, major donors such as US and EU spent only 8% and 5% of their official development assistance towards economic and agriculture infrastructure while Japan, AfDF and IDA spent little bit more.

Table 3.2. Major Aid Use by Donors in Africa, 2005.

	Social and Administrative Infrastructure	Economic Infrastructure	Agriculture, Industry etc.
	(percent of total ODA)		
EU-15	26	8	4
US	43	8	5
Japan	20	23	8
IDA	20	33	12
AfDF	18	21	22

Source: OECD/DAC; World Bank Annual Report 2006, Compendium of Statistics on Bank Group Operation 2007.

China has long been a primary financier and builder of infrastructure in many African countries; therefore, Chinese firms have a good experience in the development of Africa's infrastructure. Also the quality of work done by Chinese companies has improved with time. A survey done in South Africa and Zambia reveals that the standards

achieved by Chinese contractors and builders are very high.⁸⁰ This study also reveals that Chinese companies use less capital intensive technology and their labor and materials are also lower in cost compared to other Western companies.⁸¹ Moreover, China also provides long term and less conditional financial services which stands China ahead of other competitors. Therefore, number of Chinese contracts for the infrastructure building is rising every year and this business is also bringing mutual benefits to both China and Africa.

China's Approach to Financial support in Africa

China has been providing financial support to Africa for a long time however, for the last few years, it has changed its approach to financial support by divided social services from business development projects. China provides interest free or low interest loans for social services projects such as building of schools and hospitals.

Another important feature of China's financial support is that it agrees to reschedule these loans when necessary. While for other development projects, China finances through its specialized institutions like China Development Bank. These institutions provide trade credits and commercial loans, and the repayment is done according to the earning of the project such, as in oil industry. This is how repayment of loans is created

⁸⁰ Hannah Edinger et al, op cit, p. 47.

⁸¹ Ibid.

now, where as, China used to deliver the complete infrastructure project during Mao's era.⁸²

China Exim Bank provides concessional loans on behalf of Chinese government, which are approved by the China's Ministry of Commerce and Finance. Usually these are medium or long term loans and particularly emphasize on the earnings of the project. Chinese aid is now only the subsidised amount of the interest rate which is given by the Chinese government.⁸³ Concessional financing is often used as only part of a financing package for commercial projects and the recipient may never actually get the funding because it is directly transferred to the approved implementing company when they win the tender. However, the recipient country will receive the receipt as the official payee of that particular loan.⁸⁴

Another important point is that China does not directly support any country's government spending. However, it provides assistance in the form of free medical services, education facilities such as training of professionals and scholarships awarded to students to study in China. Similarly, China's technical assistance is for the development of specific sectors.⁸⁵ This shows that China has clearly marked a dividing line between social aid and development aid. Likewise, China's debt relief is the in the form of Concessional

⁸² Jian-Ye Wang, op cit.

⁸³ Martin Davies, Op cit, p. 12.

⁸⁴ Ibid.

⁸⁵ Jian-Ye Wang, Op cit, p.21.

loans, low interest loans for huge infrastructure projects and sometimes cancellation of interest free loans for heavily indebted African countries.

3.7 The other side of the Coin

There are also some negative impacts due to growing number of Chinese enterprises in different parts of Africa. Now Chinese goods have flooded the African markets which are a major cause of concern for local manufacturers, for example, Chinese textile imports in Africa have been damaging to the local textile industry during the last few years.⁸⁶

During the 1990s, the Multi Fiber Agreement (MFA) provided a good opportunity to African countries to trade in the foreign markets. In 2005, MFA lifted quota limits from Chinese exports and the impact of this was enormous especially for African clothing and textile exporters benefiting from the US-African Growth and Opportunity Act (AGOA). Due to AGOA, African countries were able to do unlimited export to the American market. Meanwhile, Chinese exports of textiles to Southern Africa rose from 40 % to 80%. As a result, during late 1990s, clothing industries of many African countries had to shut down and thousands of workers lost their jobs.⁸⁷ According to a survey, by the end of 2002, 75,000 workers had lost their employments in the textile industry of many African countries.⁸⁸

⁸⁶ Mike Morris, 'China's Dominance of Global Clothing and Textiles: Is Preferential Trade and Access an answer for Sub-Saharan Africa?', *IDS Bulletin*, 37, 1 (2000), pp. 89-97.

⁸⁷ Raphael Kaplinsky et al, 'The impact of China on Sub-Saharan Africa' (April 2006), pp. 18-19.

⁸⁸ Princeton Lyman, 'China's Rising Role in Africa', Presentation to the US-China Commission July 21, 2005 in Chris Alden et al, op cit, p. 12.

During 2005, more than 10 clothing factories were closed in Lesotho, Madagascar and South Africa. South African workers and industrialists protested and asked to take some suitable measures.⁸⁹ Similarly, in West Africa, local textile and some other industries had to shut down due to increased Chinese import.⁹⁰ Similar situation has been noted in the clothing and manufacturing industries of Ghana.⁹¹

Some illegal practices by Chinese traders

According to Bribe Payers Index of Transparency International, China ranks high among Asian developing nations.⁹² Chinese companies sometimes offer bribes when doing business abroad and are more likely to pay bribes in countries where laws are not followed strictly. In November 2008, several Chinese criminals were caught red handed dealing in ivory export. According to a study, in Cape Verde corruption is less common than in other African countries; however, quite a number of Chinese migrants were caught paying bribes to the Cape Verdian officials to get their work permits and visas. The Cape Verdean government has taken a serious action against this practice because it was causing problem for all Chinese to get visas.⁹³

⁸⁹ Amos Safo, "The Textile saga: Workers turn heat on Government," *Public Agenda*, Accra, June 27, 2005, Available at <http://www.alafrica.com/stories/printable/200506271442.html>

⁹⁰ Princeton Lyman, *Nigeria's Economic Prospect: An International Perspective*, Address to the Nigeria-US Investment Conference, Abuja, Nigeria, September, 2004. Available at www.cfr.org Retrieved in November 2008.

⁹¹ Amos Safo, op cit.

⁹² Available at www.transparency.org/news_room/latest_news/press-release/2006 Retrieved in June 26, 2009

⁹³ Chris Alden et al, op cit, p. 332.

Environmental Impacts

There are some serious environmental concerns arising due to oil and mining activities by Chinese enterprises. For example, in Gabon, Sinopec's oil exploration activities have been very controversial and caused serious public reaction. In 2002, Gabon decided to protect 67,000 square kilometers of natural rainforest for national parks. But later Sinopec has been exploring these areas for oil; dynamiting, drilling and spreading pollution in the forest. It was revealed that all these activities were illegal; as the environmental impact study Sinopec was suppose to conduct had not been approved yet. After being pressurized by the National Parks Council of Gabon, Sinopec was found guilty for spoiling the natural environment of the area. Thereafter, it had to stop the exploitation activities.⁹⁴

There have also been number of protests by the poor Northern Sudanese farmers, residing in the areas where the Merowe dam's construction has been going on. The local residents were ordered to vacate the area using force. The local police attacked these villagers with tear gas and many of them were injured. These people were later displaced to a desert location by the dam authority with some development plans for these farmers but very little have been done.⁹⁵ Also in many other places where Chinese companies are working on such projects, and the locals are forced to displace, similar incidents are common.

⁹⁴ Ian Taylor, "China's Environmental footprint in Africa", February 02, 2007, available at <http://www.chinadialogue.net/article/show/single/en/741>

⁹⁵ Ali Askouri, 'China's Investment in Sudan', in Firoze Manji and Stephen Marks (eds), *China in Africa*, (Nairobi: Fahamu, 2008), pp. 78-9.

Chinese Illegal Logging in Africa

China's increased imports of timber from Africa have attracted considerable attention and criticism from the media and some NGOs. China mostly imports timber from African countries such as Tanzania, Cameroon, Congo, Equatorial Guinea, Gabon and Liberia.⁹⁶

Some Chinese companies in the West and East Africa faced serious allegations against their illegal logging. In December 2007, eight Chinese companies were found guilty of exporting illegal timber from Mozambique. The government of Mozambique has been trying to protect some species of trees by banning the timber exports. However, 543 container filled with hard wood, worth US\$ 5 million, were found at the Mozambican port of Nacala. Later, it was identified that this timber was felled by locals who were bribed to supply wood to the Chinese companies. After some investigation, it was proved and eight involving companies were found guilty.⁹⁷

According to an NGO's report, 75% of Tanzanian sawn wood and 100% of hard wood logs are exported to China. During 1997-2005, Tanzania's timber exports to China increased by almost 1,400% by volume. It has been discovered that most of this timber does not pass through official channels, causing huge losses of revenues to Dar es Salaam. Now the government has banned the timber exports temporarily. Due to China's

⁹⁶ Forest Trends, 'China's forest product Export: Overview of trends by Segment and Destination', 2005, in Firoze Manji, op cit, p. 145.

⁹⁷ Niel Ford, 'Timber exports banned to save forests', *African Business*, March 2008. pp.66-67.

increased demand of wood, there is a great fear that it will considerably affect African forestry in many parts of African.⁹⁸

3.8 Future prospects of China-Africa Economic Engagement

From the above analysis, it is clear that contemporary China-Africa economic relations are mainly based on trade exchange and investments and both partners are benefiting equally from this relationship. Africa is a good source of oil and other commodities for China's growing demand of these products. Similarly China is exporting its manufactured goods to the African markets. Now Africa is selling mostly its raw commodities and buying cheaper manufactured goods from China. However, in the long run to attain sustainable economic development, it may be risky for Africa to rely on primary product exports only. According to some analysts, Africa should not completely rely on the export of 'capital intensive commodity industries'⁹⁹ because in the long run, it will not help to reduce poverty in the continent.

There is also a fear that African economies can face price volatility of raw materials, therefore, African countries need to focus on development of other sectors such as agriculture and manufacturing.¹⁰⁰ Although, at the moment, China is dominating the global market of labor intensive manufactured goods, however, Africa can still diversify its market in labor-intensive and semi-skilled sectors. Such industries can enable Africa

⁹⁸ A report by Traffic International, in Neil Ford, Ibid.

⁹⁹ Goldstein et al, *The Rise of China and India: What is in it for Africa?* (Paris: OECD, 2006).

¹⁰⁰ Chris Alden, op cit, p. 46.

to produce manufactured goods which are made from local materials and can be exported.

Africa still has huge amount of untapped resources and it is too costly for underdeveloped African countries to exploit them on their own. Therefore, if China wants to exploit Africa's resources, it must obey local and international environmental laws and try not to harm ecosystems and natural habitats of the continent.

China needs to help Africa in improving the agricultural production through use of modern technology and it can be easily done with China's increased cooperation. China's imports of primary agricultural products from Africa are very few at the moment. But things might change with time. For example China might need dairy products like meat as its demand for meat is growing and it can be met by local producers, and they might require maize or cassava which is abundantly produced in Africa.

African countries can attract more foreign trade and investment if they become politically more stable and reduce red tape. Although some African countries have made considerable progress in recent years, still in many Sub Saharan African countries (e.g. the two Congo, Rwanda, Burundi, Somalia, Sudan, Zimbabwe,) investment climate is not very conducive due to on going wars, civil strife and too much corruption.

Now China is in the position to contribute to Africa's economic development by addressing Africa's demand for investment in infrastructure and agriculture sectors. This would include emphasizing more on infrastructure and agriculture projects and there is also a need of doing cost-benefit analysis or SWOT analysis. Secondly, there is a need of specialized mechanism to ensure that bidding of projects is done on strict competition

which will enable China to win more contracts due to its lower costs as compared to other competitors.

Future of China-Africa economic relations seems promising as long as both partners are committed to their principles of mutual trust and common development, which are also the basic objectives of China's new Africa policy.

3.9 Conclusion

The chapter examines China's economic involvement in Africa from post-Mao period and specifically since the beginning of 21st Century. For Africa, China has been a major donor of aid during Mao's era, but after China's economic reforms during 1980s, commercial activities have taken over. Due to these reforms, the private sector of China is increasingly involved in China's external trade especially in Africa, which is a major change in China's domestic economy. China has also changed its strategy towards provision of aid in Africa. Chinese aid is given in the form of grants, concessional loans and interest free loans to help African countries. Since mid 1990s, China's financial institutions like China Exim Bank, China Development Bank and SINOSURE etc. are also playing a key role in providing financial services for Africa's development projects.

It can be concluded that China is playing a remarkable role in Africa's overall economic development. Initially, China was blamed for entering Africa because of its growing demand for energy resources only; however, China has been successful to prove that their relationship is based on 'equality' and 'win-win' cooperation.

CHAPTER FOUR

CHINA-SUDAN Economic Relations

4.0 Introduction

China-Sudan relations are premised on “equality, mutual benefit and non-interference in each other’s internal affairs”¹ and both the countries are broadening their areas of cooperation. It has become widely understood that China’s influence over Sudan is “critical to Khartoum’s economic development and international relations....”²

This chapter provides an analysis of China’s evolving relations with Sudan. It touches briefly on the historical background of China-Sudan relations and provides a detailed account of China’s recent involvement in the complete development of Sudan’s oil industry. Chinese enterprises have also been playing a key role in the development of infrastructure, agriculture, mining, medicine and education sectors over the past few years. Further, the study examines the impact of China’s multiple roles on Sudan’s economy. There after conclusions will be drawn.

4.1 Historical Background

Sudan-China diplomatic relations were first established on 4th February 1959. Since then the relationship has grown, with China always respecting the principal of mutual non-interference in Sudan’s political and internal affairs. Their economic relationship grew rapidly from early 1960s with some trade exchange agreements. China imported long

¹ Chinese President Hu Jintao , February 2007.

² Arms, oil and Darfur: The evolution of Relations Between China and Sudan,” *Small Arms Survey*, July 2007, p.1.

staple cotton, sesame and metal scrapes from Sudan, while Sudan continued to import manufactured goods like small arms, fabrics and other textiles from China.³

Sudan supported China's entry in the UN in 1961, which has over the years become an important feature of the history of their relationship. This relationship was further cemented when in 1964, Premier Zhou Enlai's during his tour of Africa, had a meeting with Sudanese then President Abboud in Khartoum.⁴

In 1970, both the countries signed an agreement in Economic and Technical Cooperation and a Cultural, Scientific and Technical Protocol, to strengthen their economic relations. This agreement played a key role in delivering Chinese aid in the form of interest-free loans. During this period, China gave aid for the construction projects of roads and bridges, and the construction of multi-purpose conference "Friendship Hall" in Khartoum. Interest-free loans were also given by the Chinese government to boost the growth of textile and agriculture sectors. These projects were carried out together by Chinese and Sudanese workers. For the technical cooperation, Chinese doctors were sent to work in Chinese built hospitals in different areas of the country. The Chinese aid was provided to build various infrastructural projects in rural and urban areas. These projects also provided many job opportunities for the local Sudanese workers.⁵

Between 1970 and 1972, the PRC granted Sudan some Sudanese 28 million pounds in loans for different projects, including the construction of Wad Medani-Gedarif road and

³ Nour Eldin A. Maglad, *Scoping Study on Chinese Relations with Sudan* (Dar-es-Salaam: AERC, 2007), p. 2.

⁴ Daniel Large, *Sudan's foreign relations with Asia: China and the politics of 'looking east'*, ISS Paper 158, February 2008.

⁵ A. A. Ali, *The Sudanese-Chinese relations Before and After Oil*, (Khartoum: Sudan Currency Printing Press, 2006). Pp. 10-14.

development programs such as modernization of Sudan's fishing industry, rice cultivation under the Gezeira scheme, and a survey of chrome resources.⁶

In June 1989, Sudan's new government took the office and during early 1990, president of Sudan visited Beijing to renew their relations.⁷ In 1993, a Chinese trade fair was held in Khartoum which helped to promote Chinese trade and business in Sudan and since then, China-Sudan relations took a new edge.

4.2 China's involvement in Sudan's oil Boom

From 1992-94, hundreds of Chinese came and settled in Khartoum to invest, work and do businesses on small scales.⁸ During this period, Chinese enterprises were involved mainly in roads, bridges and public building and construction works; however, these activities did not carry much significance due to their small volume. During mid 1990s, due to political instability and war in Southern Sudan, it became impossible for Sudan to attract investments from Western countries. For example, Chevron, and Total (these oil companies started the investment in oil sector during Numeiri's government) left the country.⁹ In early 1994, government of Sudan approached China to involve in Sudanese oil exploration and development. President Bashir visited China during 1995, and an agreement was signed for a low interest loan. In December 1995, another agreement

⁶ Ibid.

⁷ Ali Abdalla Ali, op cit.

⁸ Feroze Manji and Stephen Marks, Op cit, p. 74.

⁹ Nour Eldin A. Maglad, 'Scoping Study on Chinese Relations with Sudan', (Dar es Salaam: AERC, 2007), P. 11-12.

between China Exim Bank and Bank of Sudan was signed, which specifically meant to provide financial services for Sudan's oil development.¹⁰

CNPC's crucial role in Sudan's Oil Development

CNPC's entered Sudan in 1995 after signing an agreement with the Sudanese government for the development of six oil exploration zones. Table 4.1 indicates that CNPC has major stakes in a number of Sudanese oil blocks. Data shows that CNPC has 40% stakes in block 1/2/4 (GNPOC), 41% in block 3/7 (PDOC), 95% in block 6 (CNPCIS), 40% in block 13 (CNPC, Pertamina, Sudapet), and 35% in block 15 (RSPOC).

Table 4.1: CNPC's Exploration and Production Assets in Sudan

Block(s)	Year	Share Acquired (percent)	Partners (percent)
13	2007	40	Pertamina (15), Sudapet (15), Dindir Petroleum International (10), Express Petroleum (10), Africa Energy (10)
15	2005	35	Petronas (35), Sudapet (15), Express Petroleum (10), HiTec (5)
3/7	2004	41	Petronas (40), Sudapet (8), Sinopec (6), Al-Thani Corp. (5)
1/2/4	1997	40	Petronas (30), ONGC (25), Sudapet (5)
6	1995	95	Sudapet (5)

Source: CNPC Website and Upstream

In November 1996, CNPC began its work in zone 1/2/4 in Muglad Basin. At this time, it was the first and largest overseas oil and gas exploration and development project

¹⁰ Linda Jacobson and Zha Daojing, 'China and the worldwide Search for oil Security', *Asia Pacific Review*, ' 13, 2, (2000), p. 66. in Daniel Large, 'From non interference....', op cit, p. 278.

operated by the company.¹¹ Within 18 months of the oil exploration, CNPC completed oil production operations. It was declared that, this zone was able to produce 10 million tons and the quality of oil produced in this zone was different from China Eastern basin and most importantly, the amount of oil held in these fields was also four times larger than the other reserves. CNPC established nine wells to produce base oil in the area.¹²

In May 2000, CNPC helped Sudan to build the Khartoum oil refinery factory having crude oil processing capacity of 2.5 million tons. This refinery was built according to international standards. Another major contribution by CNPC was the investment of US\$ 215 million to build oil terminal in Port Sudan. It reveals that CNPC was fully involved in Sudan's oil exploration, pipeline transportation, oil refining, and the production of petroleum processing storage and sales.¹³

In November 2000, CNPC also won a bid for zone 3/7 and began to explore its massive area of 70,000 km square. CNPC's next operation was the Faro Jida oil field exploration in early 2003, which enabled Sudan to become Africa's fourth largest oil producer.¹⁴

In 2006, Chinese National Oil Producing companies were producing 81% of Africa's total oil production in Sudan only (see Figure 4.1).

¹¹ "Petroleum Cooperation in Sudan Brings Hope," *Corporate Africa*, Issue 44, Vol. 2 Number 888, III Quarter 2008, pp.44.45.

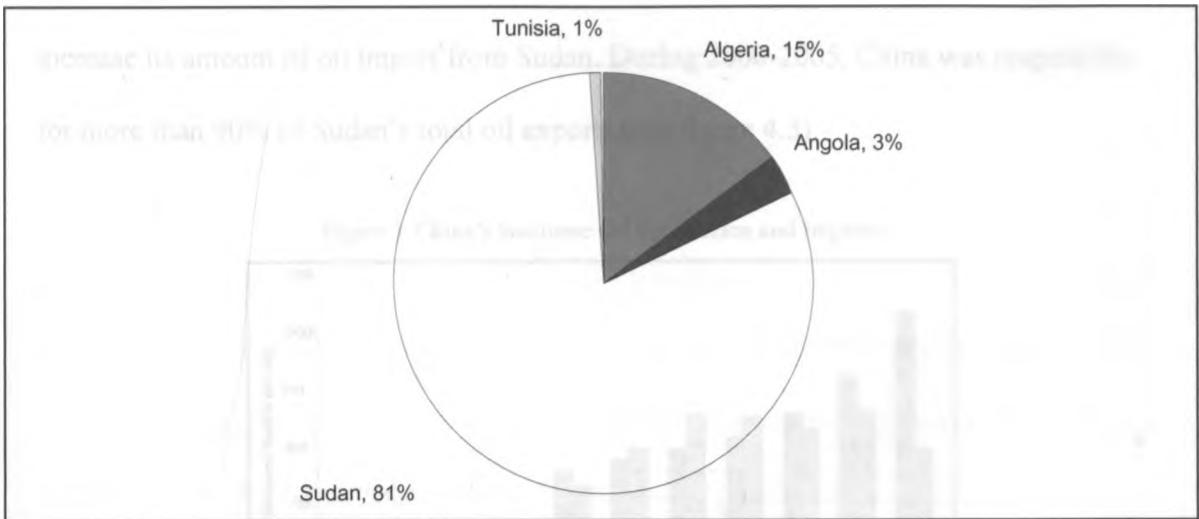
¹² Data provided by Wood Mackenzie, in Erica Downs, "The Fact and Fiction of Sino-Africa Energy Relations," *China Security*, Vol. 3 No. 3. Summer 2007, p.58.

¹³ CNPC, 'Gouji zhengzhi xianfeng-Sudan xiangmu' ('Pioneering overseas enterprise-the Sudan Projects.')

available at <http://www.cnpc.com.cn> retrieved on 12 July 2009.

¹⁴ 'Petroleum Cooperation in Sudan Brings hope', op cit, p. 44.

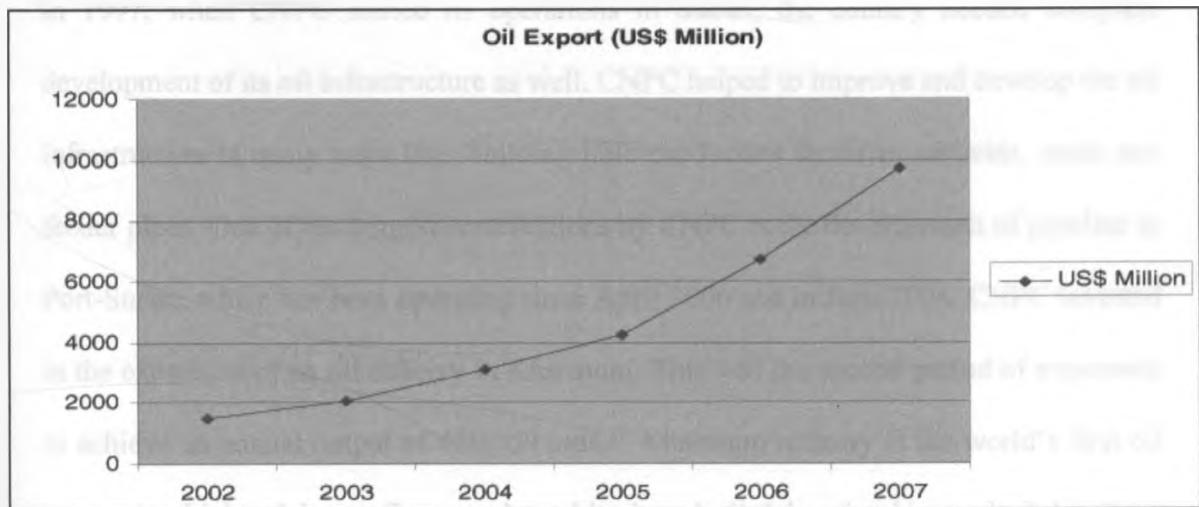
Figure 4.1 Chinese National Oil Company's Production in Africa, 2006.



Source: Wood Mackenzie and Sinotech

Sudanese oil exports have been generating billions of US dollars for the last few years as can be seen in figure 4.2.

Figure 4.2: Sudan's Oil Exports Earnings during 2002-07

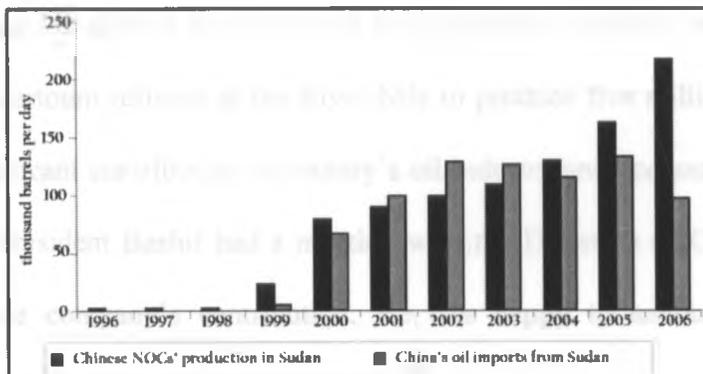


Source: Wood Mackenzie and Sinoch

It indicates that during early 2000, Sudan's oil earnings were less than even US\$ 2 billion, and by 2007, Sudan was earning nearly US\$ 10 billion from its oil exports and this was mainly due to China's involvement in Sudan's oil production and development industries.

Figure 4.3 indicates that China has not only been producing oil in Sudan, it has also been importing most of it. With the increase in Sudanese oil production, China continued to increase its amount of oil import from Sudan. During 2000-2005, China was responsible for more than 90% of Sudan's total oil exports (see figure 4.3).

Figure 3: China's Sudanese Oil Production and Imports



Source: Wood Mackenzie, International Petroleum Economics

CNPC'S contribution in Sudan's oil infrastructure building

In 1997, when CNPC started its operations in Sudan, the country needed complete development of its oil infrastructure as well. CNPC helped to improve and develop the oil infrastructure in many ways like, building field production facilities, airfields, roads and feeder pipes. One of the biggest contributions by CNPC is the development of pipeline to Port-Sudan, which has been operating since April 2006 and in June 2006, CNPC invested in the expansion of an oil refinery in Khartoum. This was the second period of expansion to achieve an annual output of 400,000 tons.¹⁵ Khartoum refinery is the world's first oil processing high-calcium refinery and acerbity-based oil delayed coking unit. It has been revealed that this refinery is also technologically the most modern and advanced among

¹⁵ Ibid.

Sudan's oil refineries. Government officials from other African states come to visit this refinery as a role model development by Chinese engineers and contractors.¹⁶

By the end of 2007, CNPC had invested US\$ 7.143 billion in Sudan's oil industry.¹⁷

CNPC has been continuously investing in reengineering the oil fields installations to improve the efficiency. Due to these developments, in 2008, the company succeeded to acquire an annual 1.2 million tons of diesel hydrogenation unit test, and refinery scale processing in Khartoum refinery at the River Nile to produce five million tons.¹⁸ CNPC

has made a significant contribution to country's oil industry and economic development.

In 2005, when President Bashir had a meeting with the Directors of CNPC, he was so impressed by the company's contribution. He was happy to announce that "China Petroleum not only brings us oil but also peace."¹⁹

4.3 A new wave of Chinese investments in Sudan

During early 1990s, Sudan had very few Chinese investments, however, development of Sudan's oil sector contributed to a rapid increase in investments. Since the beginning of 21st Century, Sudan has been attracting FDI from Asia and other parts of world, however, China has been a major contributor. China has been investing mainly in the mining sector (oil and non-oil). Table 4.1 shows total number of Chinese investments in Sudan during the period of 2006-07. These investments were worth US\$ 7.3 billion and included some projects in services (in the construction, engineering and contracting etc. sectors) and

¹⁶ 'Sudan Minister says energy cooperation with China Fruitful', *Sudan Tribune*, Monday 16 July 2007. available at <http://www.sudantribune.com>.

¹⁸ Ibid.

¹⁹ China's Ministry of Commerce, in "Petroleum Cooperation in Sudan Brings Hope", op cit, p. 45.

manufacturing (clothing, plastics, furniture and electronics productions) sectors. Two projects were implemented in agriculture and poultry sectors.

Table 4.2: Approved investment Projects by Chinese companies (2206-07).

Sector	Number of Projects
Mining	2
Agri. & Poultry	2
Manufacturing:	
Clothing	1
Machinery and Electric Appliances	5
Plastic products	6
Pharmaceutical	1
Furniture	1
Building materials	2
Services:	
Construction, Engineering and Contracting	8
Transport	2
Others	1
Total	31

Source: Compiled from Chinese Ministry of Investment database

4.4 China-Sudan Trade

Table 4.3 provides data on Sudan's total trade during the period of 1990-2006. During 1990, Sudan's exports were only worth US\$ 374, which was nearly half of its imports (worth US\$ 618.5) and this trend continued till 2000. However, since 2000, Sudan's exports started to grow slowly, mainly due to oil production and its exports, and by 2006, Sudan's exports considerably increased to US\$ 5.6 billion.

Table 4.3: Sudan's Trade 1990-2006 (Million US\$)

Year	Imports	Exports	Balance
1990	618.5	374.1	-244.4
1991	890.3	305.0	-585.3
1992	820.9	319.3	-501.6
1993	944.9	417.3	-527.6
1994	1,161.5	523.9	-638.6

1995	1,184.5	555.7	-628.8
1996	1,504.4	620.2	-884.2
1997	1,579.7	594.2	-985.5
1998	1,924.6	595.2	-1,329.1
1999	1,414.9	780.1	-634.8
2000	1,552.7	1,806.7	254.0
2001	1,585.5	1,698.7	113.2
2002	2,445.4	1,949.1	-496.3
2003	2,881.9	2,542.2	-339.7
2004	4,075.4	3,777.8	-297.6
2005	6,756.8	4,824.3	-1,932.5
2006	8,073.5	5,656.6	-2,416.9

Source: Compiled from Bank of Sudan Annual Reports

Data reveals that oil productions and its exports have considerably changed Sudan's external trade profile with China and other trade partners. Until 1998, 80% of Sudan's trade was confined to agriculture commodities like cotton, sesame and gum Arabic. Oil production and its export valued at US\$ 276 million and accounted for 35% of total exports in 1999 and had grown to US\$ 1.3 billion by 2000. This was a 75% growth in the exports value and resulted in a surplus of US\$ 254 million after long period of trade deficits for Sudan. By 2006 oil exports had increased by four folds, compared to exports in 2000 and accounted for 90% of total Sudanese exports. It has been noticed that with oil production, China-Sudan trade relations changed considerably as China became most important market for Sudan.²⁰

Since 2000, Sudanese total exports to China have increased at an average annual growth rate of 34%, while imports from China averaged at annual growth rate of 32% (see table 4.4).²¹

²⁰ Nour Eldin A. Maglad, "Scoping Study on Chinese Relations with Sudan", (AERC: Dar es Salam, 2007), p.5-6.

²¹ Bank of Sudan Annual Reports.

Table 4.4: Sudan's Trade with China from 1990-2006 (Million US\$)

Year	Imports	Exports	Balance	Imports (%)	Exports (%)
1990	2.5	41.7	39.2	0.4	11.1
1991	32.1	13.7	-18.4	3.6	4.5
1992	16.8	0.4	-16.4	2.0	0.12
1993	26.9	0.1	-26.8	2.8	0.02
1994	37.4	32.0	-5.4	3.2	6.1
1995	42.3	56.6	14.4	3.6	10.2
1996	64.6	42.4	-22.2	4.3	6.8
1997	99.1	16.8	-82.3	6.3	2.8
1998	265.6	0.9	-264.7	13.8	0.15
2000	101.9	797.1	695.2	6.6	44.12
2001	169.0	1002.2	833.1	10.7	59.00
2002	196.2	1281.3	1085.1	8.0	65.74
2003	229.1	1761.9	1532.8	7.9	69.31
2004	529.6	2527.0	1997.4	13.0	66.89
2005	1383.0	3427.1	2044.1	20.5	71.04
2006	1679.4	4244.0	2564.6	20.8	75.03

Source: Compiled from Bank of Sudan Annual Reports, different issues.

Data reveals that Sudan's oil boom brought 11.8% growth of GDP in 2006 (which is the highest since 2000 and till now). Due to China's key involvement in Sudan's oil development, it is now Northern Sudan's major trade partner²². According to Bank of Sudan's data, Asia accounted for 43.6% of Sudan's total imports and 86% of Sudan's total exports in 2006 where China accounted for 20.8% of total imports and 75% of total exports during the same period,²³ being Sudan's one of major trade partners.

²² Daniel Large, op cit, p. 284. Also see Public information Notice: IMF executive Board Concludes 2008 Article Consultation with Sudan, January 7, 2009.

²³ Bank of Sudan Annual Report 2006.

During 2004 and 2005, China-Sudan total bilateral trade rose to US\$52 billion and US\$ 3.91 billion respectively.²⁴ (See Table 4.5 for profile of Chinese and Sudanese exports to China during the period of 2000-06.)

Table 4.5: Profile of Sudan's Exports to China (million US\$)

Commodity	2000	%	2002	%	2004	%	2006	%
Petroleum Products	795.20	99.76	1,280.20	99.91	2,500	98.94	4,186.77	98.65
Agricultural Products	0.39	0.05	1.12	0.09	26.37	1.04	54.8	1.28
Cotton	0.12	0.02	0.94	0.07	8.54	0.34	7.93	0.19
Gum Arabic	0.05	0.01	0.05	0.00	-	-	0.07	0.00
Sesame	-	-	-	-	16.16	0.64	45.71	1.08
Hides&Skins	0.22	0.03	0.13	0.01	1.67	0.07	0.58	0.01
Others	1.50	0.19	-	-	0.38	0.01	2.92	0.07
Total	797.08	100	1,281.32	100	2,527.03	100	4,243.97	100

Source: Figures on Trade are compiled from the Annual Foreign Trade Statistical Digest, Different Issues.

Table 4.5 indicates Sudan's overall exports to China during 2000-2006. It can be noticed that during this period, Sudan's major exports were petroleum and petroleum products. These petroleum exports earnings rose to US\$ 4.18 billion by 2006, which is the evidence of China's increased share of trade with Sudan mainly due to the development of oil sector. Agriculture and livestock products exports to China have been very few and accounted for only 2% of the total exports. These commodities included sesame, cotton, gum-Arabic and, hides and skins and were worth US \$ 132 million.

China's share of Sudan's overall imports had increased from 8% to 13% during the period of 2002-04 and rose to 20.8% by 2006 (as indicated in table 4.4 above). During

²⁴ China's Ministry of Commerce statistics.

the period 2000-2006, Sudan's imports from China included machinery and equipment (36%), manufactured goods (27%), transport equipment (21%), textile (8%) and some chemicals (see Table 4.6 below). The main items imported in machinery and equipment were the electric and non-electrical mechanical appliances, while in transport equipments, railway wagons and transport vehicles were major items.²⁵

Table 4.6: Sudan's Imports from China by commodity 2000-2006 (US\$ '000')

Year	2000	%	2002	%	2004	%	2006	%
Food & Beverage	1,829	1.8	4,866	2.5	21,739	4.1	26,269	1.5
Petr. & Petr. Products	69	0.1	98	0.0	671	0.1	1255	0.1
Crude Mat.	59	0.1	240	0.1	750	0.1	4903	0.2
Chemicals	9,105	8.9	24,869	12.7	39,346	7.4	73,881	5.4
Manuf. Goods	30,554	30.0	53,901	27.5	156,437	29.5	48,0471	27.4
Mach. & Equipments	37,275	36.6	67,990	34.6	164,730	31.1	716,045	36.3
Trans. & Equipments	15,629	15.3	21,003	10.7	74,749	14.1	220,310	20.7
Textiles	7,381	7.3	23,265	11.9	71,162	13.4	156,282	8.4
Total	101,901	100	196,232	100	529,584	100	1,679,416	100

Source: Figures on Trade are compiled from the Annual Foreign Trade Statistical Digest Issues.

Chinese businesses operating in Sudan are mainly responsible for the increasing demand of China's exports. The demand arose from the increase in exploration and construction activities in Sudan by Chinese contractors and builders. Chinese exports of mechanical and electrical goods to Sudan have also increased considerably over the period. This clearly marks that Sudan is now a rapidly growing market for Chinese manufactured

²⁵ Annual Foreign Trade Digest Data, in Nour Eldin A. Maglad, op cit, pp.7-10.

goods by companies such as Haier which produces white goods like refrigerators, freezers micros and other electronics.²⁶

According to UN Comtrade survey, the total value of trade between China and Sudan amounted to US\$ 8,189,425,861 between 2002 and 2006, which is significantly more than that of second placed Japan (US\$ 939,738,614) and third placed Saudi Arabia (US\$ 615,394,385).²⁷ This shows that China was Sudan's top most trade partner during these years. During 2006 FOCAC, China agreed to introduce new zero tariff exports for Sudan; this will further enhance China-Sudan trade relations.

4.5 Chinese Aid towards Sudan

Sudan receives little foreign aid from international donors compared to other African countries in SSA region. China is one of the major donors for Sudan's monetary and non-monetary aid. Chinese aid consists of debt relief, technical assistance, provision of scholarships and training programs, buildings and equipment in gift forms and other capital goods. China does not compile exact data on its foreign aid. However, following data is collected from official reports based on China-Sudan economic cooperation agreements. These agreements took place due to the implementation of development projects. Most of these agreements are investments in development projects, which were implemented in electricity, water, building of roads and bridges. Majority of these projects, Sudan received during the last twenty years. Following are the details of China's aid for Sudan during the period of 1990- 2008.

²⁶ Daniel Large, *Sudan's Foreign Relations with Asia*, op cit, pp.6-7.

²⁷ UN Comtrade, UN commodity trade statistics Database.

1990-1992

The 1990s is the most significant period in China-Sudan's economic and technical cooperation. Agreements on Economic and Technical Cooperation and Economic, Trade and Technical Cooperation were signed during early 1990s. A number of interest free loans valued at Yuan100 million were given for different projects, including laboratory equipments for a university, hospital equipments, renovation of Friendship Hall and irrigation equipments. Some other loans were also provided to increase the means of production of the poor by Family Producing Unit of Ministry of Social Planning.²⁸

1992-2001

During 1996, Sudan received a grant for the construction of a bridge at the White Nile. Many cooperation agreements were signed between Khartoum University, Gezira University and Chinese universities in 1996. In 1997, China made an agreement with the Ministry of Energy to establish an Oil Information Centre, and another agreement took place during the same period for the purchase of irrigation equipment for the Ministry of Irrigation through a Chinese Company CAMC.

During 1998, an agreement was signed for a commercial loan of US\$ 5 million to purchase equipment for the White Nile State through SOGEC and a second agreement to build a Thermal Electricity Generation Station at Rahad in Southern Kordofan. The third agreement in 1998 was for commercial loan valued at US\$ 106 million, which was to purchase cables for the National Electricity Corporation of Sudan.

During 2000, there was an agreement with the Ministry of Finance and National Economy to import electricity generators for different cities and the second agreement

²⁸ Ibid.

was for the importation of 20 generators. During 2000, China agreed to provide US\$ 180 million for rehabilitation and improvement of Sudan Airways.

In 2001, there was an agreement of a commercial loan with total value US\$ 149.5 million. This was for the establishment of Gari Power Station with a capacity of 210 kw. China agreed for giving an interest free loan of US\$ 3.7 million to Sudan, and also gave another debt of US\$ 66.4 million. China agreed to give another grant of US\$ 1.2 million to manufacture Solar Cells for the Ministry of Energy.²⁹

2002-2006

Sudan received US\$ 1.1 billion of loans and grants during this period. These loans and grants were used in following projects:

During 2002, Khartoum state electricity received an aid for equipment and spare parts worth US\$ 12.1 million.

In 2003, China's Boshan Company gave US\$ 10 million for water projects. China provided a soft Loan worth US\$ 3.6 million and water equipments worth US\$ 11.2 million in year 2004.

During 2005, Sudan received aid for number of aid projects including electric generators from CNEEN Co.; Rehabilitation of the Cotton Ginning Factories from Boshan; Khartoum North Thermal Electricity Generation (CAMC Co.); Gedarif Water Project; (Alfashir Water Project CAMC Co.); Drilling of 50 wells in North Kordofan State (Tiangin); Port Sudan Water Project (CMIC Co.); Rabbak Grain Sylo were implemented by China.

During 2006, again number of aid projects were funded by China which consisted of North Kordofan Solar Energy project worth US\$ 4.6 million, importation of water pipes

²⁹ Ali Abdallah Ali, op cit, pp. 45-58.

worth US\$ 17.2 million, grant for the National Capital Power Project of US\$ 19.5 million, Mek Nimer Bridge worth US\$ 14.4 million and water projects in different towns worth US\$ 119 million.³⁰

Table 4.7 indicates total loans and grants received by Sudan during 2002-06. During the last few years China has increased its loans and grants towards Sudan. 2005 was the most significant year when Sudan received total loans of US \$ 1.07 billion, where China's contribution was worth US\$ 814 million. Data shows that China gave Sudan a total of US\$ 1068.50 million, which is 37.4% of the total loans and grants, during the period of 2000-06.

Table 4.7: Sudan's Loans and Grants 2002-2006 (Million US \$)

	2002	2003	2004	2005	2006	TOTAL
Total Loans	691.2	114.3	243.2	1,072.5	589	2710.2
China Loans	50.7	10	14.8	814	155.2	1044.5
As %	7	8.7	6.1	75.9	26.3	124.0
Total Grants	-	-	6.7	3.3	138.2	148.2
China Grants	-	-	3.6	1.2	19.5	24
As %	-	-	53.6	36.4	13.9	16.2
Loans + Grants	691.2	114.3	249.9	1075.8	727.2	2858.4
China Loans + China Grants	50.7	10	18.4	815.2	174.7	1068.5
As %	7	8.7	7.4	75.8	24	37.4

Source: Compiled from Bank of Sudan Annual Reports, Different Issues.

It has been noticed that an important feature of Chinese aid is, that it is implemented by Chinese companies using Chinese goods and labor. The equipment needed for the implementation of project is also imported from China. China Exim Bank mostly

³⁰ Nour Eldin A. Maglad, op cit, pp.14-15

provides financial services needed for these projects. It also provides loans for Chinese companies on behalf of Chinese government to finance investment in the energy sector, e.g. financing for Merowe Dam has been provided by the China Exim Bank. This dam is currently being built near the fourth cataract of the Nile in North Sudan. Being one of the largest hydropower projects in Sudan and it will have a capacity of 1,250 megawatts. It has been predicted that the project will more than double Sudan's power generation capacity and will mainly serve Khartoum, Port Sudan and Dongola areas.

Aid Agreements between China and Sudan during 2007

In February 2007, China and Sudan agreed to sign a US\$ 1.15 billion contract to build a railroad connecting Khartoum with Port Sudan.³¹ Most of the Sudanese government projects are undertaken by China's privately owned companies on behalf of China's government, through Chinese loans and grants. Sometimes these companies also bid for the projects of construction and building. Few examples of such projects and executing companies in this area are: White Nile Bridge (Gilin), 'Nyala-ElFrasher road (Shiban), Nuhud-El Obeid road (Ching Kong), Atbara-Haya road (Tico and an Indian Company). Sometimes Chinese companies join with local or other international companies to implement a project. For example, a pharmaceutical plant constructed by the Sudan Medical Supplies Corporation and Shanghai Pharmaceutical Company, Gold Mining in Northern State and the Blue Nile state between the Chinese Company for Mining and the Geological Research Corporation are joint projects.³²

³¹ *Sudan Tribune*, 'China wins \$1.15 bln. Sudan Railways Construction Contract', 5 March 2007.

³² Nour Eldin A. Maglad, op cit, p.16.

Table 4.8 provides data on the number of registered Chinese companies operating in Sudan. Majority of these companies are working in oil industry, investment and trading sectors. These companies prefer to employ their own workers. Because of this, it has been estimated that some 23875 Chinese workers have come and settled in Sudan as by 2004.³³

Table 4.8. Registered Operating Chinese Companies by Economic Activity (as at 2000)

Sector	Number
Industry	4
Oil	9
Investment and Trade	13
Mining	4
Construction, Engineering and Contracting	6
Agriculture and Livestock	4
Total	40

Source: Ali Abdallah Ali (2006)

CNPC's aid projects

Another important feature of CNPC is that since recently, the company has also been playing a considerable role in Sudan's aid development projects. In January 2007, CNPC signed an agreement worth US\$ 1 million, with the Sudanese Ministry of Welfare and Social Development for the improvement of social services. CNPC provided US\$ 900,000 to train Sudanese workers for the oil industry so that they become oil industry's future experts.³⁴

CNPC has also been contributing to social progress of Sudanese people such as in the areas of health and education. CNPC funded the construction of oil refinery hospitals in

³³ Ali Abdallah Ali, op cit, pp.60-62.

³⁴ *Xinhua*, 'Chinese oil CNPC to improve Sudan's social facilities', 1 February 2007.

Khartoum to improve medical care and health facilities especially for the workers of the refinery. CNPC also donated US\$ 10 million to construct a “Friendship Bridge Malawi” in the North of Khartoum over to Malawi, the only bridge over Egypt’s Aswan Dam. The company has been taking keen interest in the development of education of the local children. It invested to build a primary school to enable local children to attend school in this area. In zone3/7, CNPC built two public schools for the local communities in the oil project’s mining areas. By 2008, the company had built 22 schools in zone 1/2/4 for the local communities. It has been estimated that around 65,000 school age children will receive education in these schools.³⁵ This is indeed a huge contribution by CNPC to eradicate ignorance from these oil rich areas.

According to available data, by the end of 2007, CNPC had spent a total of US\$ 50 million on the construction of hospitals, bridges, building of schools, digging of wells, and re-carpeting of roads. The company has also invested US\$ 500,000 for local personnel training programs in zone 1/2/4. By 2008, China had trained Sudan’s 1392 employees and engineers who are now available for training of other interested individuals. It has been estimated that after ten years hard work, now 93% of staff employed in this area is local Sudanese and it also includes high-level jobs. All these trainees and professional workers are going to become Sudan’s future oil industry experts.³⁶

³⁵ China Facts and Figures, Information available at <http://french.china.org.cn/english/features/China-Africa/81937..htm>

³⁶ CNPC investment in Sudan, *Corporate Africa*, III Quarter 2008, Issue44. Vol. 2 Number 888, p. 45-46.

China in Southern Sudan

In 2008, China opened its new consulate in Southern Sudan to develop economic relations with the government of this region of Sudan also. Since 2005, after the signing of CPA, China started taking economic interest in Southern Sudan to develop its oil fields and reserves. In the beginning, Chinese businesses entered Juba by establishing joint ventures with Kenyan and Ugandan companies, for instance, in 2006, the Nile Construction Company entered into a joint venture with the Chinese company Golden Nest to work on construction projects. Another Chinese company won contracts to renovate ministers' quarters and a hospital.³⁷

China also contributed its military and police personnel to the UN mission in Sudan to support the CPA (The Comprehensive Peace Agreement) in 2006.

In February 2007, Salva Kiir met President Hu Jintao in Khartoum and encouraged Chinese investors to invest in Southern Sudan. Chinese president offered a loan to help the Government of Southern Sudan. In August 2007, when a Chinese delegation visited Juba, China agreed to provide aid for hydro-electric and infrastructure building projects.³⁸ During 2007, China sent five shipments of humanitarian aid meant for the people of Darfur. These shipments worth US\$ 10 million consisted of pumps, tents, blankets, generators, vehicles, medical and agricultural equipment.³⁹ Chinese special representative

³⁷ Daniel Lerge, "Between 'all weather friend' and 'responsible power': China and the contradictions of 'non-interference' in Sudan", 2007.

³⁸ Daniel Lerge, From Non-Interference...op cit, p.292.

³⁹ *Xinhua*, 'Humanitarian Aid from China leaves for Sudan's Darfur', 16 August 2007.

for Darfur Lui Guijin announced that the government of China announced to provide a special aid package of US\$2.8 million for the people of Darfur.⁴⁰

4.6 China-Sudan evolving relations' impact on Sudan's economy

The above analysis reveals that since mid 1990s, China has become Sudan's closest economic partner. China's key role in the extraction and development of Sudan's oil sector is the most prominent feature of China-Sudan economic relations. Sudan's Oil production started in 1999 with 116,680 b/d, rising up to about 250,000 b/d by 2001. By 2008, total oil production was around 500,000 b/d, of which 425,000 b/d was exported and the rest was for local consumption.⁴¹

The development in Sudan's oil sector has given a huge boost to its economic growth by bringing foreign exchange to the country. As a result of this development, Sudan's relations with the IMF have also improved. Now Sudan is not labeled as a non cooperating country any more. Sudan has been able to pay its debts and its right of vote has been given back.⁴²

As an oil producer and exporter, Sudan is benefiting from its increased trade with China and as well as from other trade partners. During recent years, the increase in oil price has brought more foreign exchange and revenues for the country. Oil revenues are important and can be utilized in various ways for the economic development of the country. Now

⁴⁰ Information Available at <http://www.sudantribune.com> retrieved in April 2009.

⁴¹ Al-Ayam Daily, 29 July 2007.

⁴² World Bank, Sudan Stabilization and Reconstruction: Country Economic Memorandum, Vol.1. (Washington D.C. 2003).

Sudan is able to attract more foreign investments which will create more employment opportunities for the Sudanese people.

According to a World Bank study, there is also a risk in depending on export of just one primary product; oil, which is due to its price volatility in the international market. The second concern raised by this study is; the boom in oil production that might not lead to sustainable economic development. In 2003, the World Bank had another survey done and announced that at the moment, there is no evidence of Dutch Disease in Sudan⁴³ (Dutch disease can occur due to over-exploitation of natural resources and this also cause a decline in the manufacturing sector). However, according to an AERC (Africa Economic Research Consortium) study, these risks are present today because most of the oil producing countries in SSA (including Sudan) are having Real Exchange Rate (RER) appreciation and overvaluation,⁴⁴ which can lead to lower levels of economic growth.

Therefore, to protect the economy of the country, it is crucial to do more investment in the manufacturing and agriculture sectors. It will also generate employment for mostly semi-skilled and unskilled workers. Further it will increase incomes in the rural as well as urban areas and hence, will reduce unemployment and poverty in the country.

The above analysis also indicates that Sudan's overall imports from China rose considerably during 2002-2006. Similarly, during the past few years, the amount of manufactured goods that China exported to Sudan has also gone up.⁴⁵ That means trade exchange between China and Sudan is growing tremendously and also Sudan is becoming a growing market for Chinese manufactured goods.

⁴³ Ibid.

⁴⁴ Nour Eldin A. Maglad, Op cit.

⁴⁵ *China Commerce Yearbook, Almanac of Economic Relations & Trade.*

As far as the impact of Chinese investments is concerned, these are largely in the oil and mining sectors, mainly due to China's increased involvement in these sectors. These investments have led to remarkable growth in the country's oil exports and this has contributed to considerable increase in the foreign exchange earnings and revenues.

It has also been noted that Chinese major imports from Sudan, are in the oil sector now, which is capital and skilled labor intensive industry. Before Sudan's oil boom, Chinese imports from Sudan were dominated by agricultural commodities. Now there is a fear that exports of crude petroleum products, which are capital intensive, may have indirect negative impact on employment, poverty and income distribution, as all these factors are interconnected.

There are also environmental challenges due to increased investment in oil industry in the form of water and air pollution. It has been pointed out that the companies operating in this area are less concerned about the damage on the local environment. Another negative impact is the loss of farming lands due to contamination and water pollution resulting from oil fields in these areas. This damage was recently felt in villages surrounding the oil operation fields in Melut basin. It became so serious that the governor of the state threatened to take action.⁴⁶

The construction of energy projects like Merowe dam will provide much needed energy for businesses and people. According to an IRN survey, the construction of this project will also have negative social and environmental impacts. For example, more than 50,000 Sudanese have been forced to move from the fertile Nile Valley to arid desert locations. The company authorities promised to provide irrigation water to the resettlement sites,

⁴⁶ Nour Eldin A. Maglad, *op cit*, p.17. Also see Stephen Mark and Feroze Manji, *Op cit*, pp. 71-83

but the soils are poor and the farmers are unable to grow crops properly. Poverty rate has been rapidly increasing among these displaced people because they cannot generate good incomes.⁴⁷

During 2005, there were reports of demonstrations in the Sani area due to connections of water wells in a Manasir nomad centre by Chinese contractors installing electricity networks connected to the Monrowe Dam. Similar demonstrations were reported during 2007.⁴⁸ An Environmental assessment of the Monrowe Dam project predicted severe negative impacts on aquatic life, water quality and public health.⁴⁹

During 2000-2006, Chinese aid was mainly directed towards the development of infrastructure in electricity, schools, hospitals, water, transport and bridges etc. Aid is used in many ways such as it provides finance for development, helps the government's budgetary needs, funds the development projects, and therefore has a very positive impact on Sudanese economy. It has also been beneficial to Sudanese people, like electricity projects will help to fulfill energy needs to develop manufacturing sector. Water projects are important for the improvement of health and industries because they will reduce the occurrences of diseases (e.g. cholera, diarrhea etc.). Chinese aid has also helped the manufacturing and agriculture sectors by improving the infrastructure.

Electricity and water projects will provide a good location for the establishment of new industries in these areas. This will also provide employment opportunities to the residents

⁴⁷ A Critical Juncture for Peace, Democracy, and the Environment: Sudan and the Merowe Dam Project, International Rivers Network, The corner House, pp. 7f.

⁴⁸ A. Askouri, China's investment in Sudan: displacing villages and destroying communities, In F. Manji and S. Marks (eds), *African Perspectives on China in Africa*, (Oxford: Fahamu, 2007), pp. 45-57.

⁴⁹ EAWAG, Independent Review of the Environmental Impact Assessment for the Merowe Dam Project (Nile River, Sudan), March 15, 2006. pp. 5, 76.

of these areas. Transport is another prominent sector, where Chinese involvement in the construction of highways, bridges, roads, and railway will bring efficiency in deliveries of services and it will also be beneficial for ordinary people to move around comfortably.

4.7 Conclusion

The above analysis reveals that during 1980-1990, Sudan was not an important economic partner for China. However, during mid 1990s, China came closer to Sudan and since then, Sudan has become a successful case study of Chinese direct investments and other businesses. Since 1999, oil has become the most productive commodity in Sudan's economy and has dominated the export sector where, CNPC played a key role in Sudan's oil industry and its exports. Oil exports provided the Sudanese government with foreign exchange which is vital for country's economic growth.

Now Sudan has become one of the most rapidly developing countries in Africa. The study reveals that China-Sudan cooperation not only brought oil to Sudan, but also huge economic and social benefits to the Sudanese people. The oil boom in Sudan is also conducive to market growth for Chinese exports to Sudan, as well as development of businesses inside Sudan.

Infrastructure development projects financed by Chinese loans and grants are implemented by Chinese firms because Chinese enterprises prefer using their own material and labor because of their knowhow, cheap labor and low cost. However, the development of oil sector has led to negligence of the agriculture. Some of the Sudanese traditional crops outputs and hence export like cotton and gum Arabic, have fallen considerably during this period. Previously, Sudan's agriculture sector was the largest employer and income generator for majority of unskilled and semi-skilled workers. Now

many Sudanese people have lost jobs and they are migrating to urban areas to look for new employments. However, Sudan is trying to establish its manufacturing slowly and this will create new jobs and earnings for the locals.

It can be concluded that China's recent engagement with Sudan has brought huge benefits and economic development for Sudan. It is indisputable that China-Sudan economic relations are not only providing economic and social benefits to the Sudanese people, they are also bringing prosperity to the country.

CHAPTER FIVE

Summary, Conclusions and Recommendations

5.0 Introduction

This chapter provides a summary, conclusions and recommendations extracted from the available information in previous chapters and suggests some other areas of research for future researchers and students of China-Africa relations.

5.1 Conclusion and Summary of Study

The study provides an analysis of China-Africa economic relations. Their trade relations began with the exchange of few African and Chinese products, like gold and silver, grains and rice, handicrafts, Chinese silk and porcelain. During Mao's era, diplomatic relations between China and some African countries were established as China gave Africa huge moral and material aid in their fight for independence. China also provided a significant amount of assistance, especially in the construction and funding of various projects in many African countries.

After Mao's death, China revised its foreign trade policy as well as its policy towards the provision of foreign aid. Chinese economic assistance began to include other forms of support like preferential loans, technical cooperation, and also engaged in joint ventures for different development projects to bring new technology and management practices in Africa. It is also evident from the study that China has changed its approach towards development assistance since 1980s. China's bilateral aid is now largely given in the form of grants, interest free loans and concessional loans. This proves the first hypothesis

of the study that there is a remarkable change in China-Africa relations between Mao's and post-Mao periods.

Since the beginning of 21st Century, China-Africa relations have taken new steps towards more technical cooperation and closer economic relationship. The most significant factor behind these relations is China's increased interest in trade exchange and investment with many resource rich African countries like Sudan, Angola and DRC, etc. China also sees Africa as an important market for its exports of cheap commodities, industrial machinery and electronics in exchange of oil, minerals and some agricultural commodities.

The study reveals that much of what China exports to African countries consists of mainly manufactured goods which are not produced in Africa, and these products are also often more affordable than similar imports from competing suppliers. Thus, Africa as a whole is today a sizeable market for Chinese products. Africa's trade with China has not been highly significant but has grown rapidly during recent years and its impact on their economies is becoming increasingly substantial, this clearly proves second objective and hypothesis that new China-Africa relations have developed to more than donor-recipient relations.

Second objective of the study was to examine China-Sudan relations, and Sudan's case study clearly indicates that, since 1999, China has made a considerable contribution in the development of Sudan's overall economy and particularly in the oil sector. The Study shows that China is increasingly becoming a key player in Sudan's oil, mining and infrastructure building, and it is expected that China will further increase its investments in the country in the coming decades. This is the proof of third hypothesis.

There are other associated important contributions by China, with overall economic development, particularly in terms of human development. For instance, China's role in poverty and unemployment reduction has been significant as the study revealed in Sudan's case. Although in the beginning, Chinese entrepreneurs mostly brought their own laborers and management staff from China, this considerably changed after the third FOCAC in Beijing when China pledged to train local staff under their local personnel training program, who will become experts in the mining, oil industries and other sectors of the country.

Due to their rapidly growing relations, both China and Africa are facing many challenges. One major challenge confronting Africa is the price volatility of the export commodities especially prices of oil and mineral and occurrence of Dutch disease. It is becoming clear that African countries need to diversify their products and markets as many Middle Eastern countries have done during the past ten years.

China's increased activities in the oil extraction and mining sectors have attracted some criticism from environmentalists. In this regard, some progress has been made with the Chinese government trying to control the operation of Chinese enterprises through the development of environmental and corporate laws. During 2006 FOCAC, both partners agreed to enhance communication and cooperation on environmental protection as well as implement laws to protect interests of local communities.

The study reveals that Sino-Africa relation were established long before China's demand for raw materials; while China imports oil from Africa, it exports electronics and high-tech products to Africa as well. The oil drilling and exploration rights Chinese enterprises have obtained in Africa are through international bidding in accordance with international

economic rules. Rights to oil fields in Sudan were purchased by Chinese companies after the withdrawal of Western companies due to increased insecurity and war in the region. China's demand of raw material enables the rich resources of Africa to be fully utilized, benefiting both China and Africa equally, therefore criticism by some westerners and the media is baseless.

Chinese growing demand of raw materials has considerably increased its trade and investments with Africa, generating greater earnings of African countries and thus enhancing their economic development. This gives Africa new opportunities in terms of new markets and investments. It gives a clear indication that China-Africa economic relations have the potential to help Africa achieve greater economic development in future.

5.2 Recommendations

The study concludes that contemporary China-Africa relations are conducive to the economic development of African countries, specifically with resource rich oil and mineral producing countries like Nigeria, Angola, Sudan, South Africa etc. The Study indicates that China's re-engagement with Africa is producing significant positive impact on the lives of African citizens as well.

The West and China have common interests in Africa regarding economic development, therefore, China, Africa and the Western governments need to unite to discuss effective methods for increasing cooperation regarding socio-economic and diplomatic development in the continent.

Future of China-Africa economic relations has high prospects if China enhances bilateral and multilateral cooperation in areas of trade and investments. In order to manage

criticism resulting from China's increased economic activities in Africa, China needs to increase consultations both with African and other nations with common interests in Africa.

African nations will also need to gain a deeper understanding of China's Africa policy in view of the fact that China has a long term engagement strategy toward Africa. Further more, both China and Africa should focus on transparency of information regarding their economic activities, because such information is crucial for both partners and their long term economic engagement.

5.3 Recommendations for future researchers

There is a need for deeper research and analysis of key current areas of Chinese engagement in Africa. There are clearly a range of areas that remain to be researched in depth like China's role in the reconstruction of war torn African countries. Another very interesting area of research can be policy-relevant research from development agencies' perspective. Issues concerning unemployment, labor relations, and the environment in various contexts can be good topics for future researchers.

China's business activities and the impact of Chinese investments in Africa can be a very interesting area of research. Rapid rise of China's financial institutions, like China Exim Bank and SINOSURE is an interesting research topic. A study can be done on impact of China's new aid projects in Africa and it can include China's new approach to financing and funding. A deeper research needs to be done on China's policy making towards Africa, where Chinese and African interests need to be studied individually.

The number of Chinese people is increasing considerably and it can fuel xenophobia and tensions at different levels, although collecting information might be little difficult.

Chinese involvement throughout Africa and African engagement with China are two broad areas of study. This study has been based on available data, collected in relatively short period. Hopefully the future researchers will benefit from this piece of work.

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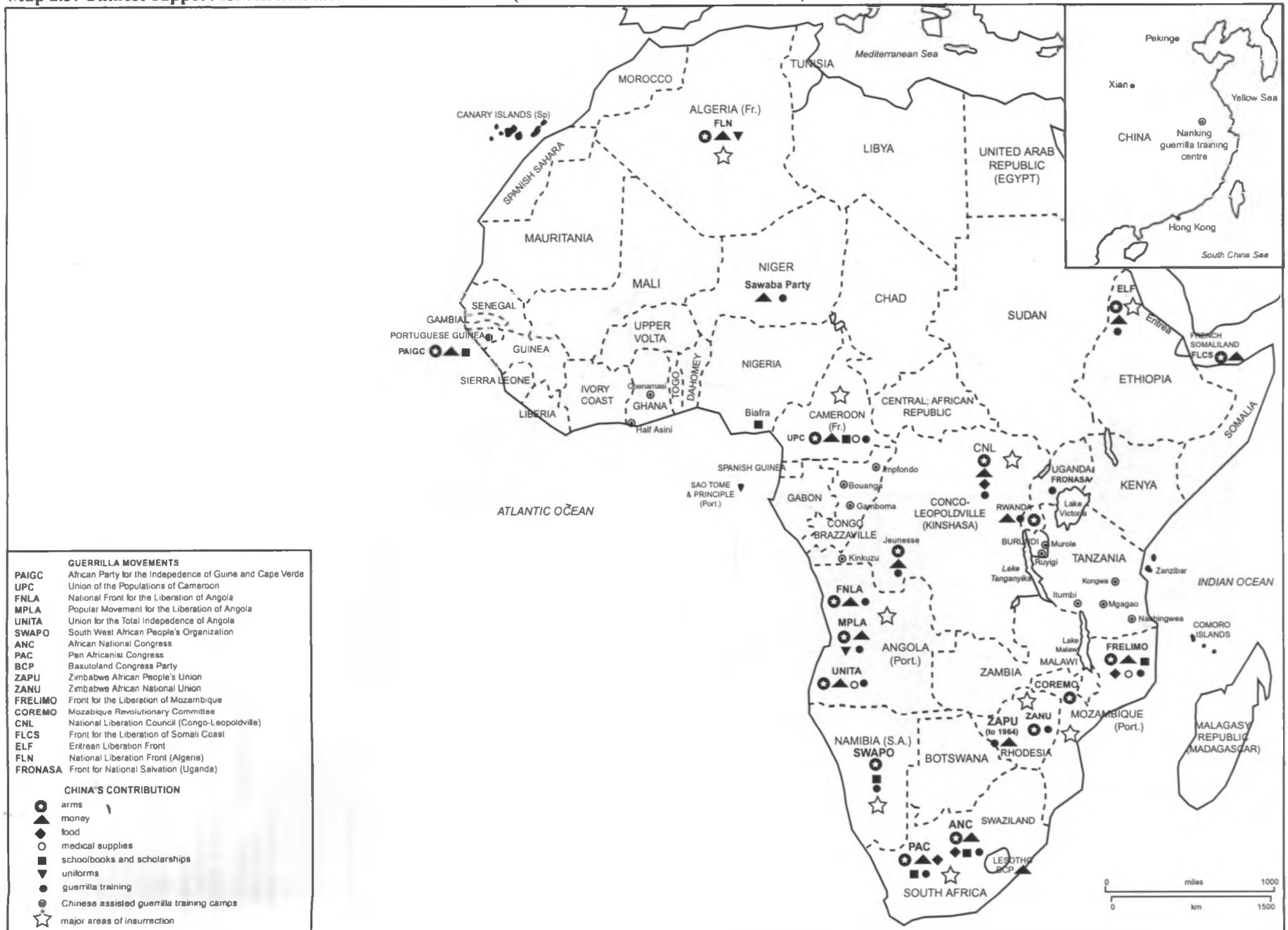
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Map 2.3: Chinese support for African insurrections since 1949. (Borders are those of Africa in 1968.)



Map 4.1: Sudan's Oil fields and Concession areas



Block 1,2,4, GNPOC
 - 40% CNPC
 - 30% Petronas
 - 25% ONGC Videsh
 - 5% Sudapet

Block 3,7, PDOC
 - 41% CNPC
 - 40% Petronas
 - 8% Sudapet
 - 6% Sinopec
 - 5% Al Thani

Block 5A, WNPOC-1
 - 68,875 Petronas
 - 24,125 ONGC Videsh
 - 7% Sudapet

Block 5B, WNPOC-2
 10% awarded to GOSS; composition to be renegotiated.
 - 39% Petronas
 - 24.5% Lundin

Block 6, CNPCIS
 - 95% CNPC
 - 5% Sudapet

Block 8, WNPOC-3
 - 77% Petronas
 - 15% Sudapet
 - 8% Hi Tech

Block 9,11, Sudapak 1
 - 85% Zafir
 - 15% Sudapet

Block 10, Free

Block 12A, Qahtani & Others
 - 33% Qahtani
 - 20% Ansan
 - 20% Sudapet
 - 15% Dindir Petroleum
 - 7% Hi Tech
 - 5% A.A. In.

Block 12B, Free

Block 13, CNPC, Pertamina & Sudapest
 - 40% CNPC
 - 15% Pertamina
 - 15% Sudapest
 - 10% Dindir Petroleum
 - 10% Express Petroleum & Gas
 - 10% Africa Energy

Block 14, Petro SA
 - 80% Petro SA
 - 20% Sudapest

Block 15, RSPOC
 - 35% Petronas
 - 35% CNPC
 - 15% Sudapest
 - 10% Express Petroleum & Gas
 - 5% Hi Tech

Block 16, Lundin

Block 17, Ansan
 - 66% Ansan
 - 34% Sudapet

Block A, Sudapak II
 - 83% Zafir
 - 17% Sudapest

Block B, Total
 - 32.5% Total
 - 27.5% Kufpec
 - 10% Sudapest
 - 10% GOSS
 - 20% open

Block C, APCO
 - 65% Hi Tech
 - 17% Sudapet
 - 10% Khartoum State
 - 8% Hegleig

Block Ea, Free

Appendix

China's Aid strategy and Modality

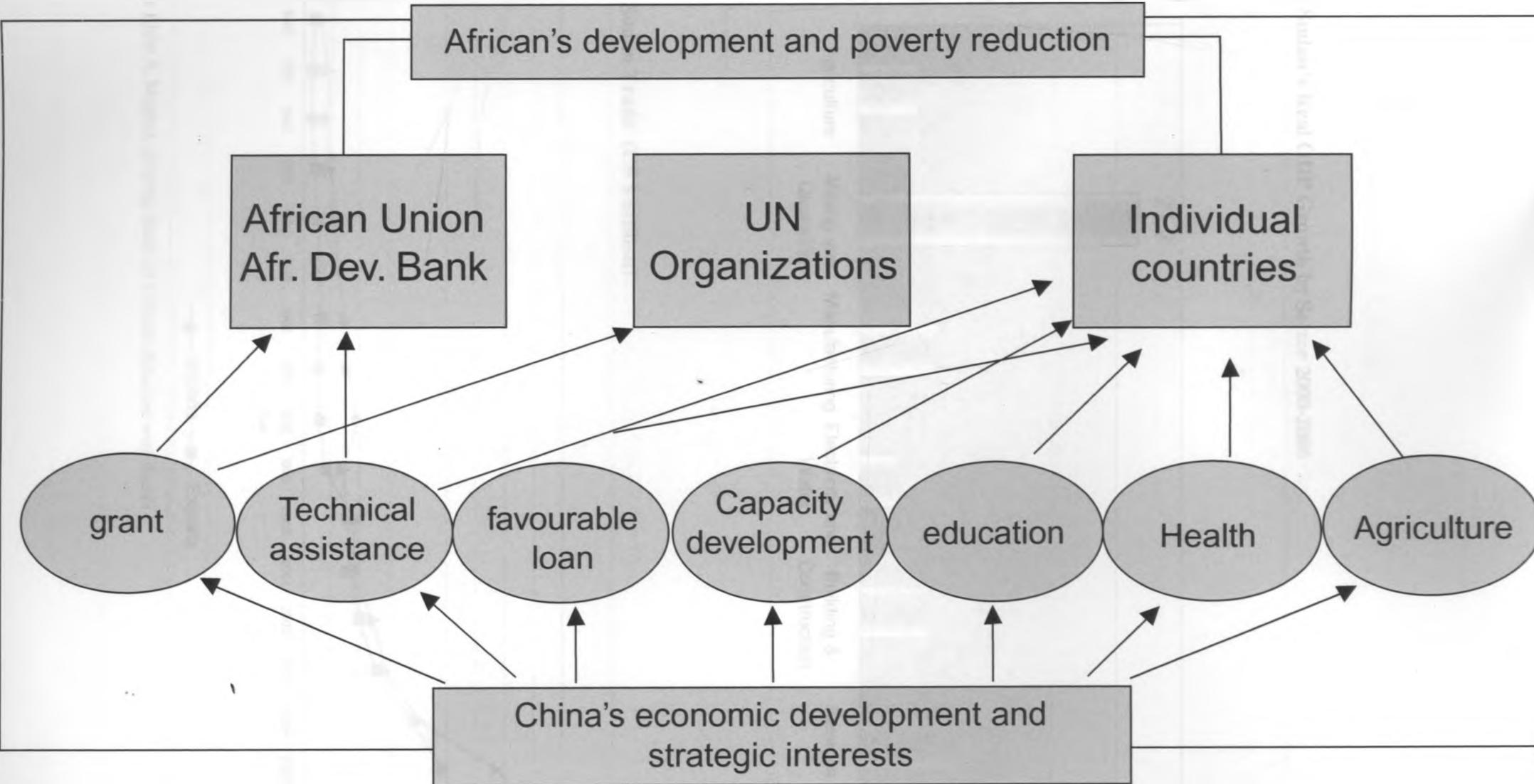


Figure 1: Sudan's Real GDP Growth by Sector 2000-2006

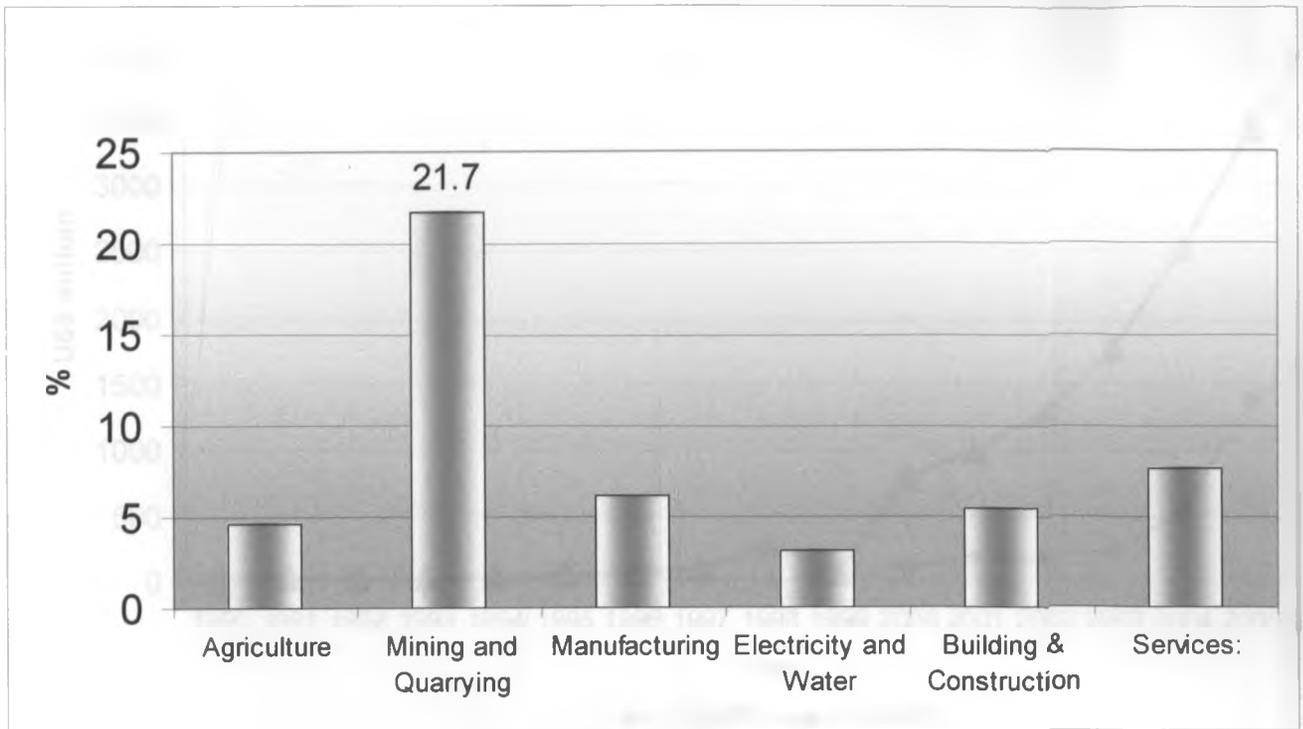
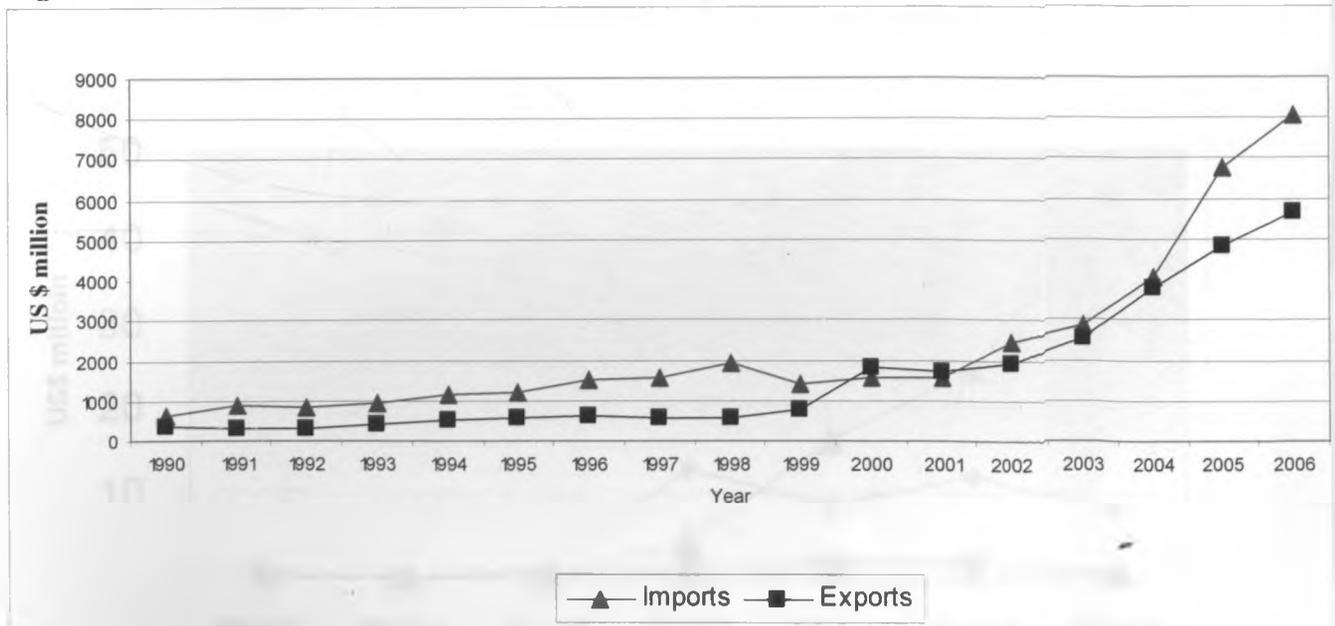


Figure 2: Sudan Trade (US \$ million)



Source: Nour Eldin A. Maglad, *Scoping Study on Chinese Relations with Sudan*

Figure 3: Sudan's Trade with China

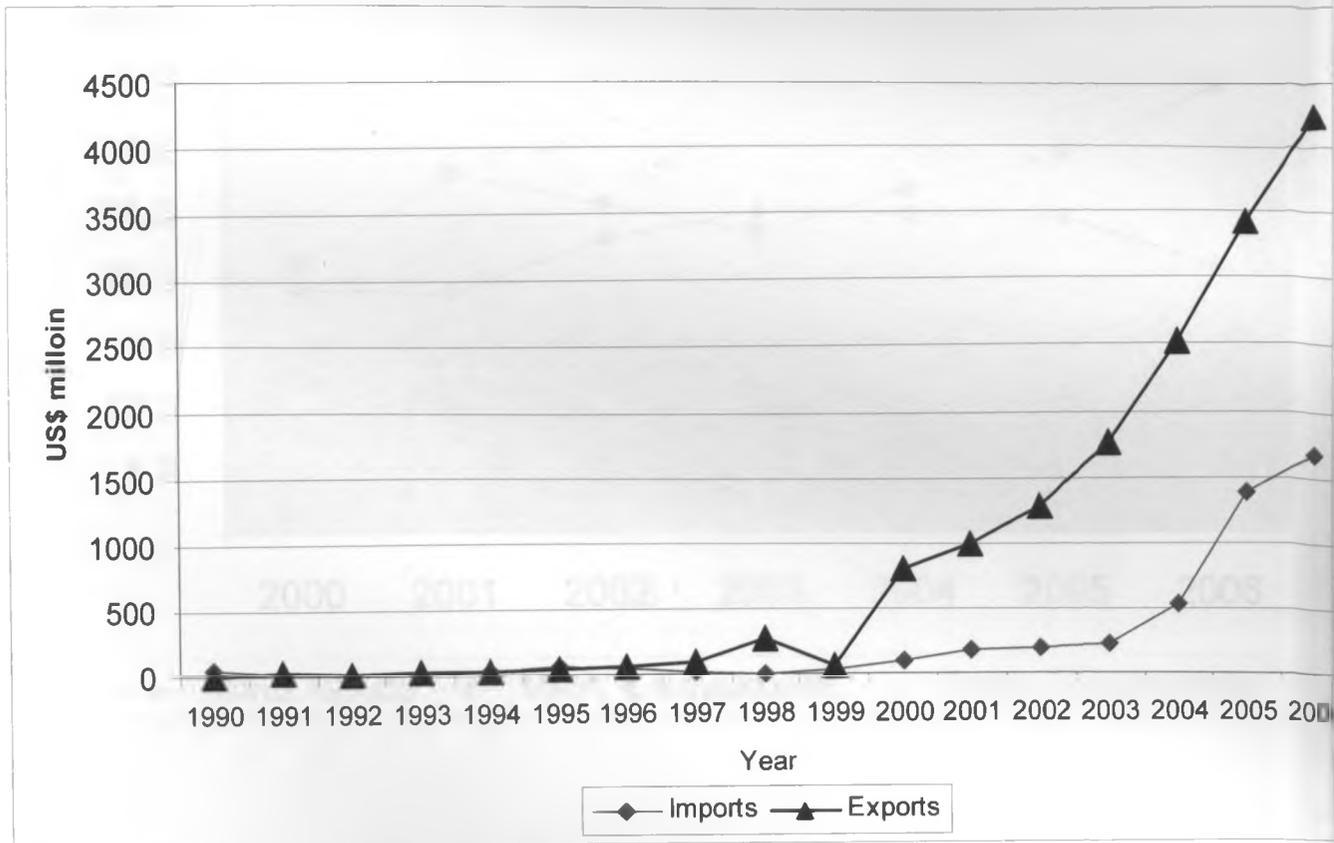
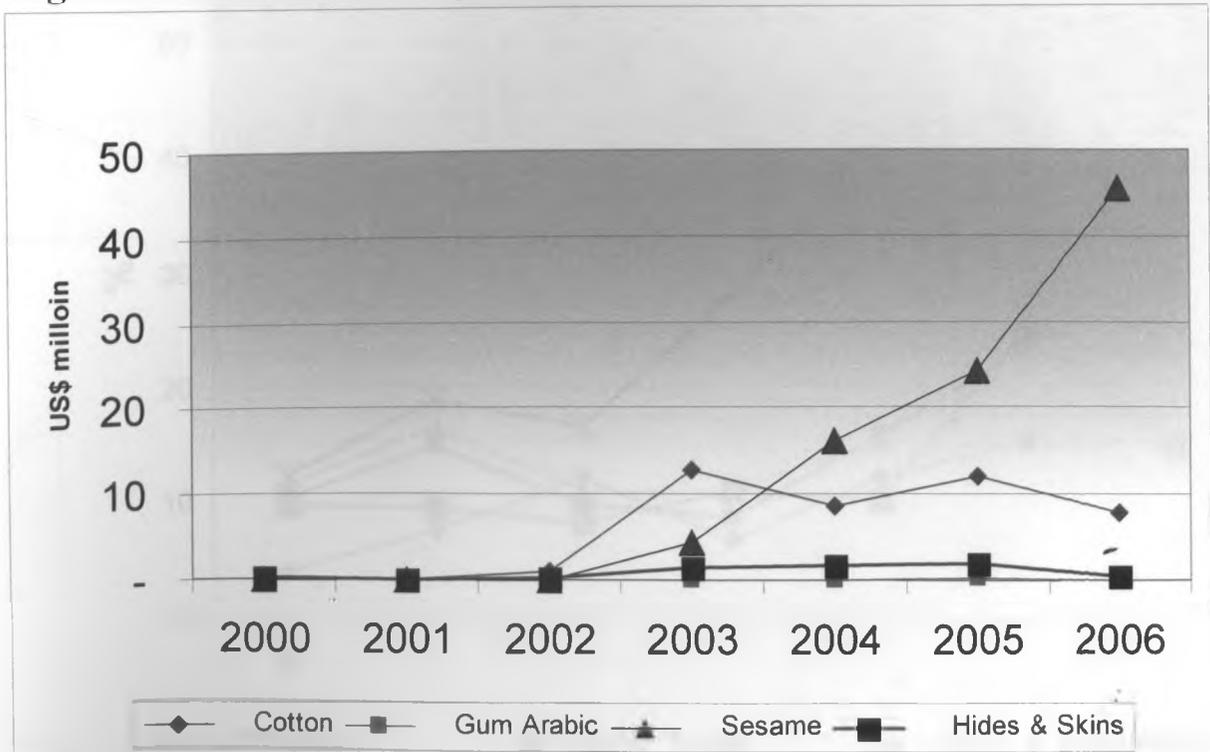


Figure 4: Structure of Agricultural Exports to China



Source: Nour Eldin A. Maglad, *Scoping Study on Chinese Relations with Sudan*

Figure 5: Sudan Imports by Commodity 2000 – 2006 (%)

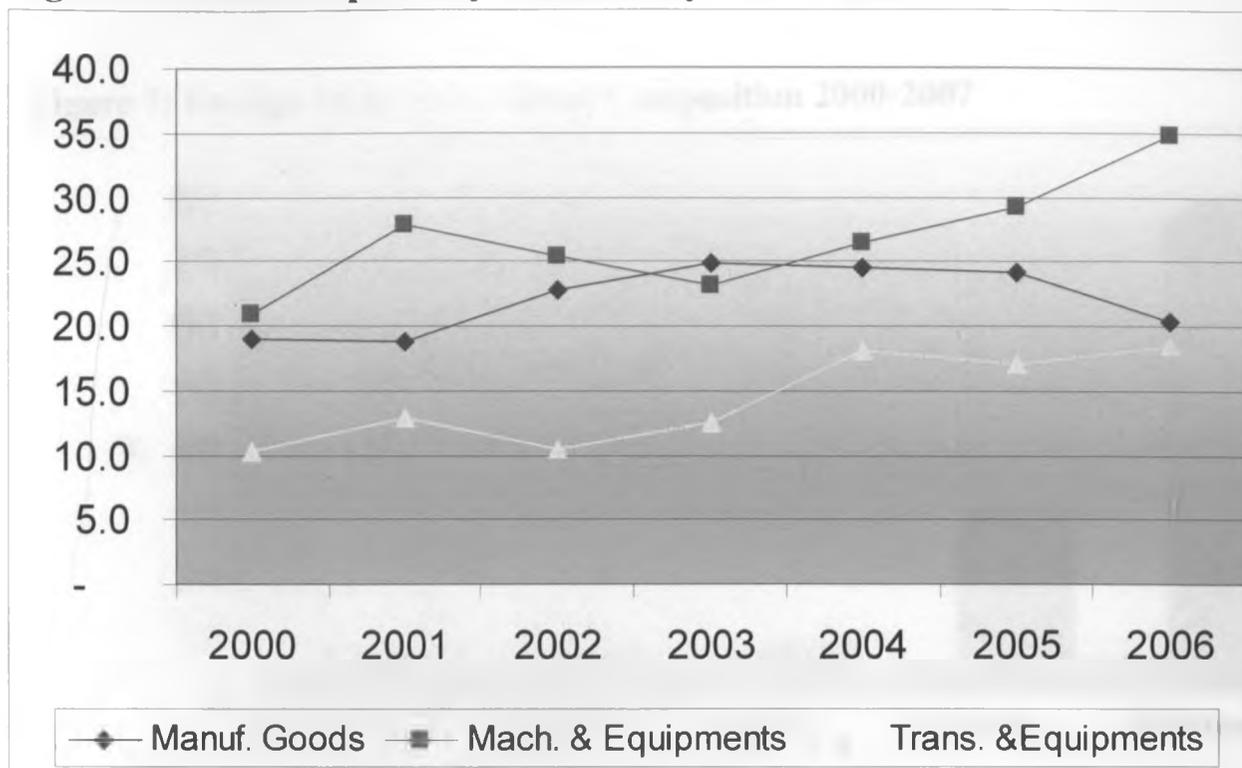


Figure 6: China's share in Sudan imports

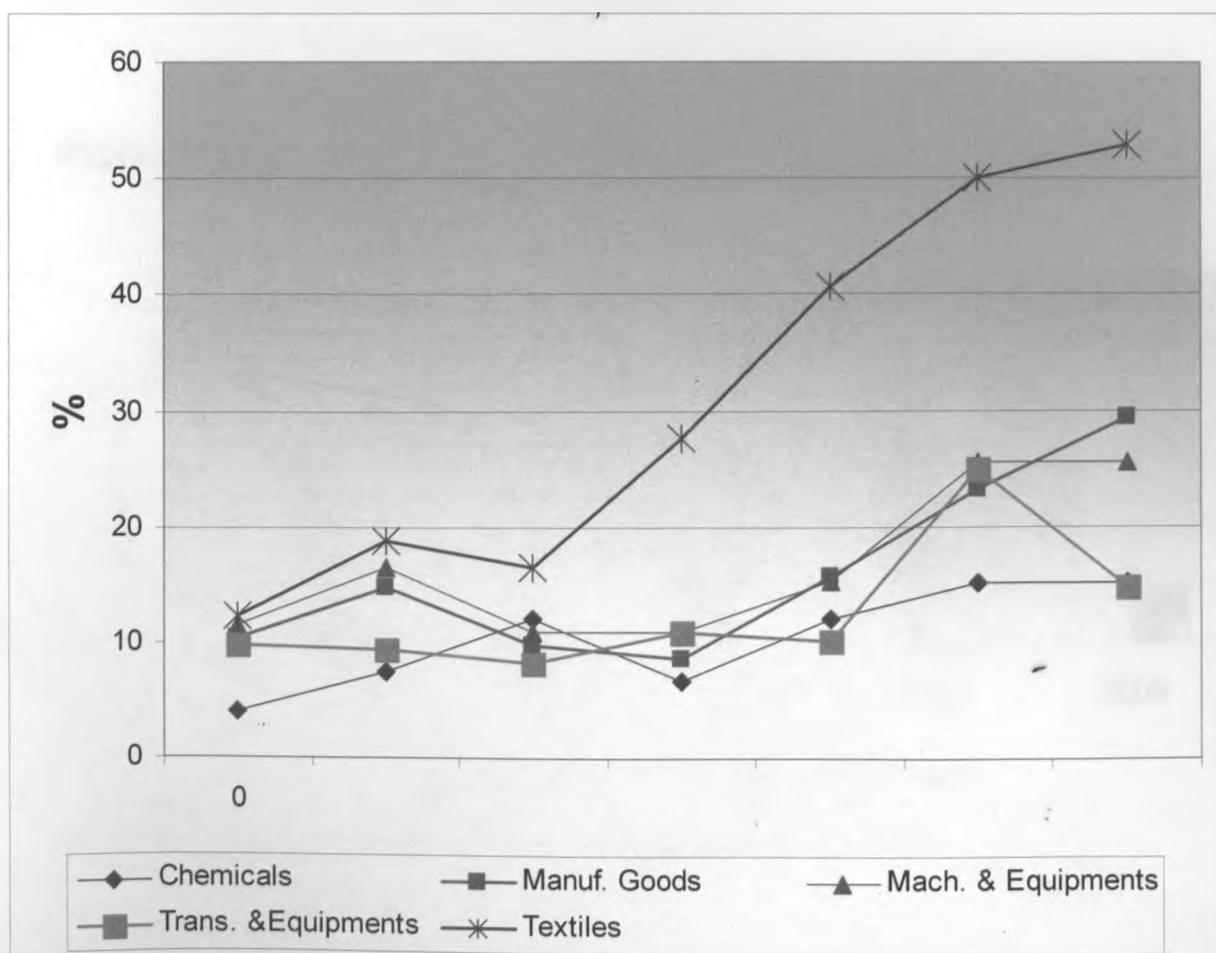


Figure 7: Foreign Direct Investment Composition 2000-2007

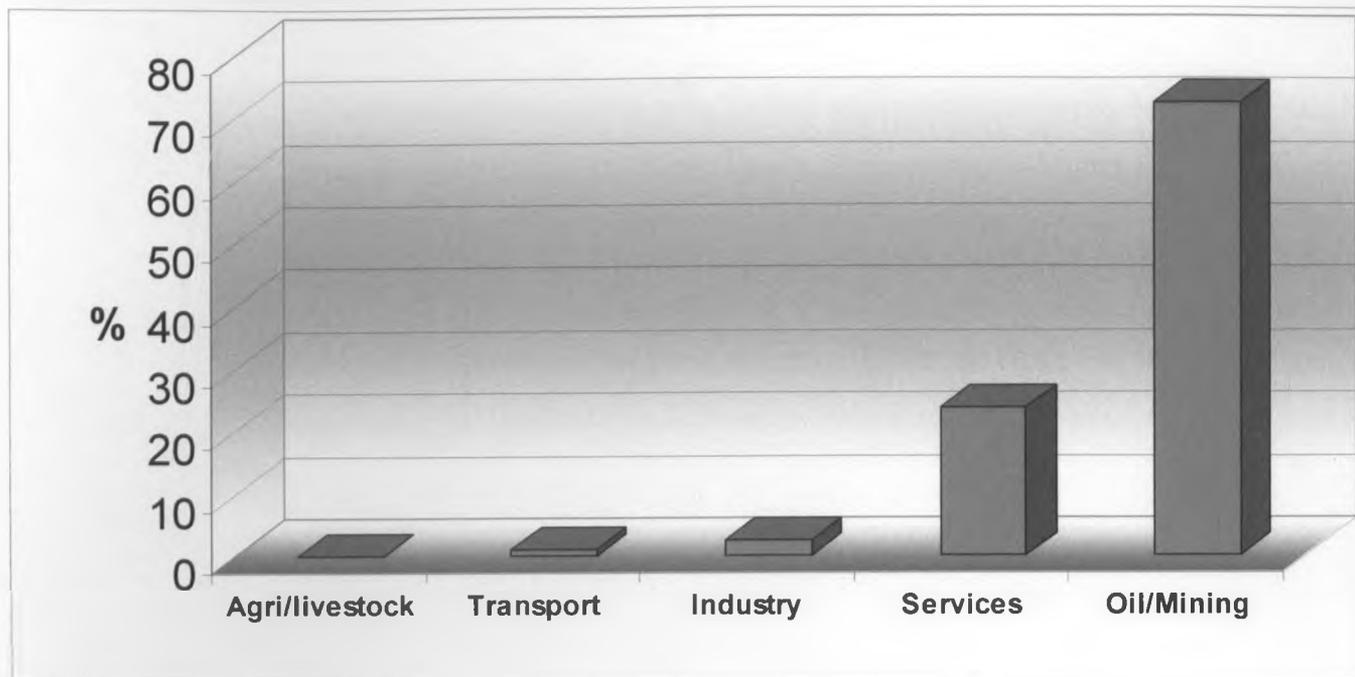
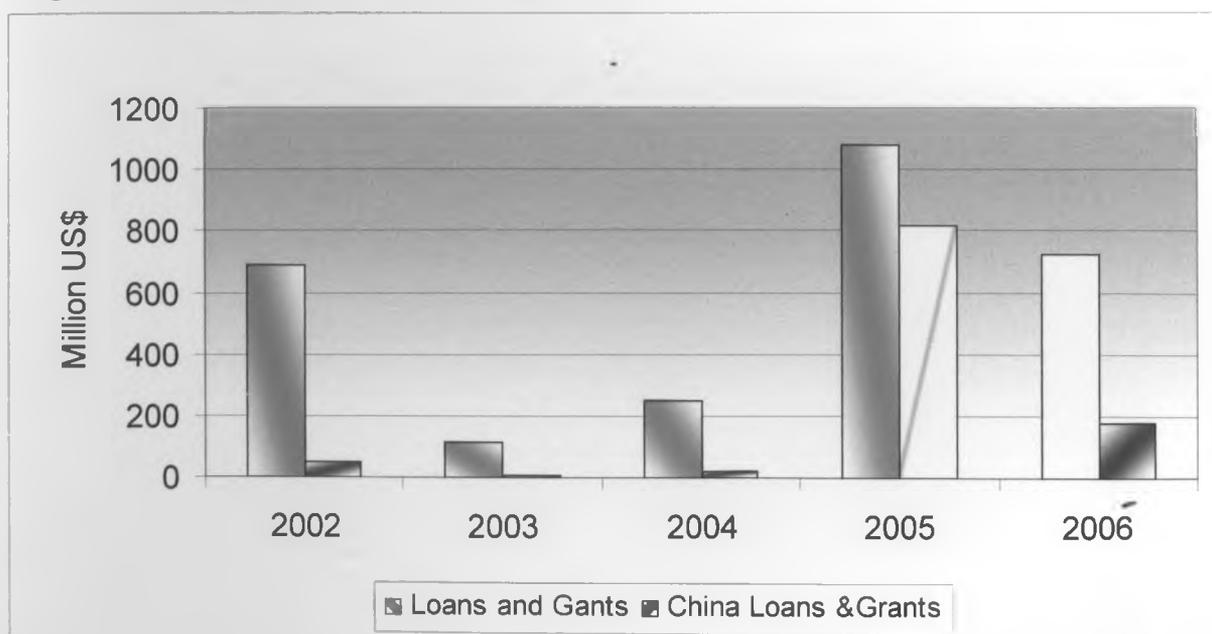


Figure 8: Loans and Grants 2002-2006



Source: Nour Eldin A. Maglad, *Scoping Study on Chinese Relations with Sudan*