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**China's Role In Africa: Reconsidering the Facts
in Sierra Leone, The Democratic Republic of Congo and Sudan**

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ABSTRACT

China has entered a period of rapid economic growth spurred on by new government policy. The policy is designed to maintain economic growth by promoting industry and employment in order to address the issues that were causing unrest and instability in China. In order to support this economic growth, China has developed an outward looking policy toward Africa designed to obtain from that continent the raw material required to sustain industry, develop export markets and to gain support for China's political objectives.

Canada has military personnel serving on operations in several African nations. Although overshadowed in the media by other more prominent deployments elsewhere in the world, Canada does have an active interest in these nations, their stability, and their continued development. This paper will examine the effect of China's new policy on African nations where Canada has military personnel deployed.

This paper will demonstrate that from an economic perspective, China's investments are generally good and supportive of local economic development. From a security perspective, under certain circumstances, China's policy can contribute to the perpetuation of conflicts in African nations.

CHAPTER 1 - INTRODUCTION

China has historically played a prominent role on the world stage. As one of the most enduring civilizations in the world China has occupied top ranked positions among world powers through much of history. For several thousand years China had the largest economy in the world.¹ China contributed innovations such as gunpowder, paper, and the compass long before most of what are now the western powers had been established as nations. Chinese innovation gave civilization many of the tools that permitted and spurred on the discovery of the new world. Economic development in the new world ultimately eclipsed China's prominence in the late nineteenth century. In the period of time that followed, China was relegated to a relatively minor actor on the world's stage.

In recent times, a great deal of attention has been focused on China's resurrection as a major world power. Much as action produces reaction, a change in the activities of an international actor has resultant impacts on other international actors. No nation exists either alone or in isolation. Many see world trade as a zero sum game with the rise in fortunes of one nation offset by a fall in fortunes of another. For this reason, China's recent rise has been viewed with considerable alarm by some observers.

¹ Susan L. Shirk, *China Fragile Superpower* (New York, Oxford University Press, 2007), 4.

China's economic rise has been spectacular. According to figures published by the Chinese Government, China's Gross Domestic Product increased from \$150 billion United States Dollars (USD) in 1979 to \$1.65 trillion USD in 2005. Foreign trade rose from \$20.6 billion USD to \$1.5 trillion USD, and per capita income rose from \$190 USD to more than \$1200 USD in the same period. China's share of the global economy has quadrupled from 1% to 4%.²

The increases in economic trade have been even more spectacular when China's trade situation with African nations is considered. Africa's volume of exports to China began to rise 40% per year starting in 2000, and reached \$28.8 billion USD per year by 2006. China's exports to Africa quadrupled to \$26.7 billion USD in the same period. The majority of all African exports to China originate in Sub-Saharan Africa, which provides 85% of all African export to China.³ In recent years, Chinese leaders began to refer to a period of "strategic opportunity" during which China will be free from external challenges to allow focus on internal developments.⁴ This dramatic increase in trade is the result of a very deliberate government policy set to achieve specific goals.

² Joshua Eisenman, "China's Post-Cold War Strategy in Africa: Examining Beijing's Methods and Objectives." In *China and the Developing World: Beijing's Strategy for the Twenty-First Century*, edited by Eric Heginbothman and Derek Mitchell (Armonk, New York, M.E. Sharpe, Inc., 2007) xiv.

³ Jain-Ye Wang. *What Drives China's Growing Role in Africa?* International Monetary Fund Working Paper WP/07/211, August 2007; <http://www.imf.org/external/pubs/ft/wp/2007/wp07211.pdf>; Internet; accessed 12 January 2008, 5.

⁴ Eisenman, *China and the Developing World: Beijing's Strategy for the Twenty-First Century*, xiv.

Canada has military personnel serving on operations in several African nations including⁵ Sierra Leone, the Democratic Republic of Congo, and Sudan. Although overshadowed in the media by other more prominent deployments elsewhere in the world, Canada does have an active interest in these nations, their stability, and their continued development.

The central question this paper seeks to address is to identify the impact of China's Africa Policy on the economic development and stability of African nations where Canada has military personnel engaged on operations. This paper will establish that while China's policy is generally beneficial from the economic development perspective, it can in certain circumstances, have a detrimental effect on the stability of African nations.

⁵ Canadian Forces, Canadian Forces Expeditionary Command, Defence Wide Area Network webpage. Accessed 27 January 2008.

Canada has military personnel deployed in the following mission areas in Africa:

Sudan - Canada has military personnel deployed on OPERATION AUGURAL, in the Western Region of Darfur. The personnel are deployed to support Canada's efforts to help with the situation in the Darfur region of Western Sudan. They provide military equipment and a number of military advisors and expert planners to assist the African Union in planning and logistics. Canada also has personnel deployed on OPERATION SAFARI in the north and southern portions of Sudan. The personnel are in place to support the implementation of the Comprehensive Peace Agreement, and to perform functions relating to humanitarian assistance, protection, and promotion of human rights.

Democratic Republic of Congo - Canada has personnel deployed on OPERATION CROCODILE in the Democratic Republic of Congo. Their function is to maintain liaison with the government and the five regional States that signed the Lusaka Ceasefire Agreement in July 1999, calling for a cessation of hostilities between all belligerent forces.

Sierra Leone - Canada has military personnel deployed in Sierra Leone on OPERATION SCULPTURE. Their function is to help the government of Sierra Leone build effective and democratically accountable armed forces in compliance with the Lome Peace Agreement, which was signed in July 1999 by all the parties to the Sierra Leone civil war.

The paper will first consider the underlying causes that shaped China's new policy toward Africa, and then frankly examine the stated and actual objectives of that policy. In examining the nature of the interaction between China and African nations that this policy produces, the general positive and negative effects on the African nations will be considered.

Finally, the specific interaction between China and the African nations where Canada has military personnel deployed will be examined from the perspective of both the effect of the policy on the stability and the economic development of the African nations.

It must be noted that the precise consideration of the effect of China's policy toward Africa is very difficult to calculate. China does not report detailed information on its foreign activity. There is no centralized aid agency, and the national Chinese Banks do not report on commitments and disbursements of concessional loans. Similarly, Chinese debt relief is reported only in aggregate by area, not by individual countries.⁶ Applying precise economic calculations is therefore not possible, and assessments are made in relative terms.

⁶ Wang, *What Drives China's Growing Role in Africa?*, 26.

CHAPTER 2 – CHINA’S MOTIVATION

China’s economic transformation has not been an entirely smooth process. The economic upswing began in the late 1970s, and it was marked by several tumultuous events. The economic transformations had been underway for almost ten years, when in 1989 the Communist Government of China came close to losing its grip on the nation as millions of students demonstrated in Tiananmen Square and in many other parts of the country.

Sparked by the death of a popular minister, students in Beijing marched into Tiananmen Square bearing placards and protesting for democratic reforms. There was debate and uncertainty within the Communist Party as to how to deal with the demonstrations. Some officials attempted to calm the students by proposing to address their demands “through democracy and law.” Sensing dissent in the party’s approach against the students, they became bolder in their actions, and were subsequently joined by other ordinary citizens. Chinese journalists began to ignore censors and reported accurately what was happening on the square. After several attempts to come to consensus on what to do, the Communist Party called in the Peoples Liberation Army. As the troops entered the city, they were heckled and obstructed by ordinary citizens who attempted to block their way. Fuelled by the media reports, protests against the imposition of martial law sprang up throughout the country.⁷

⁷ Shirk. *China Fragile Superpower*, 36.

The breaking point of the crisis was symbolically captured by the media when a student stood in front of an advancing tank. Rather than run down the student, the tank turned to go around, but the student quickly moved to block its progress. A contest of wills ensued with the student unwilling to yield, and the tank crew unwilling to press the military force of the state. The loyalty of the tank crew, and symbolically the Army, visibly wavered as the tank hesitated to advance. In the end, the Army did push onto the square and the unrest was quelled.

The events of Tiananmen Square left the Chinese Government feeling very vulnerable. Having stood on the brink of seeing their government collapse, Chinese leaders were then forced to watch while other regimes around the world toppled. Shortly after the crackdown in Tiananmen Square, the Berlin Wall was torn down. The powerful images of the wall being removed flashed around the world as the harbinger of the end of the cold war. Grim faced and angry looking young men physically assaulted the hated wall with hammers and chisels. Pieces of concrete were seized and held up like hunter's trophies from the dead body of the former oppressive regime. Crowds of exuberant people surged into gaps created by bulldozers to embrace people on the other side. Uniformed boarder guards were seen weeping as they were embraced, and forgiven, by people that they had recently held apart at gunpoint. The powerful images in the media stirred a sense of revolution throughout the world.

Similar scenes were played out in the media as the government of the Romanian communist dictator Nicolai Ceausescu was overthrown by a popular uprising. Communist governments in Poland, Czechoslovakia, Hungary and Bulgaria fell in front of the media's cameras as crowds of wildly exuberant people surged forward and cheered in the town squares of capitol cities throughout Europe. The changes were brought on by the will of the people, and by the removal of the influence of the ailing Soviet Union. Finally, in 1991, the Soviet Union itself collapsed. From the worried eyes of a communist dictator, the world appeared to have gone mad.

One Chinese leader analysed the situation that they had been faced with and commented:

Of all China's problems, the one that trumps everything is the need for stability. We have to jump on anything that might bring instability... And we can't care what foreigners say... We will use severe measures to stamp out the first signs of turmoil as soon as they appear. This will show that we won't put up with foreign interference and will protect our national sovereignty.⁸

This analysis has been translated into the formula that the Chinese Communist Party currently employs for stability:

Avoid public leadership splits;
Prevent large-scale social unrest; and
Keep the military on the side of the party.⁹

⁸ Deng Xiaoping quoted in: Susan L. Shirk. *China Fragile Superpower*. New York, Oxford University Press, 2007,38.

⁹ Shirk. *China Fragile Superpower*, 39.

In enacting this stability formula, the leadership of the Communist Party remain fixed on the events that perpetrated the Tiananmen Square unrest and the changes that the end of the cold war brought on, all the while mindful of the economic and political reforms that have taken place in Asia. Authoritarian regimes in South Korea, Taiwan, Indonesia and Thailand have been toppled and been replaced with democracies as the result of popular uprisings and pressure to modernize their economies. This creates a double edged sword for the Chinese Communist Party. The pressure to modernize the economy to address social unrest while at the same time resisting the democratic change and preserving the communist rule of the country.

Chinese leaders are well aware that they face tremendous internal pressures that may generate social unrest on a number of different fronts. Ethnic unrest threatens the western portions of the country. While only 10% of China's population is non-Chinese, these populations are concentrated in the important boarder regions of Tibet, Xingjian, and Mongolia.¹⁰ Divisions along ethnic lines have resulted in unrest and in several cases separatist splinter groups have undertaken terrorist activities. Labour unrest in China is a phenomenon associated mostly with urban centers. Most of the protest activities have been undertaken by laid-off workers unsatisfied with the terms of their termination. In parts of the country, unemployment rates are near 40%, creating a hotbed of disenfranchised people rife for organization and protest.¹¹ In

¹⁰ *Ibid.*, 58.

¹¹ *Ibid.*, 59.

rural areas, the issues surround land ownership and rights. Under the current government, farmers have no rights of ownership on the land they work, and are therefore philosophically motivated to press for changes to a more democratic form of government who will offer them land rights. Rural residents compose 60% of China's population, but increasingly people are moving to urban centers looking for higher paying jobs in factories where they add to the ranks of urban unemployed.¹²

In response to these internal pressures, the Chinese Government has adopted a series of policies designed to narrow income gaps, and to help farmers and the poor. The underlying intent is to maintain stability by removing the causative elements of unrest. These programs are largely based on a philosophy of maintaining continual economic growth. Through economic growth, the government seeks to minimize the number of disenfranchised workers and poor available to serve as the flashpoint for unrest. The greatest internal risk to the government is a significant economic downturn that would result in large scale unemployment and unravel the gains that have been achieved. Such an event would likely precipitate widespread unrest that would again test the ability of the government to maintain control.¹³

Maintaining economic growth necessitates expansion in Chinese industry, which is the principle means of generating wealth. The by-product of this economic growth has been a dramatic increase in China's demand for energy and the raw

¹² *Ibid.*, 59.

¹³ *Ibid.*, 69.

materials for manufacturing. Between 1995 and 2005, China's oil consumption doubled to 6.8 million barrels per day and China became a net importer of oil.¹⁴ A similar situation exists with China's demand for mineral resources, particularly those required for manufacturing such as iron, copper and cement. China assessed that the raw materials required were available in Africa, Latin America, and Asia, and focused efforts in those areas. China's total trade with the developing world grew 88% faster than its trade with developed states between 1999 and 2003.¹⁵ Its overall ambition is to secure sources access to energy and mineral resources at the source in order to avoid competitive market pricing.

In these circumstances, it is natural that China would focus its attention on Africa. Africa currently contributes 12% of the world's liquid hydrocarbon production, with one in four barrels of oil discovered outside the United States and Canada between 2000 and 2004 found in Africa. It is estimated that Africa will be responsible for 30% of the world's growth in hydrocarbon production by the year 2010. West-African low-sulphur oil is highly desirable for environmental reasons and can be easily refined by China's refineries.¹⁶ Africa is also rich in mineral

¹⁴ Ian Taylor, Henning Melber, Margaret C. Lee, Sanusha Naidu. "Unpacking China's Resource Diplomacy", *Africa China In Africa. Current African Issues No. 33*. Nordiska Afrikainstitutet, Uppsala 2007. Available from <http://www.nai.uu.se/publications/download.html/978-91-7106-589-6.pdf?id=25236>, Internet; accessed 5 February 2008.¹⁴

¹⁵ Eisenman, *China and the Developing World: Beijing's Strategy for the Twenty-First Century*, xv.

¹⁶ A. Wolf, "The increasing importance of African Oil", *The Power and Interest News Report*, 20 March 2006. Available from http://www.pinr.com/report.php?ac=view_report&report_id=460, Internet, accessed 16 February 2006.
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resources and presents many opportunities for investment. Many African nations are in a relatively low state of development and are seeking investment to develop infrastructure. Chinese construction firms are seeking export markets. The needs are highly complimentary, and China has crafted an African policy designed to achieve its objectives by playing to Africa's requirements.

CHAPTER 3 - CHINA'S FOREIGN POLICY ON AFRICA

China's foreign policy objectives in Africa have changed in recent years. China maintained an ideologically based policy during the leadership of Mao Zedong. Countries were encouraged to continue with the revolutionary cause and the Chinese Government provided support in the form of arms shipments and zealous rhetoric.¹⁷

Driven forward and outward by powerful internal pressures and the overwhelming need to maintain internal stability, China's leaders have modified their foreign policy objectives in recent years to focus more on economic issues. By maintaining continual economic growth, China's leaders are seeking to address the underlying causes of social unrest; unemployment, regional economic disparity, and to provide an overall improved standard of living. Mindful that China's sudden entry as a major player in global markets will have some adverse effects and generate some apprehension in other market investors, the Chinese have crafted policy statements worded to soothe the apprehensions of market watchers. The current policy provides:

Peace and development remain the main theme of our times. Safeguarding peace, promoting development and enhancing cooperation, which are the common desire of all peoples, represent the irresistible historical trend.¹⁸

¹⁷ Eisenman, *China and the Developing World: Beijing's Strategy for the Twenty-First Century*, 31.

¹⁸ China, Full Text: China's Africa Policy. 1 December 2006. http://news.xinhuanet.com/english/2006-01/12/content_4042521.htm, Internet; accessed 2 March 2008.

The policy also provides that:

China, the largest developing country in the world, follows a path of peaceful development and pursues an independent foreign policy of peace. China stands ready to develop friendly relations and cooperation with all countries on the basis of the Five Principles of Peaceful Coexistence so as to contribute to peace, stability and common prosperity around the world.¹⁹

The policy statement mentions peace or peaceful five times in the two short paragraphs. China wishes to make it plain that it is not seeking conflict as a by-product of its entry into the market. The Five Principles of Peaceful Coexistence are given as: “sincerity, equality, mutual benefit, solidarity and common development.”²⁰ China’s African Policy is based on the following general principles and objectives quoted directly:

Sincerity, friendship and equality. China adheres to the Five Principles of Peaceful Coexistence, respects African countries' independent choice of the road of development and supports African countries' efforts to grow stronger through unity.

Mutual benefit, reciprocity and common prosperity. China supports African countries' endeavor for economic development and nation building, carries out cooperation in various forms in the economic and social development, and promotes common prosperity of China and Africa.

Mutual support and close coordination. China will strengthen cooperation with Africa in the United Nations and other multilateral systems by supporting each other's just demand and reasonable propositions and continue to appeal to the international community to give more attention to questions concerning peace and development in Africa.

Learning from each other and seeking common development. China and Africa will learn from and draw upon each other's experience in governance and development, strengthen exchanges and cooperation in education, science, culture and health. Supporting African countries' efforts to enhance capacity

¹⁹*Ibid.*

²⁰*Ibid.*

building, China will work together with Africa in the exploration of the road of sustainable development.

The one-China principle is the political foundation for the establishment and development of China's relations with African countries and regional organizations. The Chinese Government appreciates the fact that the overwhelming majority of African countries abide by the one-China principle, refuse to have official relations and contacts with Taiwan and support China's great cause of reunification. China stands ready to establish and develop state-to-state relations with countries that have not yet established diplomatic ties with China on the basis of the one-China principle.²¹

While the language of China's African policy is soothing and calming, the actions undertaken are frequently somewhat more assertive. If China's policy toward Africa is regarded as a set of business rules, the underlying purpose of the transactions can be discerned. Rhetoric aside, China's actions over the last few years make plain what China wants from Africa. The list can be simplified to:

Gaining access to natural resources;

Gaining access to markets;

Securing China's position as a leader in the developing world; and

Garnering support for the one China Policy.

The implications of China's policy towards Africa may be best understood if they are considered under the headings of China's *means* of engaging African Nations, China's *motivation* for engaging African Nations, and the specific forms of *opportunity* that China will seek to take advantage of in engaging African nations.

²¹ *Ibid.*

The product of which will be the amount of engagement or *action* China takes with a given African nation:

$$\text{Means} \times \text{Motive} \times \text{Opportunity} = \text{Action}$$

Means

China has coordinated the actions of its state owned industry and financial institutions with those of its diplomatic and political elements of Government in order to produce an ability to act in a comprehensive way when seeking to attain national objectives. The principle means of China's policy toward Africa include the items identified in the following paragraphs, each of which is designed to be an attractive lure to African Nations.

Investment Capital

The principle means employed by China is investment capital, made available through the official state credit agency, the Export Import (Exim) Bank of China. The Bank was established in 1994 as one of China's three policy banks. It is owned by the Chinese government and is mandated to enable China's foreign policy. The Bank answers to the state council. The Bank's 2006 annual report indicates that it had outstanding loans of \$29.5 billion USD²², making it one of the largest credit

²² This figure is given as 231 billion RMB on pg 3 of the report with the conversion to USD listed on pg 57. The USD figure is listed here for consistency. The Export-Import Bank of China,

lending agencies. The Bank intends to expand its loans by 15 to 20% per year. Such a rate of increase would see outstanding loans of approximately 40 billion USD by year 2010, ranking the Exim Bank as the world's largest credit agency.²³ This increase in loans reflects directly China's intent to increase activity and influence in pursuit of its foreign policies. At the end of 2005, the Bank had provided 6.5 billion USD in loans for projects in Africa, comprising a relatively small 10% of the total loans.²⁴

The Exim Bank also offers concessional loans, which form an important part of China's overall incentive package. China uses these loans in a way similar to how other donors use grants. Once accepted, these loans provide China with leverage to encourage the receiving nation to continue to develop stronger ties with China. This allows Beijing to effectively provide funding with political conditions attached. Nations who build stronger ties with China usually have their loans forgiven following a predictable timetable.²⁵ Under China's Exim Bank rules, at least 50% of the materials required for a project supported by a concessional loan must be sourced

2006 Annual Report, Available from <http://english.eximbank.gov.cn/annual/2006.pdf>, Internet, accessed 17 February 2006, 3.

²³ The Export-Import Bank of China, 2006 Annual Report, Available from <http://english.eximbank.gov.cn/annual/2006.pdf>, Internet, accessed 17 February 2006, 3.

²⁴ Peter Bosshard, *China's Role in Financing African Infrastructure*, International Rivers Network. 14 May 2007. <http://internationalrivers.org/files/ChinaEximBankAfrica.pdf>, Internet; accessed 5 February 2008 2.

²⁵ Kurlantzick, Joshua. *Beijing's Safari: China's Move into Africa and Its Implications for Aid, Development, and Governance*. Carnegie Endowment for International Peace Policy Outlook, China Program. November 2006. http://www.carnegieendowment.org/files/kurlantzick_outlook_africa2.pdf, Internet; accessed 18 February 2008, 3.

from China.²⁶ This practice is normal for export credits, but is not normally seen in incentive projects. The result is that concessional loans boost Chinese exports but create little business in the receiving country.²⁷

China's incentive programs are controlled by the Ministry of Finance, Ministry of Commerce, and the Ministry of Foreign Affairs, and are therefore immediately responsive to Chinese national objectives. The administration of incentives is relatively uncomplicated. Project viability is confirmed through an initial feasibility study, and the incentives are dispersed at informal, semi-annual meetings of Chinese ambassadors to Africa held in Beijing or by heads of state during informal meetings on African visits. The incentives are usually provided directly to the receiving nation's government and by-pass all non-government organizations. Incentives dispersed by China usually follow four main themes.

Infrastructure

China's investment strategy recognizes that Africa contains many of the least developed countries in the world, and that the provision of infrastructure is therefore an extremely attractive prospect for many African leaders. In 2007, the Exim Bank was funding a total of 259 projects in 36 African countries. Seventy-nine percent of

²⁶ China Exim Bank, Chinese Government Concessional Loan Terms, <http://english.eximbank.gov.cn/business/government.jsp>, Internet; accessed 18 February 2008.

²⁷ Bosshard, *China's Role in Financing African Infrastructure*, International Rivers Network.

the projects were in infrastructure construction.²⁸ The World Bank estimated the breakdown of loans by the Exim Bank to be:²⁹

40% - Power Generation Projects;

24% - Multiple Sectors;

20% - Transportation;

12% - Telecommunications; and

4% - Water Management.

Major projects currently underway include: hydropower dams in Congo-Brazzaville, Ethiopia, Mozambique, Sudan, and Zambia; railway lines in Angola and Sudan; and copper mines in the Democratic Republic of Congo. The bank also financed arms sales in the form of fighter jets to Nigeria, and the construction of a hotel complex in Sierra Leone.³⁰

These projects are particularly attractive because they enable further development in the receiving nation. They also serve a secondary purpose in making it easier for other Chinese enterprises to achieve strategic goals. Roads and railways facilitate general commercial development, but also provide access to enable primary resource extraction, which may be their primary focus from a Chinese perspective. Whether their developmental value is a secondary residual function, or they were

²⁸ Harry G. Broadman, *Africa's Silk Road – China and India's New Economic Frontier*. The World Bank. Washington D.C. 2007. Internet; http://siteresources.worldbank.org/AFRICAEXT/Resources/Africa_Silk_Road.pdf, accessed 13 March 2008, 275.

²⁹ *Ibid.*, 275.

³⁰ Bosshard. *China's Role in Financing African Infrastructure*, International Rivers Network.

offered simply as an incentive, the benefit to the receiving nation is unquestionable. Regardless of the purpose that it was built for, a road facilitates the passage of traffic, and traffic enables commerce. These incentive packages are even more attractive because many international financial institutions stopped funding road construction citing excessive graft. Without China's willingness to fund such activity, few options would be available to the host nation's government.

State Visits

High level state visits are frequently employed by China to raise the profile of China and African nations and provide an opportunity for political leaders to showcase their accomplishments and focus media attention on their activities. State visits commonly follow high level agreements providing the public forum for announcements and indicate those nations with whom China is actively engaged in making new agreements.

Regional Influence

China does not use organizations like the World Bank or other large financial institutions, but instead prefers to establish relationships with smaller regional organizations such as the African Development Bank. The context of the smaller regional organizations allows China to wield greater influence than would be possible

in other international organizations. This serves China's objective of establishing itself as a leader of the developing world.

Human Capital

Chinese aid packages frequently include investments in human capital. China has sent professional teachers and mentors to many African Nations to assist in human development, particularly in financial management and health care. China has established the African Human Resources Development Fund, which provides funding to train 3800 African professionals per year.³¹ China has established relationships with 27 African universities and frequently provides Chinese language schools under the Confucius Institute project.³² Such investments serve to build national capacity in the African nations.

Motive

China has a very clear set of objectives of what it wants from African Nations. The actions undertaken by China reveal its intent.

³¹ Joshua Kurlantzick. *Beijing's Safari: China's Move into Africa and Its Implications for Aid, Development, and Governance*. Carnegie Endowment for International Peace Policy Outlook, China Program. November 2006. http://www.carnegieendowment.org/files/kurlantzick_outlook_africa2.pdf, Internet; accessed 18 February 2008, 3.

³² *Ibid.*, 3.

Securing Access to Natural Resources

As a rapidly developing nation, China requires access to mineral and energy resources in order to maintain its economic growth; yet its internal supplies are insufficient. In 2007, China consumed 33% of the world steel production, 40% of cement and 26% of the world's copper.³³ China became a net importer of oil in 1993 and has only 2.3% of the world's known oil reserves with which to satisfy the demands of 22% of the world's population.³⁴ In 2004, China displaced Japan as the second largest importer of oil after the United States. It is anticipated that China's reliance on imported energy will increase over the next 20 years by which time it is projected that China will import 60% of its oil and 30% of its natural gas requirements.³⁵ Approximately one quarter of all China's oil imports currently come from African Nations, primarily Sudan, Angola, the Congo and Nigeria.³⁶ Chinese imports of African oil increased more than 71% between 2003 and 2005.³⁷ The extent of China's focus on securing energy supplies is evident in the following table:

³³ Eisenman, *China and the Developing World, Beijing's Strategy for the Twenty-First Century*, xv.

³⁴ British Petroleum Company, *BP Statistical Review of World Energy*, London, 1998, 4.

³⁵ Erica Strecker Downs. *Rand Report: China's Quest For Energy Security.2003*; Available from http://www.rand.org/pubs/monograph_reports/MR1244/, Internet; accessed 1 February 2008. Summary.

³⁶ David H. Shinn. "China's Approach to East , North and the Horn of Africa", (Testimony Before the U.S.-China Economic and Security Review Commission, 21 July 2005). Available from http://www.uscc.gov/hearings/2005hearings/written_testimonies/05_07_21_22wrts/shinn_david_wrts.htm, Internet; accessed 1 February 2008.

³⁷ Eisenman, *China and the Developing World, Beijing's Strategy for the Twenty-First Century*, 38.

Table 1 - China's Top 10 African Trade Partners By Imports (2004) With Proven African Oil Reserves.

China's Import From	Value in million US Dollars ³⁸	% of Sino-African Trade ³⁹	Proven Oil Reserves KM BBL ⁴⁰	% Of African Reserves ⁴¹	Chinese Equity Investment ⁴²
Angola	3422	27.4	9.0	10.5	Yes
South Africa	2567	20.6			
Sudan	1678	13.4	6.4	5.5	Yes
Congo-Brazzaville	1224	9.8	1.9	1.6	No
Equatorial Guinea	787	6.3	1.8	1.5	Yes
Gabon	415	3.3	2.1	1.8	Yes
Nigeria	372	3.0	36.2	30.9	Yes
Algeria	216	1.7	12.3	10.5	Yes
Morocco	208	1.7			
Chad	148	1.2	.9	.8	Yes
Egypt			3.7	3.2	No
Libya			41.5	35.4	Yes
Tunisia			0.7	0.6	No
Other Africa			0.6	0.5	
Total	11043	88.4	117.2	100	

³⁸ Henning Melber, Margaret C. Lee., Henning Melber, Sanuasha Naidu, Ian Taylor. *China In Africa*. Current African Issues No. 33. Nordiska Afrikainstitutet, Uppsala 2007. Available from <http://www.nai.uu.se/publications/download.html/978-91-7106-589-6.pdf?id=25236>, Internet; accessed 5 February 2008.11.

³⁹ *Ibid.*, 11.

⁴⁰ *Ibid.*,11.

⁴¹ British Petroleum Global, Statistical Review of World Energy 2007, Available from <http://www.bp.com/productlanding.do?categoryId=6848&contentId=7033471>, Internet; accessed 1 February 2008.

⁴² *Ibid.*

An inspection of the table reveals that China has a very strong affinity for trading with African nations with oil available for export. Eight of ten of China's top African trading partners are oil producing nations which collectively provide 66% of China's African imports. China has entered into oil equity investments with all except three of the African oil producing nations, and those three nations hold only 5.4% of the known African oil reserves.

Faced with these projections, China is aware that its increasing demand for access to mineral and energy resources is likely to have a significant effect on world energy and mineral markets, both in terms of competition for access, and in terms of increasing price driven by the increased demand. In order to address these issues, China seeks opportunities to obtain access at the source. This allows China to disengage from global market pricing, and to develop an alternative mechanism. By securing supplies at the source, the price is established based on negotiations between the Chinese government and the supplier. This helps to insulate China from price shocks likely to appear as the world energy demands surge against finite supplies.

Securing Access To Consumer Markets

China views Africa as a very lucrative market for Chinese goods and services. It is estimated that there are approximately 800 million Africans with the same

disposable income as the average Chinese national.⁴³ By this measure, Africa is a good market for many of the low cost items manufactured in China. Among the most attractive markets for Chinese exports are construction, banking, telecommunications, textiles, and light consumer electronics. The lower technology versions of products China has to offer are frequently more suitable for the African market than other versions.

While the products and services Chinese enterprise makes available in Africa are welcomed, the competition with indigenous African industry is not. In many cases, low cost Chinese products have out competed local industry resulting in job losses. The balance of trade is very much in China's favour at the present time. Of the 50 African nations trading with China, only 13 are not presently running a trade deficit.⁴⁴

In a related area, Chinese enterprises are marketing infrastructure construction in Africa. This activity is beneficial to both parties. China sees infrastructure construction projects as both a market for the Chinese construction industry and, as a critical enabler to gain access to mineral and energy resources. Many of the construction projects China undertakes contribute directly to supporting industry critical to the development of natural resources. That these projects have as an

⁴³ Margaretta Soehendro. *China's Long-Term Approach to Africa*. 11 December 2007. UCLA International Institute. Available from <http://www.international.ucla.edu/article.asp?parentid=81668>, Internet; accessed 5 February 2008.

⁴⁴ *Ibid.*

additional benefit the ability to support other economic development activity is a residual benefit to the receiving nation. China also recognizes the practical and symbolic benefits of other infrastructure investment that does not directly support energy or mineral development. Infrastructure projects have been tailored to the host nation requests, but have included schools, education and training programs, public stadiums and venues as well as hotels and government buildings. While cases such as the stadiums clearly have a symbolic political value, they benefit the communities they serve none the less and are therefore positive in nature.

Infrastructure construction is particularly attractive to many African nations because their infrastructure is in very poor condition as a result of a lack of investment, or damage resulting from conflict. These factors are particularly acute in African nations that have a very low state of development or are recovering from recent conflict.

Securing China's Position As A Leader Of The Developing World

China took steps to formalize its political influence with African Nations through the China-Africa Cooperation Forum, which was established in 2000. A total of eighty African leaders from forty-four nations attended the first meeting. They endorsed the call made by China for the initiation of a new world order to address unfair globalization practices by western powers⁴⁵. Throughout the discourse, China

⁴⁵ Eisenman, *China and the Developing World, Beijing's Strategy for the Twenty-First Century*, 35.

used rhetoric based on the previous longstanding ideological relationship with African nations; even though the purpose of the new policy was quite different. China sought to identify itself with African nations as suffering from long term domination by western powers and cast itself as a leading nation of the developing world, legitimizing its actions.⁴⁶ An example of this is found in a speech by President Hu Jintao to the Asia-Africa Business forum in April 2005, at which time he said:

As a developing nation itself, China takes the strengthening of its friendship and cooperation with developing countries as the cornerstone of its foreign policy and always attaches great importance to enhancing its economic and trade cooperation with Asian and African countries.⁴⁷

While it is true that China is developing, it is much farther down the path of development than most of the African Nations. Having started its economic reform in the late 1970s, China had been in a steady economic upswing for twenty five years at the time of President Jintao's speech. Despite this, the rhetoric portrays China as a fellow developing nation to cast it in a different light than other western powers. This aids in developing a power block where China and the aligned African Nations employ their collective voting power in international forums to counter western criticisms of human rights abuses and American hegemony. China frequently plays the card of hegemony to cast western powers in an adversarial light. In December 2003, the Forum Premier Wen Jaibao said: "The people of the world share the aspiration for peace, stability and development. But hegemonism is raising its ugly

⁴⁶ *Ibid.*, 34.

⁴⁷ Hu Jintao, *Full text Hu Jintao's Speech at Asian-African Business Summit Reception*, Available on the China Africa Cooperation Forum Web site at www.fmprc.gov.cn/zflt/eng/zxxx/t192739.htm, Internet; accessed 30 January 2008.

head.”⁴⁸ In June 2005, the Peoples Daily stated that “U.S. hegemony and unilateralism have experienced a malignant swell.”⁴⁹ By setting China apart from western powers, China’s Government seeks to portray the country as a leader of the developing world, rather than a low ranking country of the developed world.

One of China’s objectives is to secure the support of African nations in acting as a power block in international bodies like the United Nations. An example of this is China’s actions with the United Nations Commission on Human Rights (UNHCR), which was replaced in May 2006 with the UN Human Rights Council. African support was critical of China’s efforts to avoid UNHCR censure for its human rights record.⁵⁰ China became concerned with this issue in 1995, when it nearly lost a vote on a motion to quash a resolution supported by western nations to condemn China’s human right practices. The incident caused China to embark on a deliberate influence campaign to sway allied African nations to support China in such votes.⁵¹ What followed was a full diplomatic effort to secure support from African nations. That year, Vice Premier Li Lanqing visited six African countries, including UNHCR members Mali, Guinea, Gabon, Cameroon and Cote d’Ivoire. Shortly after the

⁴⁸ *Ibid.*

⁴⁹ “Hegemony is Cold-Shouldered by Many People: Comment,” People’s Daily, 29 June 2005. Available from http://english.people.com.cn/200506/29/eng20050629_193109.html, Internet; accessed 30 January 2008.

⁵⁰ Eisenman, *China and the Developing World, Beijing’s Strategy for the Twenty-First Century*, 35.

⁵¹ China: *Chinese Diplomacy, Western Hypocrisy and the U.N. Human Rights Commission*. Human Rights Watch, vol. 9, no. 3 (March 1997): 7. Available from http://www.hrw.org/reports/1997/china2/China-03.htm#P100_21248, Internet, accessed 1 February 2008.

African nations on the council voted with China to defeat the motion, high level trade talks were initiated with all fifteen African council members. The talks resulted in at least twenty-three agreements and protocols on cooperation.⁵²

A similar event took place in 2004, when China again introduced a motion designed to avoid censure for human rights abuses. The motion was passed with the support of all of the African nations on the council. Twenty-seven nations voted with China, over half of them were African nations including some with questionable human rights records such as Sudan, Eritrea, and Zimbabwe. Coincidentally, these nations had their membership on the council supported by China.⁵³

Garnering Support For The One China Policy

China explicitly lists support of the One-China Principle where nations recognize only the government in Beijing, and do not recognize the government in Taipei, as a precondition for good relations.⁵⁴ As a result of this stance, China has the support of the majority of African nations on this policy, and continues to win nations to this position. As a part of the diplomatic rhetoric, leaders of African nations are

⁵² *Ibid.*

⁵³ Eisenman, *China and the Developing World, Beijing's Strategy for the Twenty-First Century*, 35.

⁵⁴ China, Full Text: China's Africa Policy. 1 December 2006. http://news.xinhuanet.com/english/2006-01/12/content_4042521.htm, Internet; accessed 2 March 2008.

expected to re-affirm their support of the One-China Principle at each meeting.⁵⁵

From the perspective of the African nations, the position costs nothing to maintain, yet buys good will and favoured status from China.

Some nations have switched sides. Senegal switched its diplomatic recognition from Beijing to Taipei based on financial incentives offered by the Taiwanese government.⁵⁶ Taipei was also successful in winning over Gambia and Niger with financial incentives such as the \$35 million USD in assistance provided to Niger to pay for civil service salaries.⁵⁷ Niger subsequently restored its recognition of Beijing in 1996. South Africa, sub-Saharan's wealthiest nation, exchanged ambassadors with Beijing in 1998. Senegal recognized Beijing in 2005. Chad followed suit in 2006 after Beijing agreed to stop supporting the country's rebels, according to Taiwan sources.⁵⁸ Only five African nations presently maintain formal diplomatic relations with Taiwan: Burkina Faso, Gambia, Malawi, Sao Tome and Principe, and Swaziland. Taiwan continues to offer financial incentives to maintain their loyalty, but it is becoming clear to most nations that strong relations with China

⁵⁵ Eisenman, *China and the Developing World, Beijing's Strategy for the Twenty-First Century*, 36.

⁵⁶ *Ibid.*, 36.

⁵⁷ Howard French, "Taiwan Competes with China to Win African Hearts" *The New York Times* (24 January, 1996): 3. Available from <http://query.nytimes.com/gst/fullpage.html?res=9F03EEDC1F39F937A15752C0A960958260&sec=&spn=&pagewanted=print>, Internet: accessed ` February 2008.

⁵⁸ "Chad Chooses China over Taiwan" *BBC*, 7 August 2006, Available from <http://news.bbc.co.uk/2/hi/asia-pacific/5251762.stm>, Internet; accessed 1 Feb 2008.

are more important due to China's rapid economic rise and increasing influence in the region.⁵⁹

China has used incentives and persuasion to win countries over on the issue of the One China Policy, but has at times revealed its strong arm tactics, despite efforts to keep such political manoeuvring out of the eyes of the media. In 2003, Liberia re-established relations with Beijing after having been an ally of Taiwan for almost eyeIn 2003n Mip sarina

Liberia.⁶³ China had agreed to support a United Nations resolution to budget \$250 million for 15,000 peacekeepers to stabilize Liberia, but had the ability to veto the UN resolution if Liberia did not adjust its position.

China's more forceful coordinated approach was again evident with Chad's recognition of Beijing in 2006. Chad was seeking support for a United Nations Security Council resolution and support in dealings with the World Bank. As a result of unrest in the Darfur region of Sudan, Chad had unwillingly received 200,000 displaced persons in its territory causing internal tensions in the country. The combination of these events resulted in increased tensions with the Sudanese Government in Khartoum. Khartoum enjoyed Beijing's support in delaying the deployment of a United Nations peacekeeping force to the area, and direct economic support from Beijing. Chad was pressured with economic incentive packages.⁶⁴ Sources in Taiwan maintain that the bargain also included an agreement for Beijing to cut their support to the Sudanese rebels operating in Chad.⁶⁵ This amounts to a direct accusation that Beijing was funding a war of insurgency through the proxy state of Sudan.

⁶³ Associated Press, *Liberia Cuts Diplomatic Ties With Taiwan*, Associated Press, 12 October 2003. Available from <http://taiwansecurity.org/AP/2003/AP-101203.htm>, Internet; accessed 1 February 2008.

⁶⁴ Agence France-Press, *Chad Chooses Realism, Cash and China over Taiwan*, 6 August 2006. Available from <http://www.turkishpress.com/news.asp?ID=136388>, Internet; accessed 1 February 2008.

⁶⁵ BBC, *Chad Chooses China over Taiwan*, 7 August 2006, Available from <http://news.bbc.co.uk/2/hi/asia-pacific/5251762.stm>, Internet; accessed 1 Feb 2008.

The idea is entirely plausible. China enjoys a distinct advantage in that it is able to gain access to and invest in areas where unrest and conflict preclude the entry of western interests; where there is conflict, there is opportunity for China. If China enabled Sudanese rebels to displace people from Darfur into Chad, then China would have contributed to the development of conditions that would favour Chinese investments in Chad's developing oil industry. Embroiled in the spreading conflict, Chad would become unable to obtain western aid or investment, and thus become more receptive to an offer from China.

Opportunity

In this portion of the paper, the characteristics of China's policy toward Africa will be considered as they reveal the specific forms of opportunity that China frequently exploits. China's approach to Africa has been carefully crafted to achieve the national goals of the Chinese Government. It was constructed with a strong understanding of the circumstances that exist in Africa, and differs significantly from the approach taken by many western countries. The overall characteristics of China's approach will be examined and differences to western approaches highlighted. These differences will reveal the advantages that the Chinese policy offers in certain circumstances. From this it will be possible to identify the type of opportunities that are likely to attract Chinese activity.

Long Term Approach

China's approach is fundamentally different than that of western nations in that the Chinese take a long term, comprehensive, and coordinated approach in their policy based on the state objectives. All instruments of state power are coordinated to achieve the objective, including policy and the provision of capital, labour and technology. The Chinese are seeking long term goals and objectives and are prepared to employ state owned apparatus to achieve those goals. Where western interests are commercially driven, they are under continual pressure to show profits to shareholders and investors in relatively short timelines. China is able to bring investment money through State run agencies such as the Exim Bank of China and thereby out-last other international agencies in terms of its ability to wait for profits.

This approach has several benefits. Firstly, many of the objectives China is seeking cannot be achieved with short term investments. Oil and gas exploration and development, as well as mineral prospecting and development, tend to require long term investments before any profit, or more practically product, is produced. China has also observed that most of the world's known oil and gas reserves are not presently open to foreign investment. It is estimated that 75% of the world's oil reserves are closed to foreign equity investment and other major reserve holders such as Russia and Venezuela are limiting opportunities and incentives to foreign investors.⁶⁶

⁶⁶Robinson J. West. "Energy Insecurity", Testimony of J. Robinson West, Chairman of PFC Energy, before the U.S. Senate Committee on Commerce, Science and Technology, Sept 21 2005.

As a relatively late arrival in the energy markets, few options were available to China other than to explore for, develop, and produce new supplies in locations that have not already been developed. This is pushing China to go to places where other investors will not, or can not go due to the circumstances present. This requires the ability to accept longer timelines to achieve production.

Risk Tolerance

China's economic upturn is a relatively recent change. As a result, China is entering into global markets for energy and minerals that are already well established. Most known and readily available resource finds are already being developed to meet the demands of existing markets and, are not available for China's purchase. For this reason, China must either find new resources for exploitation, or exploit resources undeveloped by other commercial interests. Most known undeveloped reserves remain in that state as the result of risk factors associated with development. Examples might include: unacceptable risk due to unstable political conditions, internal or intra-state conflict, and corrupt or unstable governments. From a purely commercial perspective, increased risk may make securing capital unachievable due to insurance or other mitigating factor costs. Development may also be hampered by a legal imperative such as international sanctions in response to some abhorrent state behaviour. In many cases, the infrastructure required to exploit mineral finds may not

be available or, may be in such a poor state as to economically hamper development. Finally, a lack of skilled workers in the local area may make it more difficult to undertake such projects.

In any of these cases, Chinese corporations enjoy a distinct advantage over their western counterparts; they have the means to enter into business arrangements under adverse risk situations. Many Chinese corporations, including the principle financier the Exim Bank of China, are state owned and not adverse to providing the required capital to undertake business ventures that achieve national aims. China takes a long term view of trade relations with Africa, and a long term view of energy security. With government financing, Chinese corporations are able to tolerate short term risks and, can be mobilized to undertake commercial activities under risk situations that would preclude their purely commercial western counterparts. They are also able to tolerate profit risks and, can cut margins below the point that other commercial endeavours can tolerate in order to outbid them. Some analyses show that Chinese construction firms are able to complete projects for as little as 25% of the cost of western firms.⁶⁷ China is prepared to undertake exploration and development work on smaller energy finds that western companies do not focus on, being content with exploiting a greater number of smaller finds as a part of an overall coordinated strategy. China has an enormous workforce and is actively seeking

⁶⁷ Joshua Kurlantzick. *Beijing's Safari: China's Move into Africa and Its Implications for Aid, Development, and Governance*. Carnegie Endowment for International Peace Policy Outlook, China Program. November 2006. Available from http://www.carnegieendowment.org/files/kurlantzick_outlook_africa2.pdf, Internet; accessed 18 February 2008, 3.

export markets for infrastructure construction. Firms usually bring their own workers from China and rely on local workers primarily for unskilled labour where conditions make it possible to do so.

Social Issues

Unlike western companies, Chinese state enterprises are relatively free of political pressure to take action on social issues. China's policy position of "Sincerity, friendship and equality"⁶⁸ translates loosely into an extreme view on sovereignty whereby China will not interfere in what it considers to be internal

country. In keeping with its policy toward Africa, China was reluctant to pressure the Sudanese Government to end the internal conflict. China used its position in the United Nations to obstruct the United Nations Security Council from threatening the Sudanese Government with sanctions, placing the oil interests above the human agenda.⁶⁹

Rapid Timely Action

China is very opportunistic in implementing its policy and, appears to have little appetite for direct confrontation with western powers in securing its objectives. However, it will not hesitate to act when the conditions are in its favour.

China has taken advantage of a void left by other western international players. The Chinese leadership began to refer to a period of “strategic opportunity” in 2002, during which time it was assessed that “China will be free from external challenges to allow focus on internal developments.”⁷⁰ Chinese leaders had identified that Russia was concerned with other internal issues, the United States was fully engaged elsewhere in the Global War on Terrorism in Iraq and Afghanistan, and that Europe was divided in support of North Atlantic Treaty Organization action and

⁶⁹ Erica Strecker Downs, *China Security: The Fact and the Fiction of Sino-African Energy Relations*, 1 July 2007. Available from http://www.wsichina.org/cs7_3.pdf; Internet; accessed 16 January 2008, 59.

⁷⁰ Eisenman, *China and the Developing World, Beijing's Strategy for the Twenty-First Century*, xiv.

European Union commitments.⁷¹ The resultant turmoil allowed Africa to slip to a relatively low priority on many nations external affairs priority lists and, this opened the door for China's quiet, but aggressive build-up in African trade.

The language of China's Africa Policy makes it abundantly clear that China takes an extreme view of sovereignty. China usually stands on a policy of not interfering with what are considered to be internal issues such as human rights and corruption. This is in part because China demands the same autonomy from other nations observations on its own governance record. This convenient stance allows China to develop close ties with nations with poor human rights records that western nations have marginalized or sought to isolate.

This approach generates opportunities for China to enter into African markets. The pattern that emerges is that of an African nation who is suffering from internal turmoil and seeking foreign investment to initiate or continue reconstruction. In cases where western governments and agencies are critical of corruption or human rights abuses, they frequently attach conditions on the provision of aid that the recipient nation is obliged to respect. In other cases, western nations have sometimes sought to isolate corrupt governments by imposing trade sanctions or embargos against such nations. Both situations create opportunities for China to enter the investment market of such nations. Free of constraints against forming agreements and able to provide aid and incentive packages without problematic conditions or constraints, China is

⁷¹ *Ibid.*, 29.

able to offer attractive packages to African nations in order to gain access to their natural resources.

CHAPTER 4 – OVERALL EFFECT OF CHINA’S POLICY ON AFRICAN NATIONS

Opinions on the long term implications of China’s policy toward Africa vary with the perspective of the observer. It must be clearly understood that China’s policy toward Africa is a means for China to achieve its national objectives. The policy is not designed as a long term strategy to aid Africa or orchestrate its development. If the policy is considered from an African perspective; it may or may not be beneficial to African nations, while from a Chinese perspective the policy always aims to be beneficial to China. China’s leaders wisely crafted a policy that appeals to Africa’s requirements. China needs access to energy and mineral resources, and is seeking export markets for its construction industry and consumer products. Africa has a large population, energy and mineral resources available, and is in need of infrastructure development. The requirements of the two appear to be very complimentary. The issue is the management of the exchange of complimentary needs in a balanced fashion. The overall effect of the policy on Africa is the result of the interplay of a number of factors:

Empowering Governments In Place

China’s extreme view of respecting the sovereignty of countries that are in turmoil allows it to enter into trade agreements and foster stronger trade relations with governments that in a western view are corrupt.

China benefits from the circumstances that cause African governments to become isolated from other western governments. The presence of internal conflict and human rights abuses that may result in the imposition of coercive efforts by western governments represents an opportunity for China to enter into an investment market cleared of western competition. The effect on the African nation is that there is little motivation to reform the behaviour that resulted in the sanction. Chinese sources are substituted for western sources and the behaviour continues as before.

China has actively obstructed efforts by international agencies, such as the United Nations Security Council, to impose sanctions against countries.⁷² It offered alternative financing arrangements that undermined the efforts of the International Monetary Fund to pressure governments to eliminate corruption and fund social programs. The reason is straightforward; the continued presence of the existing conditions favours Chinese investment over western investment. Where there is conflict, China's entry into the market is unlikely to cause the conflict to be resolved. Where there is corrupt government, China's investments are unlikely to cause better transparency and accountability.

The net effect of these actions is that some African governments with poor performance with regards to human rights, social programs, corruption, and internal conflict are able to obtain international backing, rebuild infrastructure and continue to

⁷² Strecker Downs, *China Security: The Fact and the Fiction of Sino-African Energy Relations*, 59.

govern with their current practices. China's presence in the market place tends to provide an alternate means for trade which is not as closely linked to international behavioural norms.

The situation that developed in Angola is a good example of this. Angola is a major African oil producer with approximately 10 % of Africa's known reserves.⁷³ In 2002, Angola ended a civil war and sought investment to rebuild the country. As a condition of the provision of loans, the International Monetary Fund (IMF) required the Angolan Government to address issues of corruption and make funds from oil revenues available to support social programs. The negotiations progressed, with the Angolan Government apparently agreeable to the imposed conditions. In 2005, the Angolan Government abruptly broke off talks with the IMF and announced that China would provide the reconstruction loans.⁷⁴ The amount of the loans has been estimated at up to \$12 billion USD, with low interest rates and long maturity times. The Exim Bank required only that that the money be released on a project by project basis, and that 70% of re-construction was to be performed by Chinese companies.⁷⁵ In offering the loans without extensive or unmanageable conditions, China garnered

⁷³ British Petroleum Global, Statistical Review of World Energy 2007, Available from <http://www.bp.com/productlanding.do?categoryId=6848&contentId=7033471>, Internet; accessed 1 February 2008.

⁷⁴ Joshua Kurlantzick, *Beijing's Safari: China's Move into Africa and Its Implications for Aid, Development, and Governance*. Carnegie Endowment for International Peace Policy Outlook, China Program. November 2006. Available from http://www.carnegieendowment.org/files/kurlantzick_outlook_africa2.pdf, Internet; accessed 18 February 2008, 1.

⁷⁵ Strecker Downs. *China Security: The Fact and the Fiction of Sino-African Energy Relations*, 56.

good will from the Angolan Government and, access to opportunities to invest in the Angolan oil industry. From the perspective of the Angolan government, the Chinese offer negated the IMF's pressure to address corruption issues.

While these circumstances do favour Chinese investment over western investments, China is not completely exempt from pressures to reform. In the larger view, China is increasingly integrated into the global economy and, therefore China cannot afford to make itself a pariah without facing economic consequences from other international actors. China has recently taken steps to modify its position of non-interference toward Africa and has begun to exert some limited political pressure to bring about reform. In a visit to Khartoum in 2007, Chinese President Hu Jintao told Sudan's President Omar Hassan al-Bashir that he had to resolve the conflict in Darfur. He asserted that "Darfur is part of Sudan and you have to resolve this problem."⁷⁶ It is believed that China had been working behind the scenes to pressure Khartoum to admit a peacekeeping force to assist in the resolution of the Darfur conflict. While this was a change in stance on China's part, it was not attached to any significant coercion. During the same visit President Hu announced an interest free loan of 100 million yuan for Sudan to build a new presidential palace and, forgave \$70 million USD in Sudanese debts to China, signalling that business as usual would continue.⁷⁷

⁷⁶ Hu Jintao quoted by Opheer McDoom. "China's Hu Tells Sudan it Must Solve Darfur Issue" Reuters, 2 February 2007. Available from <http://www.reuters.com/article/latestCrisis/idUSMCD261331>, Internet; accessed 16 February 2008.

⁷⁷ *Ibid.*

Private Chinese enterprises are not exempt from the opinion and perception of the public in establishing their business practices. In January 2007, Cheng Siwei, Vice Chairman of the Standing Committee of the People's Congress, cautioned the council that Chinese companies could not neglect their social responsibilities in either national or international investments. Cheng noted "irresponsible practices" had generated resentment towards Chinese investments and prevented Chinese companies from expanding their business overseas. He warned that "Even in developing countries, foreign companies that turn a blind eye to their social responsibilities will be kicked out of the market."⁷⁸ Cheng advocated severe legal sanctions against companies that failed to meet their social responsibilities.

Over the longer term, where China's involvement lends support to poorly performing existing governments, the potential for future conflict increases. Many of the existing governments with poor track records on conflict resolution and human rights abuses are not democratic in nature and are led by "president for life" leaders. In the fullness of time, when that leader ultimately dies, the potential exists for conflict during the catastrophic regime change required to fill the power vacuum left by the demise of the former leader. This outcome is in contrast to democratic governments, which are forced to cope with transition on a continual basis, averting sudden changes.

⁷⁸ Bosshard, *China's Role in Financing African Infrastructure*.

Infrastructure

A key element in China's policy toward Africa is investment in infrastructure. Many of the countries that China seeks to establish trade relations with have very low states of development. Economic development is hampered by a lack of basic infrastructure such as transportation, electrical power, communications and safe water supplies. China's willingness to invest heavily in Africa's construction and infrastructure sectors fulfills a requirement for development that most investors are unwilling to address. This strategy has proven very effective in building relationships with African governments and increasing China's influence in Africa. It also has the additional benefit of providing an export market for Chinese construction firms and expanding access to natural resources on the continent.

Funds provided by the Exim Bank of China frequently carry the condition that they be used for infrastructure development. The terms of concessional loans require that Chinese firms complete a portion of the work, resulting in an assured export market for Chinese construction industry. Many large projects have been undertaken including railways, roadways, and pipelines, all of which contribute to making energy and mineral finds marketable and provide basic infrastructure to enable local economies.

Concerns have been raised over the quality of workmanship of Chinese companies in some situations. Studies on this issue met with mixed findings. In locations where building codes existed and were effectively enforced, the standard of work done by Chinese firms was found to be very high. In other locations where no construction standards existed or they were not effectively enforced, poor workmanship was frequently found.⁷⁹ This places the resulting outcome firmly in the hands of the local African government and, highlights the need for proper management and oversight of building projects.

Develop Energy and Mineral Resources

China's competitive pursuit of energy and mineral resources in Africa has caused it to accept investment risks and develop finds that were not considered by other investors. China appears to be content with developing smaller finds and compensating by developing more of them. The result of this activity is that most of the recent new oil finds have occurred in Africa. Between 1996 and 2006, proven African reserves increased 56%, while the global increase was only 12%.⁸⁰ China is not importing all of the oil its investments are producing. In 2006, China's state owned oil investments produced 685,000 barrels per day, but China imported only 221,000 barrels per day. The remaining oil was sold on the open market to the

⁷⁹ Lucy Corkin, and Christopher Burk, *China's Interest and Activity in Africa's Construction and Infrastructure Sectors, 2006*. Centre for Chinese Studies, University of Stellenbosch, Available from <http://www.ccs.org.za/downloads/ExecSumDFID1.pdf>, Internet; accessed 13 February 2008. 1.

⁸⁰ British Petroleum Global, *Statistical Review of World Energy 2007*, (London, BP June 2007) Available from <http://www.bp.com/productlanding.do?categoryId=6848&contentId=7033471>, Internet; accessed 1 February 2008. 6.

benefit of both market condition, and the African nations who produced the oil. China's involvement African energy is beneficial in that it results in the development of oil fields that would otherwise remain untapped.⁸¹

A similar trend exists in the development of mineral resources in Africa. In many of the African states emerging from conflict, Chinese interests are the first to be willing to invest in the required infrastructure to re-open mines on mineral deposits shut down by conflict or abandoned as no longer commercially viable. Were it not for Chinese investment, these assets would remain undeveloped and no benefit would be realized by African nations.

Competition in Markets

China's entry into African markets has produced mixed results. Consumers do benefit from the availability of low cost items produced by Chinese industry however; in some cases market competition has had a detrimental effect on indigenous African industry. Concerns have also been raised regarding competition with the local construction industry. In surveys completed of several African nations, Chinese companies were rarely found to be in competition with local industry, as each tends to operate in different construction sectors.⁸² Most Chinese firms seek

⁸¹ Strecker Downs. *China Security: The Fact and the Fiction of Sino-African Energy Relations*, 47.

⁸² Corkin and Burk, *China's Interest and Activity in Africa's Construction and Infrastructure Sectors, 2006*, 1-2.

larger construction projects that are beyond the capability of local companies. Chinese firms generally do not partner with local firms citing a lack of trust, but do employ large amounts of local labour. The projects provide little opportunity for technology transfer to local industry, but do generate local income.

Long Term Debt

China does not hesitate to provide investment in African countries that will obligate those countries to China, creating long term debt. China uses concessional loans as a means of achieving this. When an African nation accepts a concessional loan, and then proceeds to develop strong relations with China, the loans are usually forgiven on a predictable schedule.⁸³ One of the objectives of the loan is to obligate the country to China in order to gain access to others assets.

Summary

From an economic perspective, China's investments are generally good and supportive of local economic development. They provide funding and infrastructure in locations where commercially motivated enterprises will not go due to risk factors. China's policies will contribute to economic growth in African nations, however they are not optimized to do so because that is not their purpose. Their purpose is to achieve China's objectives. The responsibility falls upon the African governments to

⁸³ Kurlantzick, *Beijing's Safari: China's Move into Africa and Its Implications for Aid, Development, and Governance*, 3.

negotiate suitable concessions and clauses that will maximize the benefits realized by the African Nations.

From a security perspective, China's policy provides marginal regimes with an alternate method of obtaining the means to remain in power and continue with their practices. This tends to perpetuate existing conflicts that will not end until those governments collapse.

CHAPTER 5 - COUNTRY STUDIES

Introduction

This portion of the paper will consider the impact of China's presence on the economic and security posture of selected African nations where the Canadian Forces currently has personnel deployed, specifically in Sierra Leone, the Democratic Republic of Congo and Sudan.⁸⁴

In each case, the evaluation will consider Chinese activity, the means employed, the objectives, and the opportunities China is exploiting. The overall impact of China's policy on the security and prospects for economic development will be observed.

Information describing the overall situation in each country, including consideration of the state of conflict, the economy, available and natural resources, is contained as background material in the annexes to this paper.

⁸⁴ Canadian Forces, Canadian Forces Expeditionary Command, Defence Wide Area Network webpage. Accessed 27 January 2008.

Sierra Leone

Although all Chinese companies left Sierra Leone during the civil war, they were among the first to resume normal trading practices with Sierra Leone after the conflict ended in 2001. Chinese exports to Sierra Leone have grown steadily since 2000 and reached \$ 431 million USD in 2005. Sierra Leone registered zero exports to China in 2003 and only \$1.61 million USD in 2004 consisting entirely of ores. This statistic reveals China's principle interest in the country.⁸⁵

Sierra Leone is in desperate need of infrastructure investment. Chinese construction firms were among the first to return to Sierra Leone after the conflict and, started renovations on the Bintumani Hotel in 2001, before the conflict actually ended.⁸⁶ By 2005, three large Chinese construction companies were operating in Sierra Leone including: Global Trading, Henan Guoji, and Anhui Construction.⁸⁷

Chinese companies have been contracted to build international sports stadium, bridges, military headquarters, and a new ministerial building. They also are rebuilding the Dodo hydroelectric dam, which provides power for the regional cities of Bo and Kenema. The dam is currently undergoing renovation to bring production up

⁸⁵ Centre For Chinese Studies. *China's Intent and Activity in Africa's Construction and Infrastructure Sectors*, University of Stellenbosch, South Africa, undated, Available from <http://www.ttia-architects.org/downloads/chinese-investment-africa-full.pdf>, Internet; accessed 4 February 2008, 34.

⁸⁶ *Ibid.*, 33.

⁸⁷ *Ibid.*, 37.

to six megawatts. The Beijing Urban Construction Company completed the renovation of the Bintumani Hotel and will now operate the hotel for a period of 20 years. This development will make possible the return of the tourism industry to Freetown and provide a valuable lift to the local economy.⁸⁸

Chinese private and government investment has also diversified into areas other than construction. The Magbas Sugar Factory has been restored and reactivated by Chinese investment and now produces sugar for export to the European market. In January 2007, the Chinese government signed a loan agreement of \$16.5 million USD for the rehabilitation of Sierra Leone's telecommunication provider.⁸⁹ The Chinese Government has entered into a 4 year tripartite agreement on agricultural assistance with the Food and Agriculture Organization of the United Nations. The program is designed to improve Sierra Leone's food security through increased internal production. The program includes water control, sustainable intensification and crop production and diversification programs.⁹⁰

China's lack of conditions and proactive approach has won favour with the Sierra Leone government. Sierra Leone's ambassador to Beijing is reported to have

⁸⁸ Mike Butscher. *China Sets Its Sights On Sierra Leone*, Goliath Business Knowledge on Demand, 1 May 2007. Available from http://goliath.ecnext.com/coms2/gi_0199-6909763/China-sets-its-sights-on.html, Internet; accessed 16 March 2008.

⁸⁹ *Ibid.*

⁹⁰ Centre For Chinese Studies, *The China Monitor April 2006*, University of Stellenbosch, South Africa, July 2006. Available from <http://www.ccs.org.za/downloads/monitors/CCS%20China%20Monitor%20July%2006.pdf>; Internet; accessed 14 November 2007.21.

told one international broadcaster, “ We like Chinese investment because we have just one meeting, we discuss what they want to do, and then they just do it... There are no benchmarks and preconditions, no environmental impact assessments. If a G8 country had offered to rebuild a stadium, we’d still be having meetings about it”⁹¹ A government insider told a reporter “No foreign investor wanted to do business in Sierra Leone. The Chinese fast tracked investor confidence in our country.”⁹²

Detailed country information on Sierra Leone is contained in Annex A.

Assessment

Sierra Leone is slowly but successfully emerging from the damage caused by the conflict. China’s interests and investments in Sierra Leone are providing capital and infrastructure in a market where few other investors are willing to go and they are having a very positive impact on the country’s economy. Longer term development beyond the immediate area of Freetown will begin to address the inequities and lessen the potential for future conflict.

The government is stable and was democratically elected. A peaceful democratic change in government has taken place since the end of the conflict. The

⁹¹ William Eagle. “South African Business Consultant Lauds Chinese Investments in Africa” *News VOA com*, 11 May 2006. Available from http://www.voanews.com/english/archive/2006-05/2006-05-11_voa40.cfm?CFID=199709419&CFTOKEN=93409796, Internet; accessed 5 February 2008

⁹² Butscher. *China Sets Its Sights On Sierra Leone*.

government is not subject to active sanctions and is not isolated. The recent decision by the United Kingdom to continue development aid was a critical decision in favour of Sierra Leone, averting a trend that may have started to isolate the government from international assistance.

Sierra Leone has natural resources that are attractive and viable for Chinese investment but, are already diversely invested by other international companies. This diversity, coupled with the relatively modest size of the reserves of energy and minerals, and market size, are shielding Sierra Leone from Chinese investments. China's position as an important, but not dominant, investor in Sierra Leone appears to be making a significant positive contribution to the countries economic development and stability.

Democratic Republic of Congo

In keeping with its policy on Africa, Chinese activity in the Democratic Republic of Congo has focused on trading infrastructure construction in exchange for access to mineral resources. The amount and scale of Chinese activity in the country is increasing over time. China is not listed among the major aid donors but, has made extensive use of its program of concessional loans to gain access to mineral resources. In September 2005, China pledged to loan the Democratic Republic of Congo 10 million yuan, interest free, with a 10 year maturity. The loan was intended to support poverty reduction programs and was China's first large post conflict investment in the country.⁹³ Concessional loans were again used in September 2006 to provide two Chinese made MA60 turbo-prop regional commuter aircraft for domestic feeder route capability.⁹⁴

Throughout the initial investments, Chinese interests maintained a watch for investment opportunities in oil exploration and mineral development. This focus was evident in the article published in the June 2007 in the People's Daily, citing comments made by the Congolese Minister for Hydrocarbons. He indicated that the Democratic Republic of Congo would review oil exploration contracts in compliance

⁹³ Centre For Chinese Studies, *The China Monitor September 2005*, University of Stellenbosch, South Africa, September 2005; Available from <http://www.ccs.org.za/downloads/monitors/CCS%20China%20Monitor%20September%2005.pdf>; Internet; accessed 14 November 2007, 20.

⁹⁴ Centre For Chinese Studies, *The China Monitor Issue 11*, University of Stellenbosch, South Africa, September 2006. Available from <http://www.ccs.org.za/downloads/monitors/CCS%20China%20Monitor%20July%2007.pdf>; Internet; accessed 14 November 200,16.

with international standards and, observed that increases in budgets could only result from “massive investments”. He noted that oil revenue comprises 25% of the government’s budget, but that this figure could increase following the discovery of new oil blocks in the central basin. He also stated that “currently, two American companies, namely Chevron and PerencoRep are the only major international petroleum companies working in DRC’s coastal city of Muanda in the western region of Bas-Congo, bordering the Atlantic Ocean.”⁹⁵ The ministers inviting comments signals an investment opportunity to which Chinese industry is likely to respond.

More recently, China moved very aggressively to gain controlling access to mineral wealth. On 18 September 2007, China announced that it would provide a \$ 5 billion USD loan to the Democratic Republic of Congo. Of this amount, \$ 3 billion USD will be used to construct strategic road and rail lines linking mining areas to port cities and \$ 2 billion USD will be spent to revive the mining industry, provide new hospitals, health centers, housing units and two new universities.⁹⁶ The deal will give four Chinese state enterprises a controlling 68% stake in the Gecamines joint venture, which will produce copper and cobalt. Repayment will be made through

⁹⁵ People’s Daily, *DRC Government to Review Oil Exploration Contracts*, 29 June 2007. Available from http://english.peopledaily.com.cn/200706/29/eng20070629_388518.html, Internet; accessed 18 March 2008.

⁹⁶ Julia Monaghan. Democratic Republic of Congo: *Chinese Loan is Promising if Handled Carefully*, International Institute for Justice and Development, 28 September 2007. Available from <http://www.ijid.org/092807Congo.html>, Internet; accessed 17 March 2008.

exclusive Chinese access to mining contracts and tolls generated on the transportation links.⁹⁷

The Congolese Government is cognizant of the requirement to address the issues that caused the earlier conflict including the lack of connecting infrastructure and, is applying funds generated from deals with China to expand infrastructure throughout the country. It was announced, in November 2007, that the Chinese company China Road and Bridge Corporation has been contracted to complete a new road link between the Angolan Province of Cabinda and the Democratic Republic of Congo. The cost of the project is estimated to be between \$ 2 and \$ 3 billion USD and will be split between the Governments of Angola and the Democratic Republic of Congo.⁹⁸ In developing infrastructure beyond that in support of mining activities, the government is taking an important step in addressing issues that contributed to the earlier conflict. Projects such as this road will pave the way for better connectivity and the development of regional commerce.

Detailed country information on the DRC is contained in Annex B.

⁹⁷ The China Monitor Issue 24, *Standard Bank and ICBC: The Start of Bigger Things to Come*, Centre For Chinese Studies, University of Stellenbosch, South Africa, October 2007. Available from http://www.ccs.org.za/downloads/monitors/China_Monitor_November_2007.pdf; Internet; accessed 14 November 2007, 14.

⁹⁸ Centre For Chinese Studies, *The China Monitor Issue 20, China & ASEAN: New Avenues of Cooperation*, University of Stellenbosch, South Africa, July 2007. Available from <http://www.ccs.org.za/downloads/monitors/CCS%20China%20Monitor%20July%202007.pdf>; Internet; accessed 14 November 2007.

Assessment

The Democratic Republic of Congo is rebuilding after the conflict that destroyed its economy. The government is stable and was democratically elected after the termination of the conflict. The government is not presently subjected to sanctions and is not isolated from the international community.

The country has abundant natural resources that match China's requirement and are open to international investment. Many of these resources have not been developed for want of infrastructure and capital investment, setting the conditions for an ideal match with the Chinese investment model. Most of the investments made by China to date are very positive in nature and are likely to contribute significantly to the growth of the Congolese economy. The most recent \$ 5 billion USD agreement bears all of the hallmarks of China's foreign policy but, the size and comprehensiveness of the deal are of some concern, due to the amount of control it gives China. As a result of this agreement:

China gains controlling access to a critical enabling mineral resource at the source;

China accepts payment for the loan in the commodity to be developed; and

China provides a comprehensive package including multi-purpose infrastructure, health, social and education investments.

This business deal has both positive and negative aspects that need to be considered. The obvious positive effect is to create infrastructure, in particular transportation links, where none previously existed, enabling other commercial activities to operate in the interior areas. The transportation links will also serve to further unify regions of the country and will address one of the underlying causes of the earlier conflict, the lack of connecting infrastructure.

The published terms of the loan conveniently do not quantify the actual portions of the money to be used for the health care housing and education portions of the investments, so actual benefits to the population are difficult to assess. The terms of most Chinese concessional loans require that much of the construction be completed by Chinese firms and, therefore it is anticipated that most of these funds will ultimately be contracted to Chinese construction companies and be repatriated with no other lasting benefit to the Democratic Republic of Congo. The overall plan will further see unprocessed bulk ore exported to China, with no residual benefit to the host nation in the form of processing plants or follow on industry.

The size and terms of this agreement have raised concerns in the international community. The character of this deal is exploitative in nature with minimal long term benefit. A number of observers have recommended that the Congolese

government seek to negotiate clauses that will provide better residual benefits to the local economy such as portions of the funds to be contracted to local construction companies and indigenous ore processing capability.⁹⁹ The International Monetary Fund has also cautioned that the loan is sufficiently large that it may have adverse macroeconomic effects including damaging imports, exports and exchange rates.¹⁰⁰

From a security perspective, Chinese investment in the country is likely to improve the stability of the government by improving the quality of life of the population. The investments will generate funds for the government, stimulate the economy, result in education and health care facilities and, most importantly, produce transportation links that will unify the country and increase connectivity with adjacent states.

The development of the Grand Inga hydroelectric generating facility represents an excellent opportunity for the Democratic Republic of Congo to set its own course for development in the future. The project will require extensive construction of the water management capability, transportation links, pan-African power distribution grids and management capability. Properly managed, that project will bring enormous wealth to the Democratic Republic of Congo. This will only be possible if local construction capabilities are developed that are capable of bidding on

⁹⁹ Monaghan, *Democratic Republic of Congo: Chinese Loan is Promising if Handled Carefully*.

¹⁰⁰ Centre For Chinese Studies, *The China Monitor Issue 23*, Outcomes of the South Africa-China Bi-National Commission, , University of Stellenbosch, South Africa, October 2007. Available from <http://www.ccs.org.za/downloads/monitors/China%20Monitor%20October.pdf>. Internet; accessed 14 November 2007, 14.

contracts associated with Grand Inga. The Congolese Government should attempt to leverage the current agreements with China to develop these capabilities. It is highly probable that Chinese interests are similarly watching the development of the Grand Inga Project with a view towards favourably positioning themselves to bid on the construction.

Sudan

China is now the largest investor in Sudan, with investments estimated at \$4 billion USD.¹⁰¹ Much of this investment has been focused in oil production, revealing China's purpose in engaging in close relations with this troubled country.

China's investments include a \$215 million USD export tanker terminal was constructed by China's Petroleum Engineering Construction Group in Port Sudan.¹⁰² In a related project, the Chinese Engineering Works Company signed a \$79 million USD agreement with Sudan to rehabilitate and deepen the shipping channel at Port Sudan in 2006.¹⁰³ China is continuing to acquire new rights to oilfields. In 2007, the China National Petroleum Corporation signed an agreement with Sudan to take a majority 40% stake in oil exploration Block 13 in the Red Sea.¹⁰⁴ According to 2006 figures, the Chinese national oil corporations production by African countries was: 81% in Sudan, 15% in Algeria, 3% in Angola and 1% in Tunisia for a total of

¹⁰¹ A. Wolf, "The increasing importance of African Oil", *The Power and Interest News Report*, 20 March 2006. Available from http://www.pinr.com/report.php?ac=view_report&report_id=460, Internet, accessed 16 February 2006. 3.

¹⁰² *Ibid.*, 3.

¹⁰³ Centre For Chinese Studies, *The China Monitor, June 2006*, University of Stellenbosch, South Africa, September 2005. Available from <http://www.ccs.org.za/downloads/monitors/CCS%20China%20Monitor%20June%2006.pdf>; Internet; accessed 14 November 2007, 15.

¹⁰⁴ Centre For Chinese Studies, *The China Monitor Issue 21*, August 2007, University of Stellenbosch, South Africa, September 2005. Available from <http://www.ccs.org.za/downloads/monitors/CCS%20China%20Monitor%20August%2007.pdf>; Internet; accessed 14 November 2007 18.

267,000 barrels per day.¹⁰⁵ To place China's investments in Sudanese oil in perspective, the impact of the investments on overall trade statistics with Africa should be considered. Sino African trade grew by 700% during the 1990s. From 2002 to 2003, trade between China and Africa doubled to \$18.5 billion USD and then increased 39% again in the first 10 months of 2005 to \$32.17 billion USD. Most of this increase is due to oil from Sudan.¹⁰⁶

Chinese oil companies benefited from the conflict situation in Sudan during this time. They acquired assets from western companies who were forced to divest themselves of Sudanese holdings due to government imposed sanctions and public pressure from human rights groups over the actions of the government in Khartoum. While Beijing has assisted in the implementation of the peace accords, it has also used its position on the United Nations Security Council to shield Khartoum from western pressure on human rights abuses.¹⁰⁷ China's oil interests in Sudan are the apparent motivation behind obstructing the peace process. China National Petroleum Corporation owns a 40% stake in the Greater Nile Petroleum Operating Company, whose oil fields extend over a large area in the southern non-Muslim region of Sudan.

¹⁰⁵Strecker Downs. *China Security: The Fact and the Fiction of Sino-African Energy Relations*, 45.

¹⁰⁶ Esther Pan. *China Africa and Oil*, Council on Foreign Relations. Available from <http://www.cfr.org/publication/9557/>; Internet; accessed 12 January 2007.

¹⁰⁷ Henning Melber, Margaret C. Lee, . Henning Melber,. San ushas Naidu, Ian Taylor. *China In Africa*. Current African Issues No. 33. Nordiska Afrikainstitutet , Uppsala 2007. Available from <http://www.nai.uu.se/publications/download.html/978-91-7106-589-6.pdf?id=25236>, Internet; accessed 5 February 2008.18.

If these oil fields were to fall out of control of the government in Khartoum, China's interests in the fields would be threatened.¹⁰⁸

To this end, China has continued to provide arms to the Sudanese Government in Khartoum throughout much of the period of the conflict.¹⁰⁹ Sales have included fighter aircraft and small arms, which are used to protect Chinese oil interests in the central oilfields from attack by rebel forces intent on obtaining control of the area.¹¹⁰ This despite assurances by Liu Guijin, China's special envoy to Sudan, who said that China would try to prevent weapons China sells to Sudan from being used in the Darfur crisis. Beijing maintained that 'limited' arms sales did not breach the United Nations embargo.¹¹¹

Chinese investors have undertaken diverse construction projects in other sectors. In 2001, the Harbin Power Engineering Company constructed the Sudan Power Station with the help of a \$110 million USD loan by the China Eximbank.¹¹² On a larger scale, China is a major participant in the Merow Dam Project. The hydroelectric dam will be built near the fourth cataract on the Blue Nile in Northern

¹⁰⁸ Ibid., 18.

¹⁰⁹ Wolf . *The Increasing Importance of African Oil*, 3.

¹¹⁰ Melber, Lee, Melber, Naidu, and Taylor, *China In Africa*. 18.

¹¹¹ The China Monitor Issue 20, *China & ASEAN: New Avenues of Cooperation*, Centre For Chinese Studies, University of Stellenbosch, South Africa, July 2007. Available from <http://www.ccs.org.za/downloads/monitors/CCS%20China%20Monitor%20July%202007.pdf>; Internet; accessed 14 November 2007.20.

¹¹² Trinh, Voss, *China's Commodity Hunger: Implications for Africa and Latin America*, 11.

Sudan and will have a planned generating capacity of 1250 MW. The project will double the countries electrical generating capacity and supply power to the cities of Khartoum, Port Sudan and Dongola. While viewed as a positive development overall, critics note significant environmental and social concerns caused by the project. Flooding behind the dam will displace 50,000 people from the fertile Nile Valley. The project has promised to provide irrigation to their new communities, but the soil conditions away from the river valley are so poor that it is unlikely to help.¹¹³ The project is being run by the Sudanese government with an overall budget of \$1.8 billion USD, of which China at 26% is the second largest investor next to the Government of Sudan.¹¹⁴

China has also invested in other transportation projects in the country. In 2006, the China Railway Engineering Group and Transtech Engineering Corporation signed a contract with Sudan to build a 762 kilometer railway to link Khartoum with Port Sudan at a cost of \$1.15 million USD.¹¹⁵ In 2007, the Chinese company Transtech Engineering signed an agreement for \$860 million USD to build a railway between Mauritania's capital Nouakchott and phosphate deposits located in Bofal.¹¹⁶

¹¹³ Bosshard. *China's Role in Financing African Infrastructure*, International Rivers Network.

¹¹⁴ Sudan. Website of the Merowe Dam Project Implementation Unit, Available from www.merowdam.gov.sd/en/funding.html, Internet; accessed 18 February 2008.

¹¹⁵ Centre For Chinese Studies, *The China Monitor*, June 2006, University of Stellenbosch, South Africa, September 2005. Available from <http://www.ccs.org.za/downloads/monitors/CCS%20China%20Monitor%20June%2006.pdf>; Internet; accessed 14 November 2007, 15.

¹¹⁶ Centre For Chinese Studies, *The China Monitor Issue 21*, August 2007, University of Stellenbosch, South Africa, September 2005. Available from

These investments hold promise to spur on a more diversified economy, lessening dependence on oil exports alone.

In 2006, China agreed to provide Sudan a loan of \$27 million USD to improve Sudan's cereal storage and production capacity. The intent was to decrease Sudan's dependence on foreign assistance.¹¹⁷

Detailed country information on Sudan is found in Annex C.

Assessment

Despite extensive efforts from the international community, Sudan remains embroiled in conflict. President el-Bashir's government in Khartoum has been in place now for nineteen years and is isolated and under sanctions from the west. China's investments, particularly in the oil industry, have generated the funds that the Sudanese government had used to maintain its hold on power.

Beijing has been willing to frustrate western efforts to bring an end to the multi-dimensional conflict in Sudan because it suits its purposes by setting the

<http://www.ccs.org.za/downloads/monitors/CCS%20China%20Monitor%20August%2007.pdf>;
Internet; accessed 14 November 2007 20.

¹¹⁷ The China Monitor Issue 12, *Outcomes of the South Africa-China Bi-National Commission*, Centre For Chinese Studies, University of Stellenbosch, South Africa, October 2006. Available from <http://www.ccs.org.za/downloads/monitors/CCS%20China%20Monitor%20October%2006.pdf>.
Internet; accessed 14 November 2007.11.

conditions that China finds favourable. Cordial with President el-Bashir's government, China is not motivated to see a regime change that might jeopardize its investments. The existing conflict ensures that investment risks in the area are unacceptably high for most western interests, leaving the area clear for Chinese investors. At the same time, the level of active conflict in the area has been kept low through the provision of Chinese state furnished arms to Khartoum, to avoid significant threat to the Chinese oil infrastructure in place.

In the longer term, the potential for continued conflict remains high. North-south ethnic and economic divisions remain in place and the central oilfields provide ample motivation for both sides to continue to struggle to gain control of the area. The willingness of external powers like China to continue to furnish arms to their favoured side in the conflict has kept open fighting in check but, this will not last. President el-Bashir's longstanding government will ultimately fall, if for no other reason than his advancing age. Instability during the regime change that will follow is likely to result in further conflict.

China has offered a number of justifications for its continued support of the government in Khartoum. China's deputy minister of foreign affairs, Zhou Wenzhong, cited China's hands-off foreign policy principle.¹¹⁸ His famous remark: "[b]usiness is business. We try to separate business from politics. Secondly, I think the internal situation in Sudan is an internal affair, and we are not in a position to

¹¹⁸ Strecker Downs. *China Security: The Fact and the Fiction of Sino-African Energy Relations*, 59.

impose on them.” Mr. Zhou went on to blame the West for many of Africa’s problems, saying: “You have tried to impose a market economy and multiparty democracy on these countries, *which are not ready for it*. We are also against embargos, which you have tried to use against us.”¹¹⁹

More recently, Beijing has offered other justifications for maintaining contact. Chinese government officials have observed that in maintaining close contacts with the government in Darfur, China is in a position to exert some influence, unlike western governments who have no contact. More practically, Chinese officials have noted that economic disparity is one of the underlying causes of the conflict and that oil sales will help to lift the country from its present impoverished state.¹²⁰

On the positive side, China has demonstrated some willingness to facilitate the peace process in Khartoum by assisting in negotiations with the government there and allowing some Security Council resolutions to pass. This indicates that China’s willingness to frustrate western attempts to end the conflict is not without limits. In 2007, China took an active role in persuading Sudan to accept a peace plan and avoid further sanctions over the conflict in Darfur.¹²¹ Such actions have offset some of the

¹¹⁹ Howard French. “China in Africa: All Trade, With No Political Baggage.” *The New York Times*, 8 August 2004. Available from <http://query.nytimes.com/gst/fullpage.html?res=9D02E2DA103CF93BA3575BC0A9629C8B63&scp=2&sq=china+in+africa+8+august+2004&st=nyt>, Internet; accessed 3 February 2008.

¹²⁰ Strecker Downs. *China Security: The Fact and the Fiction of Sino-African Energy Relations*, 61.

¹²¹ Centre For Chinese Studies, *China’s Involvement in African Infrastructure*, The China Monitor Issue 17, University of Stellenbosch, South Africa, April 2007. Available from

condemnation the Chinese government was subjected to over arms sales and opposing sanctions. It is likely that China realized that the western powers would succeed in placing a peacekeeping force in the country regardless of China's actions and, that it would be better to be seen to assist such a process than obstruct it.

China's investments in infrastructure in Sudan will make a contribution to the development of the country and should be reflected upon in a positive light. However, they are overshadowed by the adverse effect its policy has on the security situation in Sudan. Chinese investments themselves are not of malicious intent, however China's indifference toward the human agenda has allowed it to provide the means to continue conflict to the government in Khartoum. China has not tempered its national interest of energy security with any consideration for the human agenda.

Ironically this situation will likely haunt China in the long term. When the Government in Khartoum ultimately falls, it is unlikely its successor will look favourably upon the foreign power that provided the means to oppress them. When the conflict following the fall of Sudan's government concludes, China will probably be forced to look for other investment opportunities.

Summary

Of the three nations considered, China's policies will have the most beneficial impact on Sierra Leone. The government in place there is democratic, is not isolated, and is working to develop its economy. The small size of the Sierra Leone market and mineral reserves are shielding that country from aggressive Chinese investment that could have an adverse effect on the country. In their present form, China's investments are likely to contribute in a positive way to both the economy and security of the country.

The Democratic Republic of Congo will likewise benefit from ongoing Chinese investment. The government in place is democratic, is not isolated and is working to develop the country. The size and nature of the Congolese mineral reserves are very attractive to China, which is aggressively investing in the country. While these investments will be beneficial to the country, they remain exploitative in nature. The Congolese government should be cautious to not become overly dependant on Chinese investment, or to allow Chinese investment to become controlling of the local economy. It should seek to leverage these investments to achieve more lasting local benefits and diversify its economy. The Grand Inga hydroelectric power generation project holds promise to produce lasting benefits for the country provided it can maintain and enhance its internal stability. China's investments appear to be beneficial for the security situation in the country. They

provide transportation links throughout the country and address some of the underlying causes of the earlier conflict.

The overall situation in Sudan has not been positively affected by China's policy toward Africa. Sudan's energy reserves are very attractive to China, which has invested aggressively in most aspects of developing this resource. In so doing, the infrastructure contributed by China appears narrow in purpose; supporting oil extraction with little residual benefit to the country. The development of oil resources has provided the government in Khartoum with funds to bolster the economy however; it has chosen to use these funds to pursue its own internal conflict. The distribution of wealth in the country is not equitable, further enhancing the disparity that underlies the conflict. This situation has been made worse by China's efforts to protect its investments by furnishing arms to the Sudanese government and by obstructing efforts of the United Nations to resolve the conflict. The result is that the government of Sudan will likely remain in power until overthrown. At that time, the likelihood of a non-peaceful regime change appears high. In the meantime, efforts to resolve the conflict will be made more difficult by China's policy.

CHAPTER 6 - CONCLUSION

Overall assessments of China's contributions to Africa vary with the perspective of the commentator. The view that focuses on competition for natural resources is decidedly negative. This is clear in the remarks made by Christopher Smith to the US House of International Relations Committee in July 2005 when he said:

China is playing an increasingly influential role on the continent of Africa, and there is concern that the Chinese intend to aid and abet African dictators, gain a stranglehold on precious African natural resources, and undo much of the progress that has been made on democracy and governance in the last 15 years in African nations.¹²²

It is true that China's influence in the region is increasing but, China received only 16% of African exports in 2006, a value well below that received by the European Union nations or the United States.¹²³ This suggests that discussion about China gaining a "stranglehold" on natural resources is erroneous and inflammatory. It is true that China's actions tend to support the government in place; good or bad. China has not demonstrated any deliberate intent to support dictatorial governments, or any particular form of government. Unlike its earlier forms of diplomacy, China's

¹²² Quoted in: Naidu, Sanusha., Martyn Davis. "China Fuels its Future with Africa's Riches" *South African Journal of International Affairs* Volume 13, Issue 2, Winter/Spring 2006 69-83. Available from <http://www.ccs.org.za/downloads/Naidu%20and%20Davies%20-%20SAIIA%20-%20Vol%2013.2.pdf>; Internet, accessed 16 February 2008. 69.

¹²³ Jain-Ye Wang. *What Drives China's Growing Role in Africa?*, International Monetary Fund, Working Paper WP/07/211, August 2007. Available from <http://www.imf.org/external/pubs/ft/wp/2007/wp07211.pdf>; Internet; accessed 12 January 2008, 6.

policy is now guided by economic necessity, not political ideals. China adheres closely to the sovereignty principle in dealing with other nations, regardless of the form or effectiveness of the government in place, and seeks to complete business transactions that suit its purposes. The resulting ideological difference between western views and those of such governments does tend to push such nations into favouring trade relations with China over western powers. It must also be noted that, in general, Africa represents a high risk investment environment. In many cases, were it not for China's willingness and ability to accept such risk, there would be no investment, no infrastructure and no significant development. In this regard, China's efforts should be reflected in a positive light.

The outcome of the interaction between China and Africa is held in the balance between the powerful lure of natural resources that Africa has to offer and, the demand it has for infrastructure development. A recent example of this is Chad, where recent oil discoveries have sparked interest. The Chinese Ambassador to Chad commented to a reporter that China was going to exempt Chad from import duties. When the reporter observed that Chad produced almost nothing besides oil, the ambassador replied: "If they don't produce things today, they will tomorrow." To help make that happen, China plans to build the countries first oil refinery, lay new roads, provide irrigation, and erect a mobile telephone network, for starters."¹²⁴ At

¹²⁴ Howard W. French. – Polgreen Lynda, "China, Filling a Void drills For Riches in Chad." *The New York Times*, 13 August 2007, Available from <http://www.nytimes.com/2007/08/13/world/africa/13chinaafrica.html?scp=5&sq=china++africa+oil&st=nyt>, Internet; accessed 3 February 2008.

the highest level it is a simple exchange: natural resources are traded for investments in infrastructure.

On the positive side, in countries like Sierra Leone and the Democratic Republic of Congo, China's emphasis on providing infrastructure development as a means to establish a favourable relation with African governments has a very positive effect overall. China is uniquely able to invest in infrastructure in areas where other international actors will not. The result is that these regions of Africa are seeing infrastructure development that would otherwise not likely happen were it not for China's involvement. This infrastructure will both improve the quality of life of ordinary Africans and, enable further economic development, securing a brighter future for the nations so invested. Further, China is willing to explore for and develop smaller energy finds that other commercial interests will not, again ensuring development in areas where it would otherwise not occur and affording the opportunity for African governments to better the lives of their people.

On the negative side, China's largely indifferent attitude toward social issues and extreme view of sovereignty will tend to enable existing government regimes, like that of Sudan, to resist pressures to reform their behaviours and settle conflicts. Where there is conflict, China's involvement as an alternate financier is unlikely to contribute to its rapid resolution. Where there are human rights abuses and corruption, interaction with China as an alternate trading partner is not likely to cause it to cease. In this regard, China's entry into the markets serves to undermine

pressures on African governments to reform. The greater the sanctions imposed or the more restrictive the conditions attached to aid by western agencies and governments, the greater the opportunity for China to offer an alternative offer to sway investments toward China's favour. Pressure to reform becomes equivalent to pressure to accept investment from China.

The common theme in all of these experiences is that China is treating the exchange as a business deal, not a benign development exercise. Success, from an African perspective, is largely achievable through responsible actions on the part of the African governments, which China and Chinese industry will respect.

This situation is likely to continue for some time into the future. Forecasts indicate that China will remain in a stance of seeking to increase resource imports for the next 15 years.¹²⁵ This is fortunate for African nations, as it provides a window of time during which China's actions are relatively predictable in continuing to seek exploitable mineral and energy finds. During this fifteen year window, African nations should seek to diversify their economies in order to lessen sole source reliance on mineral and energy exports to ensure a more secure future.

China has crafted a policy toward Africa that seeks to fulfil its national objectives and is designed to be attractive to developing African nations seeking

¹²⁵ Mamara Trinh, Silja Voss, *China's Commodity Hunger: Implications for Africa and Latin America*, Deutsche Bank Report, 13 June 2006. Available from http://www.frankhaugwitz.info/doks/security/2006_06_China_Commodity_Hunger_Implications_for_Africa.pdf, Internet; accessed 16 February 2008. 1.

investment. China's policy provides the means, but not the guidance to African nations in making choices regarding their futures. In considering the impact of China's policy on African nations, it must be remembered that it is the responsibility of African Governments to make wise choices for their futures, much as China will make its choices to secure its own future.

Backing errant African regimes may allow China to gain access to resources in the short term, however the instability of these regimes will likely negate any gain received in the longer term. It will be difficult for China to achieve one of its objectives, a leading role on the world's stage, if it is constantly plagued by criticisms on its policies.

China's policy does not encourage African governments to behave badly but, it does provide them the means to do so if they choose. In the larger view, China would do well to consider that its economy is closely integrated with the entire global economy, not just with Africa's. In tempering its policy toward Africa with some consideration for the human agenda, China would ensure longer term success.

ANNEX A

DETAILED COUNTRY INFORMATION – SIERRA LEONE

Sierra Leone has a population of 4,971,000 with an annual population growth of 2%. Male life expectancy is 37 years, and female life expectancy is 39 years.¹²⁶ Sierra Leone ranked last, 177th out of 177 listed countries, on the United Nations Human Development Index, with a score of 0.336. The Gross Domestic Product per capita is only 806 USD.¹²⁷

Most of Sierra Leone's infrastructure was destroyed during the civil war. Sierra Leone currently has only 84 km of functioning railways, 904 km of roads and 600 km of waterways.¹²⁸ Almost all of the current electrical generating capacity is powered by diesel, although plans are in place to increase hydropower capabilities to offset the high price of fuel. Electricity is currently only available in the western region, Freetown, Bo and Kenema districts. The 50 MW Bumbuna hydroelectric project on the Seli River, which was originally started in 1982 but left unfinished when the civil war reached it in 1997, was due for completion in 2007 at a cost of 54 million USD. The government has indicated the intent to distribute electrical power

¹²⁶ Jane's, *Jane's Sentinel Country Risk Assessment – Sierra Leone*. 9 January 2008, Available from http://sentinel.janes.com/docs/sentinel/WAFR_country.jsp?Prod_Name=WAFR&Sent_Country=Sierra%20Leone&, IRC; accessed 1 February 2008, 59.

¹²⁷ United Nations, *Human Development Report 2007/2007, Human Development Index*, http://hdr.undp.org/en/media/hdr_20072008_en_indicator_tables.pdf, Internet; accessed 3 March 2008.

¹²⁸ Jane's. *Jane's Sentinel Country Risk Assessment – Sierra Leone*. 9 January 2008, 56.

to the rest of the country.¹²⁹ With a small population and little disposable income or purchasing power, Sierra Leone represents only a modest consumer market, but is a good prospect for infrastructure investment.

Conflict

Sierra Leone currently has a democratically elected government and is emerging from the effects of a protracted internal conflict. Sierra Leone existed in a state of civil war between 1991 and 2001. The conflict existed at several levels, including between the elected government, a mutinous military, and the Revolutionary United Front rebel movement. The conflict was triggered by grievances over ineffectual government, corruption and social inequity.¹³⁰ During the period of conflict, approximately one third of the population was displaced. Efforts by the United Nations and the Government of the United Kingdom were initiated in 2000 to end the conflict, with effective control established by 2002. The remaining former combatants were effectively neutralized by 2003 and order was restored. The electorate of Sierra Leone was unsatisfied with the standing government and, in 2007, democratically elected a new majority government from the All Peoples' Congress Party with Ernst Bai Solomon Berewa as president. In order to win the confidence of the people, the new government must address the issues of

¹²⁹ *Ibid.*, 67.

¹³⁰ *Ibid.*, 13.

poverty, unemployment and widespread corruption.¹³¹ Good relations between Sierra Leone and China were established in July 1971 and the new government has announced that it will continue to support the One China Principle.¹³²

Economy

Sierra Leone's economic recovery began in 2000, and continues today. Real economic growth rebounded quickly after the war with 27% growth in 2002, 9% in 2003, and just over 7% per year for period 2004-06.¹³³ The gains are largely due to investments from the expatriate community and rutile and bauxite mining revenues.¹³⁴ In 2005, Sierra Leone reported a gross domestic product of \$1.08 billion USD, with \$420 million USD in imports and only \$250 million USD in exports indicating a serious trade deficit.¹³⁵ The government of Sierra Leone had limited success in effectively managing programs, prompting the IMF and World Bank to initiate an economic adjustment and stabilization program. The implementation of these programs and the international presence in Freetown has caused the economy to increase each year since the conflict ended. The effects of these improvements have

¹³¹ *Ibid.*, 14.

¹³² People's Daily Online, *Sierra Leone's New President Reiterates Adherence to "One-China" Policy*, 8 November 2007, Available from <http://english.people.com.cn/90001/90777/6299039.html>, Internet: accessed 17 March 2008

¹³³ World Bank, *Country Brief - Sierra Leone, September 2007*, Available from <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/SIERRALEONEEXTN/0,,menuPK:367833~pagePK:141132~piPK:141107~theSitePK:367809,00.html>, Internet; accessed 17 March 2008

¹³⁴ *Ibid.*

¹³⁵ Jane's. *Jane's Sentinel Country Risk Assessment – Sierra Leone*. 9 January 2008, 63.

been largely confined to Freetown, with little improvement in the daily lives of ordinary citizens elsewhere. This inequity continues to cause unrest. The World Bank portfolio presently lists 9 projects totalling \$244.9 million USD.¹³⁶

The economy is largely based on subsistence farming, which produced over half of the gross domestic product and occupies 70 % of the population.¹³⁷ Industry is based almost exclusively on mining; primarily of diamonds, rutile (titanium oxide) and bauxite (aluminium oxide). The government of Sierra Leone is currently seeking foreign investment to reinitiate the mining industry.¹³⁸ European tourism has begun to emerge as a viable industry in Freetown. Chinese investors have proposed to put \$200 million USD into developing the Lumley Beach area into a resort. This would be the biggest single investment in the country.¹³⁹

Sierra Leone is completely reliant on external aid to meet the most basic survival requirements of its population. Donor funds currently supply the government with 65% of its operating budget.¹⁴⁰ Many countries have signalled frustration with a perceived lack of progress in dealing with corruption issues and, are

¹³⁶ World Bank, *Country Brief - Sierra Leone, September 2007*.

¹³⁷ Jane's. *Jane's Sentinel Country Risk Assessment – Sierra Leone*. 9 January 2008, 15.

¹³⁸ *Ibid.*, 16.

¹³⁹ *Ibid.*, 16.

¹⁴⁰ Centre For Chinese Studies, *China's Intent and Activity in Africa's Construction and Infrastructure Sectors*, University of Stellenbosch, South Africa, undated. Available from <http://www.ttia-architects.org/downloads/chinese-investment-africa-full.pdf>, Internet; accessed 4 February 2008, 31.

becoming hesitant to provide aid or investment without conditions of improved transparency. Sierra Leone's principle aid donor is the United Kingdom, who has shared the recent concerns regarding corruption and an apparent lack of progress. The government of the United Kingdom had recently contemplated reducing aid to Sierra Leone at the expiry of the initial commitments in 2008¹⁴¹, but the Secretary of State for International Development announced at the end of January 2008 that the UK would provide 20 million Pounds to assist with the development of the energy sector as a critical enabler to other industries in the country.¹⁴²

This decision was a tipping point in Sierra Leone's continuing recovery from the conflict. The United Kingdom is both Sierra Leone's principle bilateral aid donor, and chief advocate for the provision of aid among other European Union countries. Had the United Kingdom reduced aid, it would likely have signalled the beginning of greater difficulty for Sierra Leone to secure development funds in the near future. This would have increased Sierra Leone's isolation and, made them more receptive to aggressive Chinese investments and influence. According to the Government of Sierra Leone, the top ten aid donors in 2006 were:

¹⁴¹ Jane's. *Jane's Sentinel Country Risk Assessment – Sierra Leone*. 9 January 2008, 7.

¹⁴² United Kingdom, Press Release, *Sierra Leone: UK Boosts Energy Sector*, 28 January 2008. Available from <http://allafrica.com/stories/200801281240.html>, Internet; accessed 3 March 2008.

Table 2 - Top Ten Aid Donors to Sierra Leone In 2006. ¹⁴³

Donor Country	Aid (M USD)
United Kingdom	66.3
European Commission	60.8
UN Agencies	51.08
World Bank	46.9
AfDB	44.7
USAID	30.2
Ireland	12.3
China	10
Germany	5.9
IDB	5.8
Total	333.09

China's position as the 8th largest donor contributing 3% of the aid received by Sierra Leone in 2006 is important, but not dominant.

Sanctions

Sierra Leone is still under sanctions by the United Nations that were imposed during the conflict, including travel bans and arms embargos. These sanctions are no longer monitored and though technically they remain in place, they are no longer enforced. The UN trade embargo on Sierra Leonean diamonds was lifted in 2003.¹⁴⁴

¹⁴³ EURODAD. *Old habits die hard: Aid and accountability in Sierra Leone. Report by EURODAD with Campaign for Good Governance.* January 2008. Available from http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Report_Salone.pdf; Internet; accessed 4 March 2008, 10.

¹⁴⁴ Jane's. *Jane's Sentinel Country Risk Assessment – Sierra Leone.* 9 January 2008, 7.

Natural Resources

Sierra Leone has no confirmed commercially viable oil reserves and has never produced oil. The potential for commercially exploitable finds remains. Three of seven defined off-shore exploration concessions were granted in 2003 to commercial interests from Spain, Nigeria and the United States.¹⁴⁵ These concessions stem from exploration work completed in the 1970s where trace amounts of oil were discovered. Media reports indicated that China is interested in prospecting, but no definitive information is available indicating that any action has taken place. Sierra Leone is reliant on oil imports to meet domestic requirements and has only one oil refinery in Freetown. The refining capacity was 10, 000 barrels per day but, the refinery was closed in 1998 during the conflict and is unlikely to be reopened. Sierra Leone imports refined product at a rate of 7000 barrels per day to meet domestic requirements and occasionally suffers from shortages.¹⁴⁶

While lacking significant energy reserves, Sierra Leone does have other mineral resources in commercially viable concentrations. Many of the mining activities were interrupted during the civil war but, are now re-opening. The Sierra Leone Government suspended all mining licences in 2000; however it began re-issuing prospecting licences in 2003. The major mineral deposits are:¹⁴⁷

¹⁴⁵ Jane's, *Jane's Sentinel Country Risk Assessment – Sierra Leone*. 9 January 2008, 65.

¹⁴⁶ *Ibid.*,65.

¹⁴⁷ *Ibid.*,66.

Bauxite. Bauxite, or aluminium oxide, was mined in the Gbenge Hills until 1995, at which time the spreading conflict disrupted operations and caused the mine to close. This mine was scheduled to re-open in 2006 but no reports confirming that this has occurred are available. Large reserves, estimated at 100 million tonnes and 48% purity have been identified near Port Loko and several international interests from the United States and Canada were reported to be exploring the possibility of developing them via the rail connection to Pepel Port.

Diamonds. Diamonds have been Sierra Leone's primary source of export revenue. Officially reported exports produced exclusively from artesian miners were 700,000 carats in 2005 but, this figure is far below the average annual peak production of 2 million carats in the 1960s. Only one large scale commercial mine is currently operating at Koidu. The mine is owned and operated by South Africa's Energem Resources. Several other international interests are reported to be prospecting for kimberlite pipes.

Iron. Iron ore was mined in the north-east area of Sierra Leone until the 1980s, when the cost of extraction infrastructure and competition from more economical finds in Liberia and Guinea caused operations to cease. It is possible that market conditions may make the deposits economically feasible to develop again if they are developed in combination with nearby bauxite deposits.

Platinum. Platinum deposits have been identified southwest of Kenema and on the Freetown peninsula. Commercial interests are currently examining the Freetown find for potential development.

Titanium Oxides. Sierra Leone possesses commercially viable reserves of two titanium oxides, rutile (titanium oxide) and ilmenite (iron-titanium oxide). The existing rutile mine was closed as a result of the civil war but, re-opened in 2006.

ANNEX B

DETAILED COUNTRY INFORMATION-

DEMOCRATIC REPUBLIC OF CONGO

The Democratic Republic of Congo (DRC) has a population of 52,771,000 (2003) with an annual growth rate of 2.4%. Male life expectancy is 42 years and female life expectancy is 47 years.¹⁴⁸ The DRC ranked 168th out of 177 countries in the United Nations Human Development Index with a score of 0.411. The index has remained essentially constant since 1975. The Gross Domestic Product per capita is \$714 USD.¹⁴⁹

The DRC has an area of 2, 345, 410 square kilometres.¹⁵⁰ The DRC is poorly developed with only 4772 kilometres of railways and 2800 kilometres of roads, but it does have extensive waterways totalling 15,000 kilometres based on extensive internal river systems.¹⁵¹ The countries current electrical generating installed capacity is 2.5 GW, but it is in such a poor state of functioning that it is only capable

¹⁴⁸ Jane's. *Jane's Sentinel Country Risk Assessment – Democratic Republic of Congo*. 9 January 2008, Available from http://sentinel.janes.com/docs/sentinel/CAFRS_country.jsp?Prod_Name=CAFRS&Sent_Country=Democratic%20Republic%20of%20Congo&, IRC; accessed 1 February 2008, 90.

¹⁴⁹ United Nations, *Human Development Report 2007/2007, Human Development Index*, http://hdr.undp.org/en/media/hdr_20072008_en_indicator_tables.pdf, Internet; accessed 3 March 2008.

¹⁵⁰ Jane's. *Jane's Sentinel Country Risk Assessment – Democratic Republic of Congo*, 9 January 2008, 12.

¹⁵¹ *Ibid.*, 85.

of producing 700 MW of capacity.¹⁵² With a large population but low disposable income, the Democratic Republic of Congo represents a modest consumer market, but a good market for infrastructure investment.

Conflict

The Democratic Republic of Congo has suffered from internal unrest and, has not functioned as a cohesive independent state since independence. The conflict and lack of cohesion result from tensions between diverse ethnic groups, a lack of connecting infrastructure, weak state resources, corruption, nepotism and a tradition of military government. The 32 year dictatorship of General Mobutu yielded a dysfunctional state entrenched on a failed path of development. The country's descent into conflict, upon the collapse of his government in 1997, was typical of the catastrophic regime change that follows a protracted period of single person rule. There was no functional second tier of power to fill the void left by the collapse of the government. The conflict that followed involved armed troops from several bordering states entering the country and occupying areas. Most of the foreign troops withdrew in the period from September to November 2002, and a comprehensive peace agreement was reached between the government and the unarmed opposition groups in December of that year. A two year transitional power sharing government was emplaced in July 2003, which led to elections in 2006. Estimates indicate that the five years of fighting led to the deaths of three million people in conflict or the

¹⁵² *Ibid.*, 97.

resultant famine and disease.¹⁵³ Peaceful parliamentary elections were held in October 2006. Continued stability now depends on the inclusiveness of minority representation in the new government.¹⁵⁴

Economy

The Democratic Republic of Congo experienced a relatively prosperous time until 1974 based on its primary export of copper. In 1974, a fall in the price of copper on the world markets triggered an economic crash from which the country has never fully recovered. Political instability and high inflation eroded the remaining economy and state authority until the country descended into anarchy and civil war in 1996. FROM 1996 TO 2001, the economy continued to contract each year. This trend stopped in 2001, when the per capita gross domestic product was \$84 USD. Since the end of the conflict in 2002, the economy has begun to rebound showing growth of 3.5% in 2002, and 5% in 2003. By 2006, economic growth had reached 6.5% based on the recovery of the minerals-based economy.¹⁵⁵ In 2005, the DRC registered \$2.05 billion USD in exports and \$2.25 billion USD in imports indicating a net trade deficit with an external debt of \$10.7 billion USD.¹⁵⁶

¹⁵³ *Ibid.*, 13.

¹⁵⁴ *Ibid.*, 13.

¹⁵⁵ *Ibid.*, 81.

¹⁵⁶ *Ibid.*, 83.

The formal economy is largely dependant on oil and minerals, contributing 85% of export earnings.¹⁵⁷ Diamonds account for 55% of earnings, oil 23% and copper and cobalt 15%. Depressed world prices for copper and cobalt have hampered the recovery, and much of the production is smuggled out of the country and unaccounted for. The restrictions on the purchase of diamonds from conflict ridden countries have reduced registered exports and contributed to increased smuggling, which is now a major problem. Its major trading partners are South Africa, France, Belgium and the United States. Trade with China is increasing.¹⁵⁸

The Democratic Republic of Congo was an isolated state during the conflict. In 2001 at the end of hostilities, assistance rose sharply and reached \$800 million USD in the same year. Assistance levels continued to rise until 2003, when OECD reported a combined foreign assistance worth almost \$5.4 billion USD, primarily in the form of debt relief. The principle aid donors are:

Table 3 - Principle Aid Donors to the Democratic Republic of Congo.¹⁵⁹

Country	% Of Total Assistance
France	20%
United States	20%
Belgium	12%
IMF	9%
World Bank	8%
Germany	8%
Italy	6%
Netherlands	6%

¹⁵⁷ *Ibid.*, 25.

¹⁵⁸ *Ibid.*, 83.

¹⁵⁹ *Ibid.*, 26.

Much of the aid offered has been in the form of debt relief, with up to \$12 billion USD of standing debt written off by the World Bank in 2004. A further \$3.9 billion USD was pledged contingent on the achievement of specified economic conditions during the transition.¹⁶⁰

Sanctions

The Democratic Republic of Congo is not presently subject to international sanctions.

Natural Resources

The Democratic Republic of Congo has oil reserves of an estimated 187 million barrels with natural gas reserves estimated at 35 billion cubic feet. Oil exploration began in the 1960s and, by 1983, a total of 41 wells were in production in five operating oil fields. The largest field is operated by Chevron Corporation and contains 48% of the coastal basins recoverable reserves. In 2003, hydrocarbon production was estimated at 25,000 barrels per day.¹⁶¹

The Democratic Republic of Congo has a large number of commercially viable mineral deposits. Production has been limited by political and military conflict, falling world prices, smuggling, and a lack of investment capital. The

¹⁶⁰ *Ibid.*, 26.

¹⁶¹ *Ibid.*, 94.

country was a major producer of copper and cobalt, diamonds, gold, manganese, tin and uranium prior to the conflict. Some of the mining interests are now beginning to recover. The major mineral deposits are as follows:¹⁶²

Columbo-tantalite (coltan). Coltan is a rare ore used in small quantities in the manufacture of cellular telephones and electronic equipment. Prices for this rare ore have increased dramatically as the demand in the international electronics markets has increased. The Democratic Republic of Congo is believed to hold 80% of the known global reserves.

Copper and Cobalt. The Democratic Republic of Congo has long been a major producer of copper and cobalt. In the 1970s, production reached 500,000 tonnes per year, but dwindled to 30,000 by the 1990s. Projects in the late 1990s to expand production were thwarted by the conflict that spread to the mining areas. By 2002, production was down to 25,000 tonnes per year. Cobalt is found in the same deposits and the two minerals are mined concurrently. Plans to increase production will require investments in infrastructure, particularly rail, to make extraction feasible.

Diamonds. First discovered in the DRC in 1906, diamonds have been mined extensively. By the mid 1990s diamonds accounted for 50% of the DRC's foreign exchange. Production declined as the result of the conflict in the area.

¹⁶² *Ibid.*, 95.

Current output is difficult to estimate accurately due to extensive smuggling but, the figure is believed to be approximately \$350 million USD. Most of the mining interests have suffered due to a lack of supporting infrastructure.

Gold. Mined extensively prior to the conflict in 1997, gold is presently only mined by freelance artisan producers. The possibility of commercial production in the existing goldfields remains.

Tin and Cassiterite. Tin and its complimentary ore cassiterite are produced in the eastern portion of the country. It is estimated that the mine in the town of Walikale produces 3000 tonnes per year, much of which is smuggled across the border into Rwanda.

Uranium. Best known as the source for the uranium used by the United States in the production of the first atomic bombs in World War II, uranium production in the Democratic Republic of Congo has since declined. The main mine is located in Shinkolobwe, and has been closed for many years. The location has been prospected for possible redevelopment.

Hydro-electric Power Generation. The Democratic Republic of Congo has enormous potential to develop hydro-electric power generating capacity on the Congo River, with an estimated potential generation capacity of 100 GW. Some development presently exists on the lower portion of the Congo River where the Inga Dam has a theoretical capacity of 1775 MW. Only one third

of the turbines were functioning at the end of the conflict, and 25% of the power produced is exported.¹⁶³

The Democratic Republic of Congo has joined with neighbors Angola, Botswana, Namibia and South Africa in agreeing to the Western Power Corridor Power Project, to develop the hydroelectric potential of the Congo River Basin to feed energy markets in Southern Africa. If initiated, the first portion of the project will see a 3.5 GW dam constructed and a 3000 km transmission line across Angola, Namibia and Botswana to industrial South Africa. The estimated cost of this project is \$4 billion USD. A follow on project for a 39 GW dam, to be known as Inga IV or Grand Inga, is being considered. If completed, it would provide sufficient power for most of the African Continent with power to spare for Southern Europe. Such an ambitious project would require water management and power generation capability as well as a pan-African power distribution grid. The project development leader is South African Eskom, who will require an estimated \$40-50 billion USD to complete the effort.¹⁶⁴

¹⁶³ *Ibid.*, 96.

¹⁶⁴ *Ibid.*, 96.

ANNEX C

DETAILED COUNTRY INFORMATION – SUDAN

Sudan has a population of 36,233,000 with an annual population growth of 2.2%. Male life expectancy is 56 years and female life expectancy is 60 years.¹⁶⁵ Sudan ranked 147th out of 177 countries in the United Nations Human Development Index with a score of 0.526. The index has been increasing since 1975, indicating an overall improvement in the state of human development. The Gross Domestic Product per capita is \$2083 USD.¹⁶⁶ This figure has improved considerably in recent years due to oil revenues generated by increased production and increasing oil prices but, it should be noted, that little of this money is received by the general population who remain among the poorest in the world. Conditions in the northern part of the country are much better than in the south and west which remain destitute due to the ongoing conflict. Most people have little disposable income and no purchasing power.

Sudan has 4578 kilometres of railway, 4370 kilometres of road and 5000 kilometres of waterway.¹⁶⁷ Electrical generating capacity is approximately 1300 MW

¹⁶⁵ Jane's, *Jane's Sentinel Country Risk Assessment – Sudan*, 30 November 2007, http://sentinel.janes.com/docs/sentinel/NAFRS_country.jsp?Prod_Name=NAFRS&Sent_Country=Sudan&, Internet; accessed 1 February 2008, 86.

¹⁶⁶ United Nations, *Human Development Report 2007/2007, Human Development Index*, http://hdr.undp.org/en/media/hdr_20072008_en_indicator_tables.pdf, Internet; accessed 3 March 2008.

¹⁶⁷ Jane's, *Jane's Sentinel Country Risk Assessment – Sudan*, 30 November 2007,, 81.

and increasing rapidly. It is anticipated that capacity will reach 4.8 GW by 2010 with the addition of several hydroelectric projects located on the Blue Nile River.¹⁶⁸

With a large but poor population, Sudan represents a relatively modest market for inexpensive Chinese consumer products. Conversely, Sudan is in desperate need of infrastructure development and Chinese firms supported by the Exim Bank have undertaken a number of significant projects.

Conflict

Sudan is a state embroiled in a long standing, active and multi-dimensional conflict. The country has a long history of civil war, since gaining independence in 1956, stemming originally from ethnic differences between the northern Arabian and southern African peoples of the country. The current Islamic-Military government has been in place since the authoritarian president seized power in 1989. He remains today as both the head of state and commander of the Sudanese Military. A number of armed groups have risen in opposition to the government and conducted an insurgency along north–south lines. A peace accord was signed in 2002 whereby the south would become a self administering region of Sudan for a period of six years, followed by a referendum to determine its final status. The implementation of the peace accord has been problematic, with all parties levelling accusations of violations

¹⁶⁸ *Ibid.*, 95.

of the terms. The accord has yet to be fully implemented and the delays represent a serious threat of a return to active conflict. ¹⁶⁹

A second ethnic based conflict developed in the Darfur region in 2003, which has now displaced 2.4 million non-Arab people. The participants in the conflict have split into numerous factions, each with independent agendas, making a collective peace agreement elusive. Repeated attempts to emplace a ceasefire have failed. In spite of considerable international pressure to end the conflict, Sudan successfully resisted efforts to deploy an international peace keeping force until finally agreeing to a joint United Nations – African Union Force in June 2007. This conflict has drawn in peoples from adjacent states and has spilled over into Chad and the Central African Republic, threatening regional stability. ¹⁷⁰

Economy

The ongoing conflict has dominated the economy, consuming over half of the state budget. The Government is attempting to revive the economy through the development of oil exports, which began in 1999. The economy has grown every year since 1991. Increases of up to 8.5% in recent years have been driven by increasing oil exports and the increasing cost of crude. The economic growth has benefited the area around Khartoum and the northeast but, contributed little to the south, west and oil-producing central region. A central issue in the peace accord was

¹⁶⁹ *Ibid.*, 6.

¹⁷⁰ *Ibid.*, 6.

the condition that oil revenues would be divided with 50% for Khartoum, 48% for the southern administration and 2% to the producers state government.¹⁷¹

Agriculture is the largest single contributor to the economy, accounting for 39% of national output and employing 66% of the population. Sudan has the potential to be a major African food producer however, expansion of this industry has been hampered by a lack of investment funding and the ongoing conflict. Manufacturing contributed 9% of the Gross Domestic Product in 2002 and employed approximately 4% of the population. The service sector contributes 43% of the gross domestic product and is the principle occupation of peoples living in urban centers.

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An oil refinery was constructed in Jali in 1998/99 with a capacity of 18.65 million barrels. An oil pipeline was concurrently constructed from the Helig-Unity oilfield 500 kilometres south of Khartoum to a terminus on the Red Sea. The facility is owned by the Greater Nile Petroleum Operating Company, which is held in part by Chinese interests. Many of the international investors who were involved in the oil industry in Sudan were forced to sell their interests under pressure from their governments or humanitarian organizations. Oil production reached 750,000 barrels per day by the end of 2006.¹⁷³

¹⁷¹ *Ibid.*, 91.

¹⁷² *Ibid.*, 91.

¹⁷³ *Ibid.*, 91.

Sudan continues to receive extensive reconstruction aid. The principle donors at the most recent donor conference were:¹⁷⁴

Table 4 - Principle Aid Donors to Sudan.

Donor	Aid (M USD)
United States	850
European Union	765
United Kingdom	545
Norway	250
Netherlands	220
Arab League	200
Germany	161
Sweden	110
Japan	100
Denmark	90
Total	3291

Sanctions

The United States has listed the Sudanese Government in Khartoum as a “state sponsor of terrorism” since 1993 and it has been under economic and trade sanctions since 1997. The United Nations Security council imposed a travel ban and asset freeze in 2005. United Nations resolution 1593, in March 2005, referred the Darfur conflict to the International Criminal Court for investigation of human rights abuses. The United Nations Security Council again passed a resolution to impose travel restrictions and financial sanctions against selected Sudanese nationals named in investigations. Sudan has been subject to an arms embargo by the European Union

¹⁷⁴ *Ibid.*, 91.

since 1994, and by a United Nations arms embargo since 2004. Khartoum's opposition to the presence of a United Nations peacekeeping force escalated international frustration with the situation.¹⁷⁵

In addition to formal sanctions, many international companies have bowed to public pressure and human rights groups and divested themselves of holdings in Sudan based on human rights issues.¹⁷⁶

Natural Resources

Sudan's proven oil reserves are generally accepted to be 563 million barrels (2005). The Sudanese Government claims that the reserves are 5 billion barrels (2005). Natural gas reserves in the country are estimated to be 3 trillion cubic feet (2004 estimate).¹⁷⁷

Early oil finds in Sudan were made by Chevron in the 1970's and, at the time, were assessed as uneconomical to exploit. Early exploration crews were deliberately targeted by rebels and the principle explorer, Chevron Corporation, was forced to abandon it's concessions in 1985 due to the fighting. In order to make the oil finds viable, a transportation pipeline was required to move the oil from the remote finds to

¹⁷⁵ *Ibid.*, 14.

¹⁷⁶ *Ibid.*, 91.

¹⁷⁷ *Ibid.*, 93.

the Red Sea coast. China's state owned China National Petroleum Corporation (CNPC) took a 45% stake in the international consortium that built the 1500 km long pipeline to Port Sudan. Thanks in large part to investments by China, Sudanese oil production rose, from an initial 660 million barrels in 1996, to an average production rate of 343,000 barrels per day (bbl/d) in 2004. The Sudanese Government indicates that production should have reached 750,000 bbl/d by 2006, while industry estimates believe that production will not exceed 500,000 bbl/d by 2007.¹⁷⁸ Sudan is the sixth largest exporter of oil from Africa to China¹⁷⁹ and China takes 64% of Sudanese production. Sudanese oil is particularly attractive to China because of its low sulphur content.¹⁸⁰

Interests in the Sudanese oil development and production have varied in time. Amnesty International accused the Sudanese government of deliberately depopulating the oil producing areas in order to make them accessible for oil development. The Canadian Government initiated an investigation into the relationship between the oil finds and human rights conflicts and concluded that oil revenues were exacerbating the civil war. Canadian Company Talisman subsequently sold their interests in 2002. Similarly other interests have been sold by other Canadian and Swedish companies while American firms are barred from direct involvement by United States Government imposed sanctions. While the sanctions remain in place, some American

¹⁷⁸ *Ibid.*, 93.

¹⁷⁹ Trinh, Voss, *China's Commodity Hunger: Implications for Africa and Latin America*, 7.

¹⁸⁰ Ester Pan. *China Africa and Oil*, Council on Foreign Relations. Available from <http://www.cfr.org/publication/9557/>; Internet; accessed 12 January 2007.

firms have been able to maintain holdings through complex corporate structures. Non-western firms have not been troubled by these activities and have gained shares in the investments including Indian, Russian and Chinese national companies.

Sudan has natural gas reserves that are comparable to Congo-Brazzaville, Cameroon or Angola but, at this time, does not produce gas commercially. The reserves are awaiting future development.¹⁸¹ Sudan also produces smaller amounts of other minerals including salt 85,000 tons/yr (2003), Chromite 47,000 tons/yr (2003) and small quantities of gold, silver and gypsum. Very little of the interior of Sudan has not been prospected for mineral deposits other than oil; therefore little is known about deposits in the area.¹⁸²

Sudan is richly endowed with natural resources and, in particular, energy reserves in the form of oil and gas. These energy reserves form the principle attractant for Chinese investment and China has invested heavily in the development and production of Sudan's oil industry.

¹⁸¹ *Ibid.*, 94.

¹⁸² *Ibid.*, 93.

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