CHINA IN AFRICA

A STRATEGIC OVERVIEW

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[Confidential]

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1. INTRODUCTION

China's new scramble into Africa has little to do with benevolent idealism but rather a hard nosed preoccupation with accessing desperately needed raw materials, especially oil and iron ore, to drive its burgeoning economy and new consumer markets for its exports. Facing accelerated imports of raw materials by the turn of the 21st Century, Chinese policymakers made a strategic decision to diversify and secure energy and resource supplies across the globe. It was to some extent accentuated by the 9/11 crisis in 2001 which starkly high-lighted China's mismatched reliance on unstable Middle-Eastern oil supplies (over 60 percent). In response, Chinese policy makers initiated a "go out and buy" policy, primarily focused on a strategy which has seen Chinese oil and resource companies move into Africa, Central Asia and South America to secure new raw material supplies. Consequently, China's global economic and political reach in places like Africa, strongly reflects the imperatives of domestic economic development which is driving China's search for natural resources in Africa today.

This report tracks the reasons behind China's successful rise in the African economy once almost the exclusive preserve of Western multi-national companies only 10 years ago. This includes an assessment of their modus operandi, the role of the Chinese government in guiding the actions of Chinese companies, the institutional support provided to Chinese investments in Africa, the political and strategic reasons underpinning China's entry into specific African countries and why Chinese companies, especially oil companies, are able to compete so successfully against their Western counterparts.

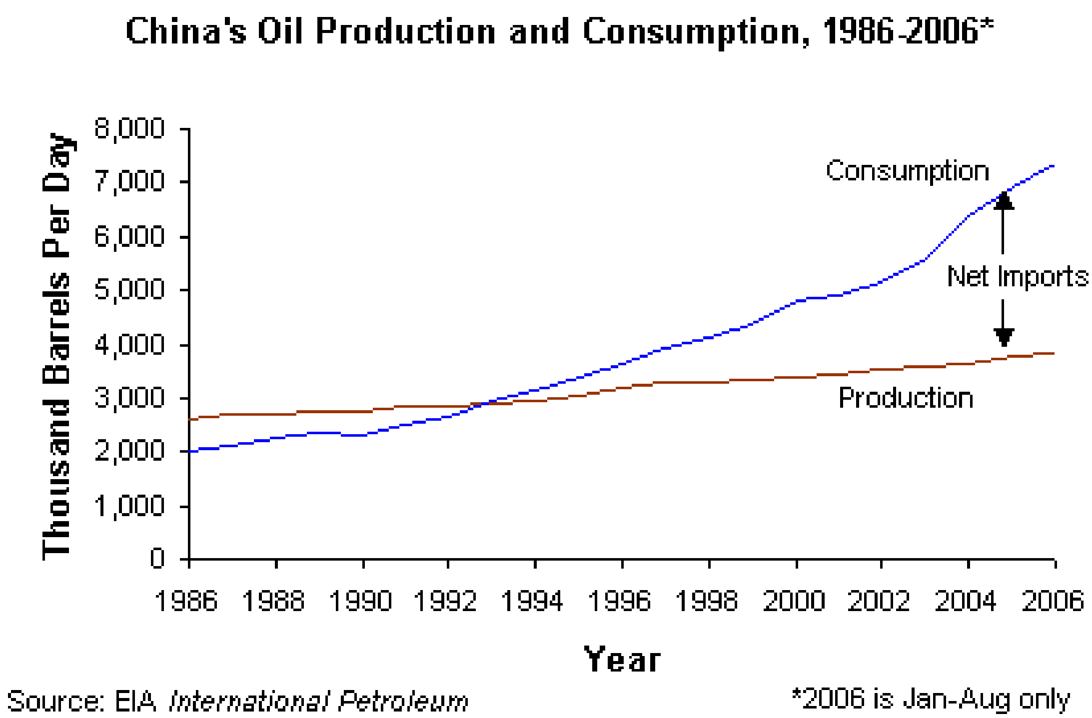
The report makes the case that Western observers of the Chinese phenomenon fail to take into account the logic underpinning the thinking of Chinese investment decisions which do not reflect market related criterion. Herein lies the challenge facing Western companies competing against Chinese natural resource companies in Africa today. It is a mindset that puts Chinese national security interests before profit, because the main shareholder is the state not private individuals and companies. The rigours of the open market apply less to Chinese companies because they are provided with the full panoply of state institutionalized backing – from political to subsidized financial risk assistance. This has had the effect of insulating Chinese companies from traditional risk factors that face Western companies, providing them with an important competitive edge in the race to acquire resources in Africa.

2. AFRICA IN THE CONTEXT OF CHINA'S RESOURCE ACQUISITION REQUIREMENTS

Fundamental structural economic reforms undertaken by the Chinse government during the 1980s and 1990s, transformed what was an essentially stagnating agrarian economy into the worlds fastest growing economy third in size only to Japan and The united States (US). Since the 1980s China has consistently enjoyed an average economic growth rate of over 8 percent per annum.

A signal of China's growing economic strength was its rising need for oil imports. In 1993 China became a net importer of oil, and in 2003, overtook Japan to become the world's second consumer of oil behind the US. Between 1978 and 2000, energy demand in China grew at 4 percent per year; but since 2001, demand has soared to 13 percent per year, outpacing annual economic growth. China consumed an estimated 7,8 million barrels per day (bpd) of oil in 2008. However, during that same year, China produced only an estimated 4 million bpd of total oil liquids, of which 96 percent was crude oil. China's net oil imports were approximately 3,9 million bpd in 2008, making it the third-largest net oil importer in the world behind the United States and Japan. EIA forecasts that China's oil consumption will continue to grow during 2009 and 2010, with oil demand reaching 8,2 million bpd 2010. This anticipated growth of over 390 000 bpd between 2008 and 2010 represents 31 percent of projected world oil demand growth in the non-OECD countries for the 2-year period according to the July 2009 Short-Term Energy Outlook. On 6 October, Dow Jones Commodities News Service quoting Comex stated that China's oil consumption in the first quarter of 2010 would reach 8,36 billion bpd. US crude oil consumption is roughly 21 million bpd.

Not surprisingly China considers oil procurement a matter of "national security, using all state resources to satisfy the nation's need for energy." An indication of the potential energy crisis China faces is illustrated by the projected growth of motor vehicles in the country from 27 million in 2004 to an estimated 300 million in 2030. By 2030, China will need an oil "supplier the size of Saudi Arabia to meet demand, and even this may be a conservative assessment.



The bulk of accountability for the enormous energy demands in China rests on its renewed focus on energy-intensive industry – led by China's obsession with the manufacture of steel and related metal products. Industry in China consumes up to 70 percent of total consumption, followed by residential at 10 percent, transportation 7 percent and commercial at just 2 percent. But industrial production also generates some of the highest profit margins, outstripping the more labour intensive but less energy intensive light industries like textiles and electronic/computer machinery and production. Not only does the industrial base deliver so many of the manufactured goods for the rest of the world but it also must support the enormous urbanization movement which now accounts for over 39 percent of the population, and the infrastructure and building that will support it.

Consequently, China is the number one steel manufacturer and exporter in the world, accounting for 34,6 percent of the world's share of production. Iron and steel, alone, account for 16 percent of china's energy consumption (total heavy industry accounts for 54 percent of total consumption)."

The growth of the industrial base coupled with increasing individual household wealth, places a great demand on China for sourcing both more raw resources and export markets. China now imports 20 percent of the world's fuel and mining products. It is the world's largest producer and consumer of coal, the worlds largest importer of iron ore, the world's largest importer of coking coal, and so on. It has displaced the US as the world's largest consumer of raw materials as a whole.

[Note: According to the Chinese Ministry of Land and Natural Resources, by 2010 domestic crude oil production will only be able to meet 50–55 per cent of demand falling to 34–40 per cent by 2020; while domestic iron production will be able to meet 38 per cent of demand by 2010 and only 29 per cent by 2020. It is estimated that by 2010 and 2020 the shortage of coal will reach 250 million and 700 million tons respectively. So China is looking to Africa to address some of its short to long-term needs.]

2.1. The Defining Pillars of Foreign Policy

David Zweig and Bi Jianhai writing in an article, "China's Global Hunt for Energy," in the September/October 2005 issue of Foreign Affairs, state that China's foreign policy has had to increasingly reflect the domestic policy imperatives of ensuring a smooth uninterrupted flow of raw materials imports to satisfy its burgeoning economic growth path. This it has done by encouraging state-controlled companies to seek out exploration and supply contracts with countries that produce oil, gas, and other resources. At the same time, Beijing aggressively courts the governments of those countries with diplomacy, trade deals, debt forgiveness, and aid and security packages – an effective combination not seen in Western countries.

A second influence on China's foreign policy rests with a different aspect of its economic growth – increasing its global competitiveness and reframing its pattern of growth. Since China's accession to the World Trade Organization (WTO) in 2001, and the establishment of the official "Go Out" and buy strategy for Chinese businesses, China has been supporting the growth of its multinationals in the international arena. The goal is to increase domestic consumption and alleviate the constraints of export-led growth. For this it needs to engage with global markets.

The "Go Out" policy selects 30-50 of the states best performing state-owned enterprises, which will then receive government benefits to help "develop these corporations'" technological skills and know-how, exploit China's comparative advantages, gain access to key inputs, open new markets abroad, create global Chinese brands, and help China avoid becoming over-dependent on export-led development. A critical component of this policy is to "lock-in" resources that China would otherwise have to purchase on the open market. This is done be securing long-term supply contracts with host countries and controlling the chain of supply from source to end point user in China. [See below.]

Chinese banks (backed by government policies) have encouraged businesses to invest and develop outside the mainland. Much of China's foreign policy in Africa has reflected the strategies outlined above. The establishment of the $5 billion China-Africa Development Fund (CADF) to assist businesses willing to invest in Africa, for example, is a testament to its reevaluated economic focus on transitioning to an economy based on expanding domestic consumption. Chinese businesses investing outside the mainland have been aided by the creation of Sinosure, which offers export credit insurance to help Chinese businesses obtain cheaper loans from private banks, and by offering reduced rate of loans from the China Export Import Bank and the China Development Bank (CDB). In fact, outward foreign direct investment (FDI) to Africa grew 327 percent between 2003 and 2004 and there are now over 900 Chinese companies operating on the continent.

The final determinant of China's foreign policy is diplomatic. There are two stated goals: one, to support the One China policy and further isolate Taiwan; and two, to help rebalance the hegemony of the US in international relations. In its role as "anti imperialist counterweight to the West," China has brokered diplomatic ties with resource rich countries that bear pariah status, but bring much needed resources to China. Here Africa again plays a crucial role.

A secondary aspect to China's diplomatic outreach is to reinforce a new development model for developing countries, one mirrored on its own focus of economic growth before democratic growth. Explained by Professor Yang Guang at the Africa-China-US Trilateral Dialogue held in Washington DC in 2007, there must be a balance of reform, stability and development…that democratization should not be precondition to development." Instead, this is allowing for countries to seek their own models applicable to their unique conditions – a strong corollary to its non-interference policy.

In Africa, this diplomatic offensive is given a measure of coherence within the political framework provided by such institutions as the Forum on China Africa Cooperation (FOCAC) and the China-Arab Cooperation Forum (CACF). Established in October 2000, FOCAC has taken center stage in symbolizing the new political engagement that China has forged with Africa. Linked to its formation has seen an emerging consensus around crucial foreign policy considerations salient to China's geo-strategic views on resource acquisition and the desire to change the hegemonic influence enjoyed by the West in shaping the characteristics of the current economic world order.

These include the recognition of "non-interference" as the corner-stone of bi-lateral relations between countries, and dealing with radical Islamism, debt relief, reductions in tariff barriers, immigration, peace-keeping missions and challenging the "Washington Consensus" which dominates the thinking of multi-lateral agencies such as the International Monetary Fund (IMF) and World Bank.

Embedded in this overarching policy construct are specific institutions dealing with African development issues such as CADF and the China-Africa Business Council (CABC) to leverage Chinese economic influence on the continent within the context of its "go-out" policy. All this is supported by a synergistic approach towards Africa coordinated in the main by the National Reform and Development Council (NDRC) and the International Liaison Department (ILD) of the Chinese Communist Party (CCP) in conjunction with organs such as the Ministry of State Security or *Guangbo* (MSS) and the all-powerful Ministry of Commerce (MOFCOM), linked in turn to China's banking behemoths. All this provides massive institutional backing to Chinese state owned enterprises (SOEs) breaking into African markets

Buttressing this diplomatic offensive is the principal of "non-interference" – the cornerstone of China's engagement with the developing world. This enables China to engage with unsavoury regimes not courted by the West. China's strategy enables the continent's most dubious regimes to build up a rentier economy based on the massive exploitation of natural resources with very little real fixed investment flowing into that country and no pressure put on the regime to change. This is particularly so in a place like the Democratic Republic of Congo (DRC) where there is minimal fixed investment in mining – given China's priority to beneficiate raw materials in China.

3. THE ORIGINS OF CHINA'S NEW AFRICA POLICY

It is against the backdrop of its growing thirst for energy supplies that China in recent years has emerged alongside France and the United States (US) as one of the most active foreign powers on the African continent. In 2005 alone, China sent twice as many cabinet level officials to Africa as did the United States or France. **[David Shinn. "China's Approach to East, North and the Horn of Africa," China's Global Influence: Objectives and Strategies (before the U. S.-China Economic and Security Review Commission), July 21, 2005].**

After its initial misconceived ideological foray into the region during the 1960s and 1970s, China became a marginal player on the continent during the 1980s and early 1990s, dominated by the cold war rivalry between the US and Russian superpowers. However, the collapse of communism and China's rapid shift to a market oriented economy saw the return of Beijing into Africa with a much more determined strategic outlook focused on the development of trade, new markets and the acquisition of new energy/commodity resources.

By the late 1990s, China's growing natural resource requirements and new outward looking approach in its world view necessitated a radical reassessment of its failed African engagement of the 1960s and 1970s. By the end of the 1990s, several cluster strategy meetings were held by all China's main policy making arms to discuss African policy.

A Peoples Liberation Army (PLA) Military Commission was established in 1998 to prepare the groundwork for a new defence policy towards the continent. Individuals involved in this project included the following:

- General Sun Qixiang – then deputy director of the Office of Foreign Affairs at the Chinese Ministry of National Defence.
- Major General Xian Guangkai - Intelligence Chief 2nd Department of the PLA General Staff Department (GSD).
- General Xu Xin – then Deputy Head of the PLA Chief of Staff.
- Lt. General Dong Wanrui - Chinese Institute for International Strategic Studies Nanjing - Department Commissioner
- General Luo Bin – then head of the Office of Foreign Affairs at the Chinese Ministry of National Defence.
- General Xu Huizi – Former deputy head of the PLA

The inclusion of Major General Ma Dianshung, (Commander of the elite 15th Airborne Division) had to do with a clearer insight amongst Beijing's military planners of the shifting role of African armies in peace keeping deployment operations across the continent, and the reluctance of Western countries to get involved in such operations.

The "white paper" that emerged from the commission advised the Chinese government on the need to aggressively increase arms sales to African countries as well as to step up training programmes for the armed forces of Angola, Mozambique, Nigeria, Ghana, Botswana, Namibia, Zimbabwe, Congo-Brazzaville, the DRC, Cameroon, Gambia, Burundi and Togo to counter US and other Western training programmes on the continent.

3.1. Meeting of the Ministry of State Security

On the intelligence side, a joint regional meeting was held between the country's various security organs, under the aegis of the Ministry of State Security ("Guojia Anquan Bu" or Guoanbu) in late July 1999, to discuss intelligence operations in Africa. It was chaired by Xu Yongyue, the then veteran Head of the Chinese Intelligence Directorate.

At the meeting, Tian Genren, the Head of Guoanbu's Section 17 Department (dealing with Economic and Financial Intelligence)* presented a 115 page master-plan for the period 2000 to 2003 on aspects of China's economic engagement with Africa. This was to eventually form the basis for the convening of the China-Africa Consultative Forum (CACF) held in Beijing in October 2000.

Others attending this meeting included Wan Chun Xie, the main figure in Guoanbu's African intelligence gathering networks; top officials from the office of then Prime Minister Zhu Rongji; Zou Jiahua, analyst and internal adviser to the Intelligence Directorate; and Cheng Yu Wei, Head of the coordinating Committee that designates intelligence agents that must be included in all Chinese trade and economic missions into Africa.

3.2 The Africa Ministerial Meeting

In late 1999, a closed seminar on "21st Century Development Strategy for Sino-African Relations" was held under the auspices of the Chinese Research Society on African Affairs (CRSAA). Attended by 150 government officials from the Ministry of Foreign Affairs, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), as well as researchers from various academic and technical institutes, Chinese businessmen and overseas based Chinese; the purpose of the seminar was to map out a strategy to solidify Sino-African relations.

This seminar was one of several similar seminars leading up to the successful Beijing Conference or China-Africa Consultative Forum (CACF) held in October 2000.

Important input on the CACF Conference came from a group headed by then Vice Minister of Foreign Affairs for African Relations and Vice Chairman of the parliamentary Foreign Affairs Committee, Ji Peiding. Others in the group included Liu Guijin (former ambassador to South Africa and current Chinese Special Envoy for Sudan), and Ms Xu Jinghu (Director General of the Department of African Affairs of the Ministry of Foreign Affairs).

Ironically China's interest in Africa coincided with the Bush Administration's strategic re-evaluation of Africa's potential energy reserves and the viability of the continent to be a

***Though the picture is not entirely clear, most intelligence literature acknowledges that the MSS comprises 12 Main Directorates or Bureaus, and 6 independent offices. In turn each Directorate is divided into sections. The Section 17 referred to above includes "jijandie" (espionage personnel, collectors of data and confidential materials, like budgets and accounts) and "fen xijia" (specialist analysts talented in statistics, computers, analysis skills etc.). It also has a special section dealing specifically with "wangji wanghuo" (or "interwang"), more commonly known as the Internet.**

safer and more secure source of crude oil in the longer term than the Middle-East to feed US consumers. Both countries had reached the same conclusion – Africa was a viable alternative source of energy, pushing up the strategic importance of Africa in their respective national security priorities and laying the foundation for stronger superpower rivalry on the continent.

4. THE ROLE OF FOCAC

The closed door formulations of the Chinese policy-making apparatus found institutional expression in the subsequent meetings of the China-Africa Forums (CAFs) – then renamed FOCAC - held every three years alternatively in China and Africa. A mechanism to promote diplomatic, trade, security and investment relations between China and African countries, it provides the integrated framework governing Chinese African relations, buttressing and institutionalizing support for Chinese oil companies that have become the new economic vanguard of China's diplomatic thrust into the continent.

China's hosting of the first China-Africa Consultative Forum (CACF) in Beijing in October 2000, gave grist to its new policy of aggressive engagement with Africa on a number of multilateral levels. Given the powerful entrenched Western interests it faced in Africa, Beijing had to offer a unique package of economic, political and security inducements to fast track its entry into key natural resource producing regions of the continent.

These included:

- Targeted debt relief;
- Participation in peace-keeping operations in places such as Liberia, DRC and Sudan;
- Cheap loans linked to infrastructure development;
- Political junkets for African leaders to Beijing;
- Support for Africa in global forums such as the United Nations (UN), World Trade Organisation (WTO), International Monetary Fund (IMF) and World Bank;
- Competitive military deals;
- Collaborative projects on "traditional medicines";
- Political "non-interference" in the internal policies of African countries;
- The promotion of "south-south" linkages;
- The establishment of parallel funding agencies to institutions such as the IMF and World Bank.

FOCAC reflects the key tenets of the Five Principles of Peaceful Coexistence which guides China's foreign policy objectives. The process is expected to promote political dialogue and economic co-operation, with the long-term aim of common economic development and prosperity framed squarely on a one-China ideology.

The first such meeting held in Beijing from 10 to 12 October 2000, was attended by over 800 officials from China and 44 African countries. Representatives of 17 regional and international organisations, as well as business representatives also attended the conference. "South-South" cooperation with its "natural allies" and the creation of "an equitable and just new international political and economic order" were key tenets of the movement. Economic and diplomatic interaction with Africa had taken centre stage and would define future relations.

The sentiment was substantiated in the "Beijing Declaration of the Forum on China-Africa Cooperation" and the "Programme for China'-Africa Cooperation in Economic and Social Development," the two key documents which emerged from the meeting.

Specific plans included an expansion of trade, investment, joint projects and increased co-operation in the fields of agriculture, transportation, medical care, the exploitation of natural resources and banking.

The establishment of a “China-Africa Joint Business Council” was proposed as a mechanism for the further promotion of trade. Special funds for the establishment of joint ventures, facilitated through China and the African Development Bank (ADB) as well as the Eastern and Southern African Trade and Development Bank, were also committed. And the exploitation and effective utilisation of natural resources on the African continent, key for China’s economic growth, were singled out for renewed focus.

Another important component to emerge from this conference was debt relief. An "Accounts Committee" was formed immediately after the CACF meeting in 2000, under the direction of the Chinese Foreign Ministry and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), to draw up an exact picture from audits and analyses made by several public entities, to determine the exact value of African debt, together with the nature of each financial compromise.

According to a contact of a senior MOFTEC official in Angola at the time, it was planned that debt would be either scrapped in full, transformed into non-interest loans, solved by barter of identifiable goods, reviewed and diminished, re-scheduled in terms of payment and/or interests, or transformed into tax benefits and investment bonuses for Chinese firms wanting to have a share in the African market. The above was to be decided on a case-by-case basis, as not all debts were considered equal, due to different political, historical, economic and financial circumstances. To date over US$2 billion in African debt has been cancelled.

The second FOCAC ministerial conference was held in Addis Ababa, Ethiopia, from 15-16 December 2003. The conference was attended by Chinese Premier Wen Jiabao, along with seven African presidents and a number of other senior officials from African countries. More than 70 government ministers from China and 44 African countries attended the proceedings. The central theme of the second ministerial conference was on “pragmatic and action-orientated co-operation.” Premier Jiabao proposed a four point programme for the further consolidation of Sino-African relations through mutual support; democratisation of international relations; meeting the challenge of globalisation together; and enhanced co-operation at all levels.

The conference produced the “FOCAC Addis Ababa Action Plan 2004-2006,” which further outlined future China-Africa co-operation. The political framework of the Addis Ababa Plan encouraged continued high-level exchanges, enhanced political dialogue, a renewed promise from Beijing to participate actively in African peacekeeping operations, and pledges to co-operate on a range of security related issues. On social and development issues China promised to expand its African Human Resources Development Fund to train up to 10 000 African technicians over three years, to enhance its assistance on medical care and public health, to provide technical training on agriculture, to cancel outstanding debts of select countries, and to encourage cultural and people-to-people exchanges.

The China-Africa Business Conference, arranged by the China Council for the Promotion of International Trade (CCPIT – a MOFTEC affiliate), which was held simultaneously with FOCAC, was specifically intended to boost Sino-African trade and investment. CCPIT

facilitated the signing of 20 agreements to the value of US$460 million, involving 17 Chinese companies in 17 African countries. Moreover, CCPIT organised Chinese business exhibitions in African markets regarded as priorities, such as Egypt, Nigeria, Kenya and South Africa. The goal was to significantly boost trade with those key countries with a view to expanding commercial links to other African countries.
[See Annexure I on a detailed review of the Ethiopian FOCAC conference.]

As an adjunct to FOCAC, the China-Africa Business Council (CABC) was launched in August 2005 with an initial funding of US$1 million provided by the UN Development Programme (UNDP) to further boost trade between China and the continent. [See below]

The engine room behind the efficient functioning of FOCAC has been the China "Follow-Up Committee" (FUC) comprising senior Chinese commerce and diplomatic officials to ensure the effective functioning of the conferences and the necessary follow-up required between each conference. [See Annexure II on the workings of FUC.]

At the 2006 FOCAC Summit held in Beijing in October, attended by 48 African countries, President Hu Jintao stressed the long history of China-Africa cooperation and the common objective of economic development and prosperity. China committed itself to stand with African countries in advancing national and continental interests.

Key outcomes of the 2006 Beijing Declaration at the FOCAC meeting included:

- China's intention to double its assistance to Africa by 2009;
- Provide US$3 billion in preferential loans and US$2 billion preferential buyer credits to Africa over the next three years;
- The establishment of a China-Africa Development Fund (CADF), valued at US$5 billion, to encourage Chinese companies to invest in Africa;
- The building of an African Unity (AU) conference centre in Ethiopia to assist in the advancement in the objectives of African unity;
- Further debt cancellation of interest free loans in the heavily indebted poor countries;
- Expanding from190 to 440 in the number of export products receiving zero-tariff treatment;
- Establishing five new trade and economic co-operation zones in Africa; and training 15 000 African professionals, build hospitals, malaria prevention centres, schools and double the number of Chinese scholarships offered to African students.

President Hu Jintiao's commitment to Africa reconfirmed China's strategic interest in the continent and laid the foundation for the further building of a common development agenda. Thus the Beijing Declaration largely confirmed previous FOCAC undertakings, while at the same time proposing a broader framework for future co-operation.

FOCAC also effectively serves as a giant lobbying forum for economic interests to discuss and sign contracts under the umbrella of political "comrade-ship". One good example was when Huawei President Ren Zhengfei accompanying then-Chinese Foreign Minister Wu Bangguo on a diplomatic tour of African nations in November 2000, lay the groundwork for one of the company's biggest deals of recent years - a US$200-million contract to build a CDMA 450 network in Nigeria, awarded in 2005. [See below] More recently, the November 2006 Focac summit saw ZTE and Huawei inking deals with Lesotho and Ghana, directly worth US$300 million. According to one inside source, this established links for much bigger contracts with at least 6 other countries (not disclosed, but capable of generating, if finalized, something in the region of US$3,5 billion in new business).

4.1. The Cairo Meeting

The latest in the series of FOCAC meetings was the sixth senior officials meeting of the Forum which took place in Cairo, Egypt on 18-20 October 2008. The meeting was intended to review the FOCAC process and consolidate the agenda for the next FOCAC Ministerial Meeting to be held in Egypt late in 2009. Representatives from China, 48 FOCAC African members, as well as regional organizations attended the meeting.

The senior officials meeting confirmed the positive progress on China's FOCAC undertakings and laid a stable foundation for the next FOCAC ministerial meeting due in October this year. Against the backdrop of the current global financial crisis, two key areas of discussions covered were "China-Africa agricultural cooperation and food security" and "infrastructure construction". Food security has become a major strategic issue for China as it tries to cope with changing food demands of its burgeoning consumer rich middle class. This is apparent in Chinese new agricultural investment projects planned for Sudan, Angola and Zimbabwe. Members also agreed to establish a "new type of strategic partnership" between China and Africa based on the principles of "equality, mutual benefit and learning from each other".

Xu Jinghu, Secretary General of the Secretariat of the Chinese Follow-up Committee of the Forum, characterized progress to date as "fruitful," although it is widely known that difficulties related to working in Africa has undermined implementation of some of FOCAC's promises, especially in the area of construction. China's Assistant Foreign Minister Zhai Jun proposed the following areas for future development within the FOCAC framework:

- Expansion of high-level diplomatic exchange with African countries;
- Increased input from Africa in planning the FOCAC agenda;
- Prioritising assistance to Africa to advance fulfillment of the Millennium Development Goals (MDGs); and
- Assisting Africa in strengthening food security.

4.2. The China-Africa Business Council

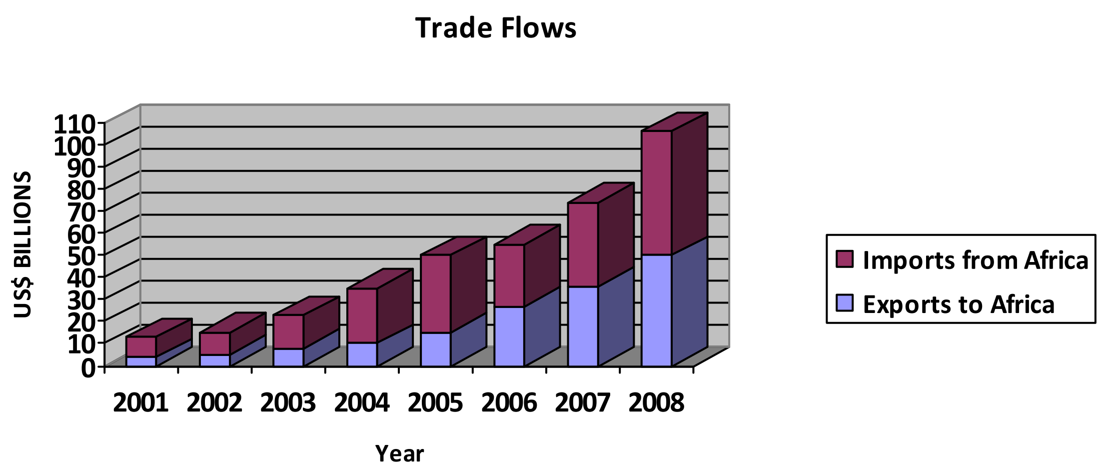
One of the important initiatives to emerge out of FOCAC was the establishment of the China-Africa Business Council (CABC) which was launched in Beijing in March 2005 with broad stakeholder participation. Established with an initial seed capital of US$1 million provided by the United Nations Development Programme (UNDP), it was a joint initiative between UNDP, the Chinese Ministry of Commerce (MOFCOM) and the China Society of Promotion for the Guangcai Programme (Guangcai), a key link between China's Communist Party and the private sector with a membership of more than 16 500 Chinese "private" companies. The CABC has established offices in Baoding, Wuhan, Hong-Kong, Macao and Chongqing as well as in six African countries including Cameroon, Ghana, Kenya, Mozambique, Nigeria and Tanzania.

In early December 2008, the CABC concluded a seminar in Beijing focusing on the impact of the global financial crisis on China-Africa commercial relations. Leading Chinese think-tanks and African representatives in Beijing participated in the event. The seminar concluded that FOCAC continued to provide a solid framework for China and Africa to respond to and overcome challenges associated with the global crisis.

These political and economic initiatives have seen trade soar between China and Africa. In 1999 two way trade stood at a mere US$2 billion in 1999 to US$108 billion in 2008 – a fifty-fold increase. China's top trading partners in Africa in 2008 were as follows:

- Angola (24 percent)
- South Africa (17 percent)
- Sudan (8 percent)
- Nigeria (7 percent)
- Egypt (6 percent)
- Rest of Africa (38 percent)

Chinese trade with and foreign direct investment in Sub-Saharan Africa, 2001-2008



Source: **IMF Direction of Trade Statistics (2006) and World Trade Atlas/Tralac (2008)**

5. CHINA'S NEW RESOURCE ACQUISITION BUSINESS MODEL

China's economic scramble into Africa and Latin America follows a mercantilist approach using state resources to underpin state controlled business entities with economic objectives at variance with traditional Western multi-national corporations. For example, Chinese state corporations seek more than just profit for their shareholders. Chinese companies, backed by senior political leaders, government financing and foreign aid instruments, are willing to invest in countries with high political risk for three reasons: a) secure energy and natural resources for the motherland, b) access new consumer markets for China's products, and c) challenge Western hegemony in the international political and economic arena to reshape global institutions to suit Beijing's worldview. These factors are not reflected in the business decision-making process of traditional Western companies, making them vulnerable to a Chinese business strategy which is multi-layered and includes massive state assistance on a range of levels.

The groundwork for China's competitive entry into developing world energy and resource markets was laid over a decade ago when important internal restructuring of the oil industry was undertaken by the Chinese government. For example, in early 1998, when the state oil companies had thin profits or lost money, the Chinese government adopted a series of measures (including cracking down on small refineries, small oil producers, smuggling, suspension of the People's Liberation Army's involvement in the oil business, and banning diesel and gasoline imports) to shore up the profit margins of state oil companies. From 2001 onwards, in preparation for China's entry into the WTO and during the early years of China's WTO membership, state oil companies were granted monopoly powers over many business areas to strengthen their bottom lines, including the refining business, wholesale oil business, retail stations, and the oil trade. **[ENERGY POLICY ACT 2005 Section 1837: National Security Review of International Energy Requirements, Prepared by The US Department of Energy, February 2006.]** These measures provided space for the large NOCs to broaden their asset base and build up a financial war chest to go on the acquisition trail. A similar restructuring policy followed for mining, banking, construction and telecommunication companies.

At the same time a specific policy to go out and secure energy supplies taken by the CCP or more specifically the National Development and Reform Commission (NDRC) saw major Chinese state oil companies step up equity investment and takeovers of a number of small and medium sized oil companies worldwide. Key to this was a coordinated approach which included the simultaneous use of political, military, and financial levers of power to fast track relations between Beijing and the targeted countries and regions of their oil companies.

For example, the formation of the Shanghai Cooperation Organisation (SCO) includes energy producing nations which are high priority targets for Chinese oil companies in Central Asia. Similarly in Africa and the Middle East the FOCAC and the China-Arab Consultative Forum (CACF) established in early 2004, provide the political muscle to support and steer the acquisition programmes of large Chinese companies in general.

In a sense what Chinese leaders are developing is an integrated independent energy and security model that will insulate and protect their import of energy resources from the source to final destination. For example, the new PRC approach is a contractual one, but based on strong diplomacy and lobbying efforts, in order to achieve rights of exploration and acquisition of crude, based on long term, stable agreements. The diplomatic effort is supported by institutions such as FOCAC and the China-Africa Business Council.

It is most demonstrably seen in places like Sudan where in obtaining oil at source, Chinese companies either a) buy and exploit concessions with the assistance of local security or Chinese military (PLA) personnel, or b) enter into long-term purchase agreements with the host country for guaranteed supplies, according to one source in the China Institute of Contemporary International Relations (CICIR), for as long as 20 to 25 years, backed by a panoply of political and financial inducements. This has to do with "locking in supplies" to the China mainland and is evident in places like Gabon.

The transport of oil will be done preferably via Chinese built, maintained and controlled oil pipelines to Chinese built or maintained refineries, or on to ports which will enjoy some sort of security agreement with the Chinese navy (PLAN). Loaded onto Chinese ships (very large cargo carriers), the oil will travel under close surveillance by the Chinese navy, especially through potential choke-points which in time of war constitute a real threat to the movement of shipping.

Ports of call being probed for possible regular stops or leased bases in Africa for Chinese ships include at least two points of anchorage in Madagascar (Majunga, Antongil Bay), Dar es Salaam, Maputo and Beira, Port Said, Walvis Bay, Simonstown, Massawa and Dahlak Kebir archipelago (Eritrea), Flamingo Bay (Sudan) and Algiers and Annaba (Algeria). Discussions on this led to the visit of Chinese Defence Minister Cao Gangchuan to Cairo and Dar es Salam in April 2006.

Consequently, China's growing energy investments in Africa will be followed by heightened naval activity around its coastline, and the deployment of an increasing number of civilian and military personnel in Africa, already obvious in China's growing role in African peace-keeping missions. It is also being followed by other Chinese non-oil companies and growing numbers of Chinese diplomatic personnel – many economic intelligence officials placed their by the Ministry of Commerce (MOFCOM) and the MSS. [See Chapter 6]

5.1. The View on Africa

Underpinning China's entry into the African energy and telecommunications sectors specifically has been a calculated effort to forge close economic alliances with local state owned entities (SOEs). By doing so, China has been able to move closer to the political elites which dominate the decision-making process of such SOE's, and in turn are able to influence broader strategic decisions pertaining to the development of the local energy and telecoms sectors.

For example, an emerging pattern of China's expanding energy search in Africa is that it has made an effort to work closely with African-based national oil companies (NOCs), larger (non-Western) NOCs and international oil companies (IOCs), as well as private niche companies that while low on technical capacity have high levels of political influence. This has been done to:

- Fast track political networking
- Access new energy markets
- Undermine Taiwan's influence in Africa

- Access new technologies

Alliances between state companies are invariably based upon bilateral arrangements underpinned by aid, and to marriages of convenience between minnows and majors – each trading political connections for capital, technical expertise and legitimacy.

This entry strategy at state level is evident in a number of countries, most notably Algeria, Angola, Chad, Congo-Brazzaville, Niger, Nigeria, Mauritania, and Sudan. The equation is simple: African SOEs and especially national oil companies (NOCs) are highly politicized entities enjoying close links to the ruling elites. Examples of these include Sonangol (Angola), Sonatrach (Algeria), Nigeria National Petroleum Industry (Nigeria) and Sudapet (Sudan). While Western oil companies are reluctant to consider economic engagement with NOCs, Chinese companies take an opposite view, where they are viewed as vital conveyer belts to piggy-back their way into the corridors of power. Careful not to be seen as an "exploiter" of such oil, China, for example, stresses that its increased presence will always result in new opportunities for local petroleum firms. This is most obvious, for example, in Angola with the formation of Sonangol-Sinopec International (SSI) in 2004, and in Nigeria.

As the scramble for energy in Africa intensifies, the game becomes more complex. Where access to state NOCs are not possible, Chinese oil companies have resorted to a “Trojan Horse’s” entryist strategy into Africa, hiding behind ostensibly new and little-known players who enjoy considerable political clout in sensitive energy rich regions on the continent. Some notable examples include the roles played by Energem Resources, Cliveden Oil and several Nigerian oil companies, in opening doors to sensitive but potentially oil rich areas in Africa with whom China had poor diplomatic relations with.

A similar policy has been followed in the telecommunications field where Chinese telecommunications companies have worked closely with their African state counterparts in various joint ventures to fast-track access into local markets.

5.2. Subsidizing Business Risk in Africa

Sitting on a foreign reserve war chest of over US2 trillion – the largest in the world - China is also able to offer generous aid and loans to African countries, using it as a lever to win energy and other contracts. The most notable was the US$2 billion loan made to Angola in April 2004 and topped up by another US$3 billion in 2006. This paved the way for Sinopec’s entry into Angola’s oil industry in a significant way – although in more recent years, Sinopec has suffered some economic setbacks in the country. Another example, is the US$9 billion loan to the DRC made in 2008 which remains the subject of controversy where in exchange for China’s involvement in infrastructure development, Chinese companies will have access to massive tracts of mineral concessions.

For Western companies operating in Africa, the Chinese factor is set to weigh heavily on future investment decisions. In simple terms they do not have adequate response mechanism in dealing with China’s holistic approach in accessing energy and mineral resources in competitively tight markets and therefore face a continual threat of being blind-sided by an increasingly finely honed Chinese resource acquisition strategy. China’s integrated approach towards foreign investments in places like Africa allow Chinese companies to enjoy lower political and economic risk entry levels to that faced by Western companies, because the Chinese risk matrix underpinning the way it conducts business is fundamentally different to that held by Western companies, especially in the energy field.

For example, Western oil companies are primarily driven by profit not by their respective country's national security considerations. Chinese state oil companies on the other hand are geared towards the acquisition of oil supplies for the Chinese economy, not the open market. Western companies are accountable to their share-holders, Chinese companies are accountable to the state - more specifically the Chinese Communist Party (CCP). Western companies are essentially on their own in making investment pitches in African countries. Chinese companies enter a market with the full institutional backing of the state covering financial resources, diplomacy, trade and development projects, and security and intelligence assistance.

In simple terms, China is becoming adept at putting together multi-tiered investment packages backed by the state and offering multiple benefits to host countries which Western companies can simply not emulate. For example, in July 2006, CNPC obtained four oil blocks (two in the Lake Chad Basin and two in the Niger Delta) in return for its willingness to invest in the construction of a 1 000 MW capacity hydropower plant in Mambila (now pushed to 3 000 MW), Plateau State, as well as taking up a controlling stake in the 110 000 barrels per day (bpd) Kaduna refinery for US$4 billion.

Consequently, problems associated with political risk for Chinese companies investing in Africa is significantly offset by the willingness of the Chinese government to invest considerable “diplomatic and political capital” in boosting Africa's influence and prestige in global forums. Such political agreements or understandings underpin the existence of a special dispensation enjoyed by Chinese companies in African countries. In addition, Chinese investments are invariably backed by cheap government institutional financial instruments whether in the form of soft loans and insurance, as well as a host of value added development projects and regional and intercontinental organizational support groups such as FOCAC, the China-Africa Business Council and a growing number of local Chinese “friendship” and “business” associated chapters – that all give political muscle to the protection of investment decisions.

This all amounts to ring fencing investment projects from political risk and open market competition not enjoyed by Western investors, and fast tracking the entry of Chinese companies into previously tight markets. It also allows Chinese companies to tolerate higher risk thresholds than their Western counterparts, and invest in areas off-limits to Western companies that will stabilize later i.e. Sudan. By the time stability emerges, China is already well entrenched in the local economies.

Massive loans provided by China's Export-Import Bank (China Exim Bank) form the foundation of China's commercial engagement. Government support for Exim Bank ensures that Chinese companies can conclude high-risk contracts and have longer grace periods than their Western competitors to show a profit. [See Chapter 11]

According to a three-year plan for China's oil and gas industry made by the National Energy Administration, China is considering setting up a fund to support firms in their pursuit of foreign mergers and acquisitions. The plan was submitted at the National Work Conference on Energy held in Beijing in February 2009. This provides a further indication of how China will use state finances to underpin global acquisitions abroad.

Long-term planning, backed by guaranteed state support therefore provides a solid backing for Chinese entrepreneurs in challenging African markets. Short-term losses can be ignored, while the strategic plan and state backing is in place since EXIM Bank is answerable to China's leadership and not to the concerns of stakeholders. State-owned banks provide guaranteed loans and guaranteed political support for Chinese initiatives.

Chinese corporations which link their commercial objectives to China's national interest have a business model which can withstand the rigours of the African market. At a time when Western companies are increasingly short-term focused and risk-averse, China is able to support its corporate advance in Africa, opening the way for a strong Sino-African dependency.

6. THE ROLE OF CHINESE INSTITUTIONS IN THE ACQUISITION OF BUSINESS INTELLIGENCE

A discussion on China's business entry into the African continent is incomplete without taking into account the covert role played by that country's intelligence organs in serving the economic interests of the state. Unlike Western corporations which predominantly pursue strategic business decisions, independently of state intelligence structures, major Chinese companies enjoy a close interlock with the intelligence community through appropriate channels of authority and individuals sitting in strategic management positions.

Part of the state's national economic planning needs require a clear understanding of the strategies, business and production plans, marketing strategies and pricing formulas of global competitors. Given that Chinese companies work in tandem with the state's economic and developmental strategic plans, such information is a necessary requirement to ensure proper alignment of companies with the state's economic objectives.

Consequently, linked to China's growing energy and resource acquisition arrangements with African countries and regional organisations has been its ever growing intelligence operations coinciding with an increasing presence of Chinese intelligence personnel on the continent. Leading the charge has been the Ministry of State Security or Guoanbu, the PLA's Department of Military Intelligence (DMI) and the all-powerful Ministry of Commerce (MOFCOM - the defacto head of China's economic and business intelligence gathering and evaluation structure in the country. Whole sub-departments fall under these agencies dealing with economic intelligence.

All negotiations with foreign governments and business entities are the subject of ongoing assessments by a number of PRC intelligence structures. The systemized collection of economic information and the institutional memory of the Chinese state is therefore steered, defended and maintained by the intelligence service apparatus directly and through its mandatory presence in all strategic organs of state. This includes most significantly the oil, coal and steel sectors.

6.1. The Ministry of State Security

The National Security Ministry better known as the Ministry of State Security (MSS), is the country's single most important strategic intelligence service, enjoying both an internal and external function. It works heavily in the industrial intelligence field as spy/counter spy/analyst/researcher/operative, through its Second Bureau, Eighth Bureau Economic Office, 10th Bureau of Science and Technology, and the infamous Technical Department (*Jishubu*), which spends a considerable resources on spying and monitoring foreign businessmen.

Guoanbu's Director, Security Minister and master spy Geng Huishang, is an expert in economic/business/trade intelligence, protection and penetration of business secrets, patents, and also of American and European politico-military affairs.

The new PRC intelligence chief - General Huichang (on left).

The *Guoanbu* also specializes in determining the strategic environment in selected countries which may be the target of China's commercial interests or the source of contractors working on Chinese contracts, by scrutinizing decision-makers, statistics, media, and by the deployment of strong human intelligence (HUMINT) and signals intelligence (SIGINT) assets, whenever needed.

6.2. The Intelligence Role of Mofcom

The Ministry of Commerce (Mofcom) also plays a critical role and boasts some of the world's top economic intelligence gathering units. While it is predominant with regards to the government's formal interface with foreign commercial interest groups, it also has sub-intelligence units dealing with economic information gathering. According to the French publication, Intelligence Online, MOFCOM works closely with the MSS, with key agents from the latter assigned to ministry positions as special staff.

Their mission is to accompany China's massive economic change on the world economic stage by such actions as gaining headway within the World Trade Organization (WTO), negotiating intellectual property agreements, hammering out trade strategy, acquiring new technologies and forming joint ventures with key overseas actors. [See Annexure III.]

Importantly, unlike other countries, the dividing line between state and private enterprise is deliberately blurred, with individuals wearing many hats. A Chinese business leader may head a Chinese company with state share-holding. He may also report to MOFCOM and be a member of the MSS or some other high ranking CCP official working in one of the multitude of research organisations or think-tanks.

To make things more complicated, the MSS also has "allocated" places in this unit, as a suitable cover for travelling abroad on economic missions, attending international conferences and complicated trade negotiations. Chinese "business delegations" are invariably filled with MSS/MOFCOM operatives to provide background intelligence and sum up opposition negotiating positions and provide relevant advice to business officials. This was certainly the case when Chinese oil executives were looking into investing in Sao Tome's offshore oil sector back in 2003/2004 in conjunction with Nigerian oil interests.

This constitutes a major challenge to foreign companies when dealing with Chinese businessmen generally, namely which "hat" is being worn. Is it a business, party official, ministry or security/intelligence label? Similarly discussions with MOFCOM representatives are fundamentally problematic in that they invariably have intelligence connections to China's state security services.

MOFCOM draws its information from in-house commerce ministry services such as the Department of International Trade and Economic Affairs overseen by Assistant Commerce Minister Yi Xiaozhun and headed by the director Sun Yuanjiang, as well as from a host of think tanks and institutes, which have sprung up over the past decade. Among them are the Foreign Trade Research Institute, the National Economic Research Institute of Beijing and the Shanghai Economic Research Institute.

MOFCOM's intelligence experts also work hand in glove with the counter-intelligence unit of the MSS (*Guoanbu*) ministry, and in particular with its Department 17 run by Tian Gengren, as well as with the "Enterprises" office founded in 2000 by Chen Quansheiig.

Some of MOFCOM's economic, business and financial information is processed by the Chinese Communist Party's United Front Work Department (UFWD). The UFWD's 5th Bureau was set up by Hu Deping, son of former leader Hu Yaobang, who is also director of the Chinese Private Economy Research Society.

In the African environment, MOFCOM is increasingly supplying Chinese companies with information relating to trade and investment opportunities in Africa. The economic and commercial sections of Chinese embassies in Africa are also now more active in collecting information to be passed on to Chinese companies. Known as Economic and Commercial Counselor's Offices (ECCO), they normally have well-maintained Web sites reporting local projects with Chinese involvement, and are in close contact with events on the ground.

Additionally, Chinese intelligence agencies and related advanced technology commercial organisations are often linked together through *"guanxi"* (pronounced "gwan-shee") social relationships and connections (i.e. insider knowledge needed for bureaucratic approvals, finding the right person for the job, tips on new opportunities, etc.). Such *guanxi* networks are a fundamental component of modern Chinese intelligence operations and are also related to the "*united front*" approach.

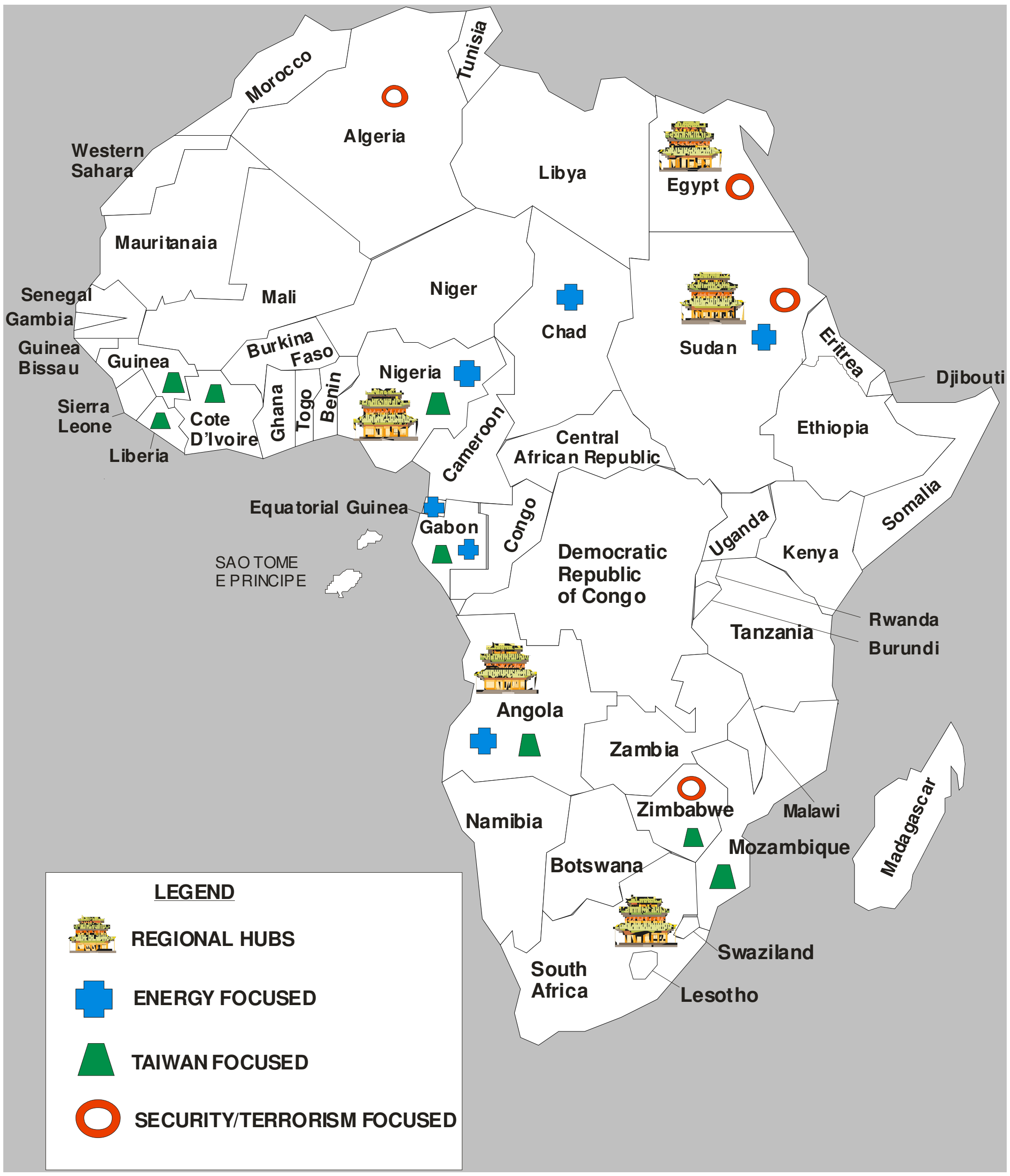
A related concept is *hui guan*, or a place association for those who originated in a common county or village. As the old Chinese saying goes, "one's body might be in a foreign land, but his heart is back in the motherland" (*shen zai caoying xin zai han*). This has far reaching implications when understanding the role played by Chinese expatriates abroad which act as a reservoir for intelligence gathering, local networking and influencing operations. [See below.]

Importantly, the united front approach is reinforced by business, personal, family and factional linkages that often transcend the formal chain-of-command. These unofficial relations reinforce the integrated nature of China's decision-making institutions. Unlike their Western counterparts, Chinese institutions are informally more integrated.

6.3. The MSS in Africa

Countries that have undergone an expansion in Chinese security personnel include Angola (to assist China's entry into the country's energy sector and open back-channels to Sao Tome Principe); Guinea Bissau (to monitor Taiwan's relations with Gambia); Senegal (to monitor Taiwanese activities in Dakar before Senegal switched sides in October 2005), Niger (to monitor Taiwan's relations with Burkino Faso and the movement of Islamic militants possibly linked to the Uighurs from Xinjiang Province); Nigeria (to satisfy China's expanding strategic interest in energy resources and new markets); Sudan (which until the recent peace accords, was used to monitor and provide tactical information of rebel movements across the country, as well as developments in Darfur); Egypt and Algeria (to monitor the movement of Chinese Islamists [Turkestani Uighurs] across North Africa); South Africa (given its strategic locality and importance in the developing world); and Mozambique (given its strategic location on the Indian Ocean and its proximity to Taiwan supported Swaziland).

Higher concentrations of MSS personnel have been a recurring pattern wherever Chinese oil companies make new investment forays into unchartered territory. Some of the highest concentrations of MSS personnel in Africa are found in Egypt, Sudan, Nigeria Angola and South Africa. Of the five, only South Africa and to a lesser extent Egypt is not related directly to oil investments. The increase in MSS's presence in Luanda and Nigeria was geared not just at assisting with Beijing's growing involvement with the local oil industry but also due to their proximity to Taiwan's African allies i.e. Liberia (before switching diplomatic relations in October 2003), Gambia, Burkina Faso and STP. Sudan became the primary launch pad for Beijing's foray into Chad when the latter enjoyed diplomatic relations with Taiwan prior to 2006.



Over the past three to four years, the most successful MSS operations have been in Senegal and Chad, where it played a crucial role pre-positioning Chinese oil companies in the latter, and opening channels to the ruling parties that paved the way for the switch in diplomatic relations from Taipei to Beijing.

Importantly meetings between MSS/Chinese diplomatic officials and their Chadian counterparts often took place outside the target countries to evade detection by Taiwan's security services. The Chinese diplomatic Corp at the United nations (UN) played a pivotal role in this respect.

6.3.1. The Role of Local Embassies

Most PRC embassies in Africa have MSS sections embedded in them, and in some instances ambassadors or charges' are themselves reported to be senior MSS officers (for example Guinea Bissau and Liberia).

The PRC embassy in Pretoria, for example, is very active in collecting information on the South African economy, while another key processing conduit of economic intelligence in the region is the Chinese embassy in Maputo. They also make numerous requests for specific information on economic opportunities in South Africa and for meetings with South African business leaders.

In Harare, members of the MSS detachment were activated in late 2005 to draw up an assessment of growing anti-Chinese sentiment building up in the region over cheap Chinese imports. The MSS suggested in its memo a number of possible solutions to growing opposition to Chinese exports:

- Pledging funds for local development, taken from profits generated by the sale of Chinese products in African countries.
- The continued or renewed support for trade union, farmer and shopkeeper associations in Africa, including invitations for job training programmes, seminars, etc.
- Holding specific seminars for business/economic journalists to promote the Chinese case.
- Promising funds to develop African sectors feeling most threatened by the "Chinese invasion".

West Africa has also become a particularly active region for Chinese intelligence activities. The PRC embassy in Nigeria has been reinforced with additional MSS intelligence personnel, on several occasions in the past few years. The mission serves now as C^3I for intelligence activity towards STP, US interests in the area, as well as the movement of Taiwanese operatives and businessmen in Nigeria and Gabon.

Other PRC missions that have been reinforced by additional personnel are the embassies in Bissau and Guinea Conakry, to monitor developments in Senegal and Gambia. The former Chinese ambassador to Guinea Bissau and current Ambassador to Mozambique, Tian Guangfen, has been identified by French intelligence (DGSE) as a senior MSS operative.

According to sources in the region, the PRC at one stage had as many as 30 specialist MSS agents inside Liberia alone, in the lead up to the presidential elections in October 2005 to detect any possible financial assistance Taiwan might have been rendering to Liberian presidential candidates.

China has also been closely monitoring the situation in Cote d'Ivoire as well as the activities of the Burkina Faso government that is seen to be destabilizing Chinese allies in the region such as Abidjan and Mali.

Intelligence assets, though usually attached to Chinese embassies, are also found in Chinese companies, especially media organisations; so-called fraternal Chinese associations and China's ever-growing number of peace-keeping forces on the continent. Here media outlets such as the New China (Xinhua) news agency plays an important role in this regard with journalists acting as information conduits back to Beijing on a multitude of issues of interest to Chinese leaders. Assets in the Chinese expatriate communities also play a vital role and liaise closely with embassy personnel. .

6.3.2. The Acquisition of Business Intelligence

Business intelligence plays a vital role in guiding China's energy resource acquisition programme. Not surprisingly, Chinese intelligence services are closely linked to major Chinese companies. These include Baosteel, CITIC, CNPC, the PLA aligned China Overseas Shipping Corporation (COSCO), involved in the shipment of raw materials to China; Huawei, ZTE, Merry Glory, Semi-tech, ZMC, etc; and use these companies to collect precious intelligence. This is also relayed via the State Body for Science and Technology (SSTC). Chinese companies are also used as cover for the infiltration of Chinese intelligence assets into targets countries masquerading as employees of these companies. It also provides them with a cover to understand the local environment and interface with local decision-makers to strengthen Chinese political institutions in their diplomatic offensives in such countries. In this respect Chad was a classic example of how Chinese oil companies were in fact the vanguard or the conduits of China's unofficial economic and political engagements with the opposite political numbers in Chad, notwithstanding the latter's political relations with Taiwan pre-2006.

That China is targeting foreign competitors in the energy and natural resources sectors has been lent credence by reports received that Chinese intelligence officials had been gathering information on De Beers Diamonds during the course of 2005 doing exploration work in the Central African Republic (CAR), on behalf of another foreign company in the area.

The line of investigation included enquiries made by the Chinese embassy in Bangui for CVs and background information on in country geologists and managers working De Beers. Sources in the country state that this line of enquiry was known to the Chinese ambassador to Bangui, He Siji. The same Chinese official also tried to obtain certain agreements signed between the CAR government and the prospective mining company.

This once again highlights the symbiotic relationship that exists between Chinese companies, MOFCOM and China's state intelligence apparatus.

The private enquiries that were being conducted by MSS elements in the embassy were reporting directly to a "working group" under one of the company's managers.

6.4. The Role of the Chinese Expatriate Community

The Chinese expatriate community in Africa plays a crucial support role in China's engagement with the continent. Chinese intelligence utilizes the services of Chinese immigrants in foreign countries to gather intelligence. A broad range of professionals, experts, students, businessmen, and others with well-established local contacts in a foreign country can be utilized as information conduits by Chinese intelligence agencies.

Just how many Chinese are in Africa is unknown. Figures range from 500 000 to one million. In 2004, South Africa's Department of Foreign Affairs (DFA) estimated that there may be as many as 250 000 illegal Chinese immigrants in South Africa alone. Large numbers of Chinese businessmen have come to South Africa legally over the last few years and established businesses. The concentration of Chinese businesses in the Bruma Lake area of Johannesburg, for example, is run by a number of Chinese businessmen who are in South Africa legally. However, many Chinese businesses in the rural areas are now run and staffed by illegal Chinese immigrants.

The DFA has become increasingly frustrated by this problem and by the PRC embassy's refusal to take responsibility for illegal Chinese immigrants in South Africa. The PRC Embassy continually maintains that these individuals entered South Africa on their own accord to conduct legal business and are not the responsibility of the Chinese government. The PRC Embassy also argues that Chinese immigrants in South Africa should be considered a positive factor, as they set up new businesses and "create jobs." However, DFA argues that any new jobs created are only for the Chinese businessmen themselves, their family members or other Chinese persons in South Africa.

The Chinese are prevalent in a number of other countries in Africa. In Angola, the Chinese population in Luanda alone is estimated in the region of 80 000 to 100 000. The Chinese embassy in Mauritius estimates that there are 30 000 Chinese expatriates on this tiny island. Government officials in the Ministry of Foreign Trade in Sudan estimate that there are over 16 000 Chinese residents in Khartoum alone with another large concentration in Port Sudan. Nigeria has a large Chinese expatriate community which is active in local economic associations.

Given the nature of the Chinese Communist Party (CCP) and the social dynamics which link Chinese communities together – they offer significant platforms of influence in their respective countries of abode. This is due to:

- There reluctance to assimilate with locals;
- Their loyalty and dependency on China;
- Family members who are left behind;
- The political connections of the communist party whose influence extends far into the reaches of Chinese civil society;
- The debt of gratitude they owe the Chinese government for letting them pursue their business interests overseas; and
- There vulnerability to threats of blackmail, extortion and intimidation against their family members left behind in China should they not be willing to serve the state.

Thus they become a source of information on local business conditions that is fed back to the Chinese government. As one US intelligence official explained: “Wherever there is a Chinese community, the CCP is going to try and infiltrate, if they haven't done so already”.

Local Chinese expatriates are also active in local Chinese business associations and so-called friendship associations to a) leverage Chinese influence in such countries, b) undermine Taiwan’s economic influence in Africa and c) provide a source of information on local economic and business developments. These friendship associations promote constant contacts with the PRC, through trips, seminars or "good will" visits of African and Chinese dignitaries.

Some of these organizations include the following:

- Association for Peaceful Reunification of China (Wang Kebin),
- China Council for Peaceful Reunification (Wang Chengyu)
- Taiwan Straits Peaceful Reunification Association (Liang Su Yung), and
- All China Overseas Chinese Federation (Li Zupei)
- The African-Asian Society (Patron Essop Pahad – former Minister in the South African President’s Office)

One of the main driving forces behind this “active measures” effort has been the All Africa Council for the Promotion of Peaceful Reunification of China (AACPPRC) initially based in South Africa and headed by Donald Wong from Gauteng, the ex-head of the Transvaal Chinese Association, who is said to have been close to former Chinese vice premier Qian Qichen.

The “peaceful reunification of China” strategy first emerged at the AACPPRC’s 7th plenary session that took place in Johannesburg on 19 January 2004. The Johannesburg session was presided over by two veteran Chinese heavyweights: Vice-President of the state run Association of Chinese Friendship, Li Zupei (ex-ambassador to Ghana), and political party veteran Liang Su-Yung, head of TSPRA and ex-parliamentary speaker.

Donald Wong, the head of the Transvaal Chinese Association (and previous head of the Gauteng Chinese Association), took charge of the preparations and logistics, and stated that even when Chinese people no longer speak their languages, they know where they came from, and where “their heart belongs”.

Then PRC ambassador to South Africa, Liu Guijin (now Special Chinese Envoy for Sudan), was also present at this meeting, as were Wang Kebin, head of the African Association of Peaceful Re-Unification, reportedly a senior MSS officer; Zhang Manxin, head of the European section; and Tang Shubei, who supposedly heads a group that deals directly on the question of Taiwanese “sympathisers”.

Other institutions present were the Office of Overseas Chinese Affairs (under the State Council), the Chinese People’s Association for Friendship with Foreign Countries, the “Youth Federation”, the Taiwan Democratic Self-Government League, and members from the Taiwan Affairs Office of the CCP (long time headed by Chen Yunlin, Li Bingcai and Tang Shubei).

6.4.1 The Nigerian Connection

Then come the regional groupings. One of the most influential ones is the West Africa Council for the Promotion of Peaceful Reunification of China (WACPPRC), founded in Lagos on 8 July 2004 and headed by Hong Kong based businessmen Cha Jimin. It supposedly gathers national councils involving all the West African countries. The Lagos meeting on 8 July involved some 200 delegates and invited guests.

Addressing the meeting, Cha Jimin said that the establishment of the WACPPRC "is a bridge linking the Chinese people in west Africa and other parts of the world to strengthen friendship between them and further expand exchanges in the fields of economy, trade, sciences and technology and culture."

In his address to the meeting, Wang Changyu, deputy secretary general of the China Council for the Promotion of Peaceful National Reunification, said the establishment of the WACPPRC "will surely play an important role in enhancing unity and great union among the Chinese people and carry forward the global movement to oppose the 'independence of Taiwan' and promote the peaceful reunification of China."

Local managers of Chinese multi-national firms were appointed as "chapter heads" of such regional entities. This is the case of electronics enterprises like Xeon (important in Nigeria), ZTE or Huawei, banks or general trade firms.

Finally, there are the national and local councils and chapters of this greater superstructure, corresponding to countries and provinces. The most active on the continent is the Nigerian China Friendship Association (NICAF) headed by VN Chibundu. Such friendship societies serve multiple roles:

- Targeted influencing of local politicians and businessman;
- Political and economic intelligence gathering; and
- Chinese cultural indoctrination programmes.

Importantly, most of these groupings are directly linked to PRC intelligence officers (specifically MSS), in order to detect Taipei's diplomatic and economic movements on the continent and to promote intelligence gathering – within wider circles many times by involuntary sources - among larger crowds of residents, nationals or expatriates. There have also been reports that Chinese nationals have been encouraged to organise themselves into informal intelligence organisations to serve Chinese interests.

To date about 170 similar chapter organizations have been established in more than 80 countries and regions to promote peaceful reunification of the Chinese mainland and Taiwan.

7. CHINA'S ENERGY FOOTPRINT IN AFRICA

In the space of just a few short years, China has quickly entrenched itself as one of the most active foreign energy players on the African continent. This has to do with the search for more secure oil supplies in the face of static if not declining domestic oil production. While Chinese companies lack technical capacity to tackle ultra-deep oil exploration projects, strategic alliances with companies such as Chevron-Texaco, Petrobras and Total SA in places like West Africa, will assist in accessing new drilling techniques.

Until 2000, China's presence in Africa's oil industry was confined to just Sudan where the state owned China National Petroleum Corporation (CNPC) has been a major stake-holder in the Greater Nile Oil Project Company (GNOPC) alongside Sudan's Sudapet, Malaysia's Petronas and the Indian Oil and Natural Gas Corporation (ONGC) Videsh since 1997. Today Chinese oil companies are operating in nearly 20 African countries in both the upstream and downstream sectors, and pose a significant strategic and economic challenge to both established majors and smaller independents, which for many years enjoyed unparalleled ascendancy in the continent's energy sector.

China's Energy Footprint in Africa – 2000

7.1. The 9/11 Crisis

China's burgeoning oil demand and the 2001 9/11 Trade Centre catastrophe triggered the country's energy policy-makers to decrease its reliance on Middle-Eastern supplies, at the time the source of nearly 60 percent of its oil imports. Security of energy supplies is uppermost in the strategic planning of China's policy-makers, according to Manouchehr Takin, a senior analyst at the London-based Centre for Global Energy Studies (CGES). **[AFP, Paris, 2 February 2004.]**

Consequently, China moved quickly to develop "secure" overseas oil resources (sometimes called "reserve transitional markets"), in such diverse places as Peru, Canada, Venezuela, Thailand, Kuwait, Central Asia, Russia, Sudan, Angola, Niger, Nigeria, Sao Tome Principe and Equatorial Guinea. Some of the "brains" behind this drive was visionary oil engineer Qin Anmin, president of the CNPC subsidiary China Petroleum Engineering Construction Enterprise Group (CPECEG), and Tan Zhuzhou, head of the China Petroleum Commerce and Industry Association (CPCIA) and honorary Chairman of Kunshan Dikun Fine Chemicals Ltd, among others.

In April 2004, many deputies and members of China's National People's Congress (NPC) and in sessions held by the Chinese People's Political Consultative Conference (CPPCC), called for the early enactment of new legislation to secure reliable oil supplies and the more effective exploitation of the country's oil resources. In a sense this was echoing and rubber-stamping the earlier sentiments expressed by the CPC`s strategic policy making organs.

According to Yang Qing from the Energy Research Institute of the Chinese State Development Planning Commission, the country's oil industry is being reformed: "The issue of oil security is related to both the market for oil and the stability of oil supplies. Overall, it's a matter of structural reform." **[Peoples Daily, "Oil Security: A top Priority for China", 1 May 2004.]**

Consequently, Chinese firms have not only been tapping more domestic oil sources but have also been energetically pursuing a "go-out" strategy, looking for new and stable sources of oil in the international market. Importantly, there is a calculated move to segment out oil supplies from the open market – a development lost on free trade proponents

7.2. The Rush for Africa

A reprioritization of its energy supply sources, has seen China aggressively enter the offshore oil industry in heavyweight oil producing African countries such as Angola and Nigeria, venture into high risk areas such as Chad, Sudan, Mauritania, Niger and Equatorial Guinea, and looking for new exploration opportunities in Ethiopia, Kenya, Madagascar and Uganda. Establishing joint ventures with local state owned oil companies is another facet of Chinese engagement to remain strategically close to political decision-makers in the energy arena. This has been evident with joint ventures established with Sudapet (Sudan), Sonatrach (Algeria), Sonangol (Angola) and the Nigerian National Petroleum Corporation (Nigeria).

Leading the charge into Africa has been the China national petroleum Corporation (CNPC), China National Offshore Oil Corporation (CNOOC) and Sinopec, backed by an array of affiliated groupings including China National Oil and Gas Exploration and Development Corp (CNODC), PetroChina, BGP International, and the China Petroleum Engineering & Construction Group (CPECC). They have gone head to head with the world's largest oil majors in securing oil reserves in offshore deepwater blocks in countries like Angola and Nigeria. On 9 January 2006, the Chinese oil company, CNOOC Ltd, announced a US$2,3 billion purchase of a 45 percent stake in Nigeria's OML 130 deepwater oilfield. This was CNOOC's first venture into Africa and the single largest Chinese investment made on the continent at the time. A few months later, Sinopec beat off global competitors to lay claim to oil rich offshore deepwater prospecting blocks in Angola in deals worth US$2,4 billion.

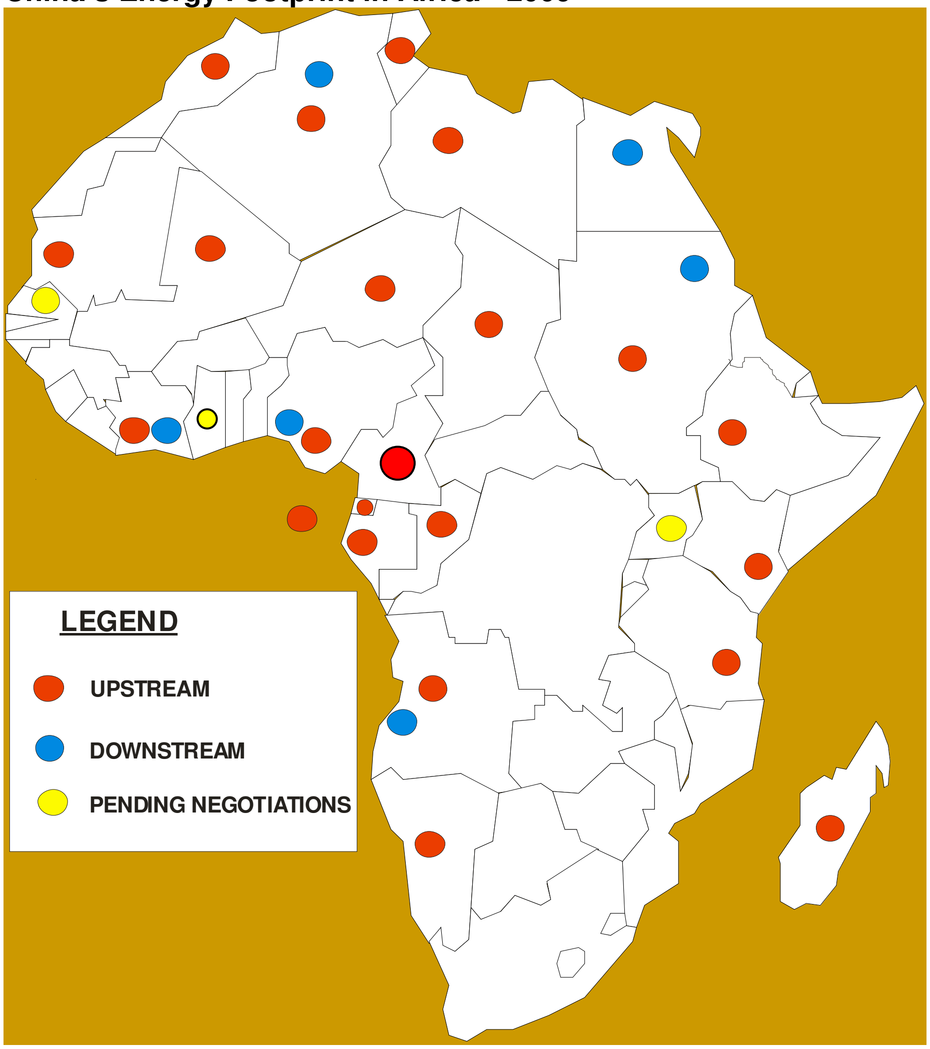
A turning point for China's oil acquisition programme in Africa came in 2000, when over the period from January to May 2000, China's oil imports from Africa rocketed to 307 000 bpd, an increase of 174 percent over the previous year's figures of 132 000 bpd. The largest country exporter of crude to China was Angola with 174 000 bpd up from a mere 43 000 bpd the year before. Next was Sudan at 43 000 bpd from zero the previous year, followed by Congo Brazzaville at 19 000 bpd, also from zero the previous year.

In 2001/2002 Chinese oil companies aggressively branched out across Africa with its sites firmly set on north-west Africa/Maghreb region and the Gulf of Guinea. CNPC along with its partially privatized affiliate PetroChina and its engineering arm CPECC moved into Algeria, Libya, Niger, Morocco and Chad despite the latter's diplomatic relations with Taiwan. Later it moved into Mauritania and Mali while its sister rival, Sinopec, moved into Algeria, Angola, Egypt, Gabon and Nigeria.

In both instances vital strategic considerations were at stake. China's move into North Africa was linked to security concerns related to tracking the movements and activities of Uighur Islamic extremists from its Xinjiang Province. Security cooperation agreements were put in place with countries like Algeria and Niger to fight global terrorism, or more specifically Salafist elements operating in the region, and thought to be collaborating with Uighur elements in China. Securing the use of ports for the use by Chinese naval warships has been another component of China's economic and diplomatic thrust into the region. These include the use of ports in Algeria, Egypt and Tunisia.

Like the US, China also saw the Gulf of Guinea as an important source of crude as well as other natural resources such as bauxite and timber, from countries whose oil output is set to increase for the next decade at least. This in turn has heightened Chinese military concerns in securing Sea Lanes of Communications (SLOCs) in the region to protect tankers plying the oil routes to feed the Chinese economy. Consequently, military agreements have been reached with a number of countries in the region related mainly to naval defence cooperation including Sierre-Leone, Nigeria (coastal defence), Cameroon, Equatorial Guinea and Angola.

China's Energy Footprint in Africa - 2009



Nigeria was seen as an important prize in securing a foothold in the Gulf of Guinea, although perhaps not the most important given the established position of existing Western oil majors. So China shifted its focus to Angola, not considered so firmly set in Washington's orbit, and emerging potential areas such as Chad, Equatorial Guinea, Niger and Sao Tome and Principe (STP). Leading the charge here has been Sinopec - China's second largest oil company and largest refiner of petroleum products – and more recently the China National Offshore Oil Corporation (CNOOC) specializing in deep sea oil extraction activities. However, recent setbacks in Angola have seen China re-engage more strongly with Nigeria.

In Equatorial Guinea, where US groups dominate a surging oil business, China provided a package of military training and specialists as the precursor to getting entrenched in the country's oil industry. After a visit to Beijing in October 2005, President Teodoro Obiang Nguema, described China as its main developmental partner.

By 2004, China imported 28,7 percent of its oil requirements from Africa – some 35 million tons. Today this figure is nearer 31 percent.

SOURCES OF CHINA'S OIL IMPORTS [1999-2004] (10 000 TONS)

Region	1999	2000	2001	2002	2003	2004	03-04 Growth Rate %	Ratio %
Mid-east	1,690	3,765	3,386	3,439	4,636	5,578	20,3	45,4
Africa	724	1,694	1,354	1,579	2,218	3,530	59,1	28,7
Asia-Pacific	683	1,061	868	1,185	1,385	1,416	2,2	11,5
W Hemisphere	562	505	416	737	872	1,756	101	14,3
Total	3,661	7,026	6,025	6,941	9,112	12,282		100

Source: Paper presented by Wu Lei, professor of International Relations at Yunnan University, Kunmig, China, at the China-Arab Cooperation Forum (CACF) in Beijing on December 12-13, 2005.

Chinese state owned energy companies are therefore in effect becoming the new torch-bearers of Chinese foreign policy in places like Africa, where the delineation between business and political considerations are kept deliberately blurred to keep competitor's second guessing Beijing's plans for a more assertive pursuit of new energy sources and political influence. Regions such as West and North Africa are likely to see growing tensions between global powers such as China, France and the US which have both identified the continent as a potentially viable, more stable source of critically needed energy sources.

Importantly, however, China's oil trade with Africa has taken place off a very low base. China's oil companies are relative latecomers to petroleum exploration and production in Africa. Thus, the US$10,6 billion of Chinese oil sector investments recorded above are barely a tenth of the US$168 billion that other international oil companies have already invested in the region.

Yet China's current wave of investment in Africa's oil sector include some of the largest projects on the continent, this despite the crippling world recession. While the collapse in the equity value of corporate shareholdings on the world's bourses has postponed or halted new investment projects by Western companies, it has heightened China's predatory instinct to buy-out vulnerable resource rich foreign companies at bargain basement prices to increase its lock on global resources. The most well known attempt was Chinalco's recent US$19,5 billion pitch to double its shareholding in Rio Tinto – the world's second largest mining company – from 9,5 to 18 percent. Though this failed, there will be other attempts.

According to a recent report in the China Daily, CNPC Chairman Jiang Jiemin said the company was studying the feasibility of acquiring overseas resource companies badly affected by the global financial crisis: "The present low share prices of some global resources companies offer good opportunities for us". For example, on 17 April 2009, CNPC signed a deal to lend US$5 billon to Kazakhstan's KazMunaiGaz EP for the joint purchase of MangistauMunaiGaz, one of the largest among the Kazakh oil producing associations.
Not be outdone, Sinopec made a US$7,2 pitch for the Swiss oil company Addex which enjoys oil holdings in West Africa and the Kurdistan region of Iraq. PetroChina, has

pledged to increase investments in oil and gas from 60 to 70 percent in 2009 – though information has not yet been released on the share for Africa.

CNPC, Sinopec, CNOOC and Petro-China are all in the process of gearing up there investment profile in Africa. For example, in early June 2009, CNPC signed another US$5 billion contract with Niger's government to develop the large Agadem field said to hold more than 300 million barrels of oil. This excludes mooted plans to build a 2500km pipeline at an additional cost of US$5 –US$ 7 billion to pipe the oil to southern Benin. **[AEI, No 607, 24 June 2009].**

Very recently, reports have been received that CNOOC is in discussions with the Nigerian government to purchase nearly 30 percent of Nigeria's known reserves for oil or 6 billion barrels. This will be done via the purchase and development of oil fields in the country where Nigeria is current in the process of putting 14 oil blocks out for tender. Nigerian authorities have refused to comment on these rumours.

7.3. The New Challenge

The problem for Western oil majors - now reeling from falling oil prices, inventory stocks and depleted capital stocks to pursue new investment opportunities – is that their state backed Chinese oil counterparts are reaping the benefits of an aggressive global outreach agenda by a political leadership, determined to challenge Western hegemony in the developing world.

They are being assisted by a newly emerging assertive neo-nationalism in the developing world that wants greater control over their energy production and supplies. First casualty of this are Western IOCs i.e. in places like Venezuela and more recently Brazil, determined to monopolise total production from its massive new offshore oil find in the South Atlantic Ocean.

Additionally, transparency and corporate governance issues undermine the West's ability to compete effectively with Chinese corporations.

Consequently, traditional Western oil and gas interests are set to come under increasing threat from China as global markets expand.

7.4. Some Country Case Studies

Angola 

Over just a few years, China has become Angola's most important economic partner in the world, shunting aside its more traditional partners with long-standing energy interests such as France, Brazil, Portugal, United Kingdom and the US.

After the decision was made to target West Africa as both a strategic and energy node in the developing world, China aggressively sought to woo the Angolan leadership. An important turning point was the May 2000 trip to Beijing by Angolan Defence Minister Kundy Payhama. He heard from a Chinese general that his country viewed Angola as a strategic imperative to secure "Sea Lanes of Communications (SLOCs)". SLOCs concern China's strategic focus on protecting its ability to access oil from oil producing regions like the Persian Gulf and West Africa, via access to a string of naval berthing points straddling the oil routes for use by its expanding deepwater fleet.

The next step was to secure a foothold in the Angolan oil industry. The Chinese leadership viewed Angola as a "truly independent provider", more so than Nigeria, and one whose leadership is not beholden to Western interests as closely as was the case of Lagos. Not surprisingly, China has aggressively engaged Angola on a wide range of energy cooperation projects.

Enter Sinopec

Sinopec led the way, first in purchasing ever larger amounts of oil and then becoming involved in various upstream and downstream projects. In 1999, Angolan oil exports to China were a mere 43 000 bpd. Coinciding with Kundy Payhama visit the following year, Angola's exports surged to 174 000 bpd in 2000. In the first six months of 2006, exports had risen to over 500 000 bpd, accounting for over 18 percent of China's total oil imports.

A turning point in Angolan-Chinese oil relations took place with the visit of Sonangol's Manuel Vicente to Beijing in early 2004 which was focused on steps to enlarge the Chinese stake in Angola's upstream and downstream sectors. Discussions included Sinopec's possible participation in the proposed Lobito oil refinery set to produce 240 000 bpd of refined petroleum products.

Importantly, these talks were held at the time negotiations were underway on China's US$2 billion concession loan to Angola – the largest raised to date by Luanda, and by the fact that in 2003, Angola had become the third largest source of China's oil imports. The extension of the loan in March 2004 from the China Exim-Bank intended for mainly infrastructure projects in Angola, entrenched China's oil interests in the country further. This was topped up by another US$1 billion disbursement in March 2006 and a further US$2 billion in June 2006 – signed off in September 2007. [See Chapter ?] .

Sinopec's entry into Angola was further assisted by growing tensions with the US and the IMF on good governance issues and the French over the Pierre Falcone affair which had revealed embarrassing revelations of financial improprieties involving Luanda's political elite. The ousting of Total SA from a portion of Block 3 (Block3/80) in late 2004 in retaliation for French intransigence on the Falcone affair made way for Sinopec to enter the Angolan offshore industry in February 2005. A new entity was formed known as China-Angola Petroleum, (now known as Sonangol-Sinopec International) which comprises Sonangol, Sinopec and United Petroleum & Chemicals Co Ltd. (Unipec), Sinopec's multi-purpose petroleum and trading arm.

2004 saw China's engagement with the Angolan oil sector quicken:

- Sinopec eased out India's ONGC-Vindesh to acquire Shell Oil's 50 percent stake in Block 18, operated by BP-Amoco. Sinopec's successful buy-out was linked to two reasons: a) negotiations at the time around the US$2 billion Chinese loan and b) the company positioning itself to take up a stake in the proposed Lobito oil refinery.

- In March 2004 – the delivery of 10 000 bpd of crude oil was tied to a US$2 billion Chinese loan to Angola to be repaid over 17 years at 1, 5 percent interest.
- In late 2004, via the intervention of the Portuguese/Angolan Escom International, a

joint venture was established between the Chinese Hong Kong based group Beiya International Development Company and Sonangol in the form of the China-Sonangol International Holdings (CSIH) based in Hong-Kong. Part of its work will be to assist in training up Sonangol oil technicians in return for paving China's entry into Sao Tome Principe's potentially lucrative oil market.

The Visit by Premier Zeng Peiyan

However, the visit to Angola by the Chinese Vice Premier Zeng Peiyan in February 2005 concretised the China-Angola relationship. He met with President Joao Dos Santos and Angolan Prime Minister Fernando da Piedade Dias dos Santos "Nando". Other ranking Chinese officials who accompanied the Vice Premier were the influential Wang Yang, Departmental Secretary, State Council; Deputy Minister of Trade Wei Jianguo; Zhang Guobao, Minister in the National Development Commission (who dealt with the strategic angle of Gulf of Guinea oil exploration); Cai Xiyou, Vice-President of Sinopec and a number of ranking officials from the Defence and Foreign ministries.

Other Angolan officials involved in the discussions with the Chinese included Kundy Paihama (Defence), Aguinaldo Jaime (then Deputy Prime Minister), José Pedro Morais (Finance), Chairman for Reconstruction General Helder Viera "Kopelipa", Manuel Vicente of Sonangol, the Minister of Mines, etc.

A total of nine cooperation accords were signed in Luanda at the end of the talks. Five were inter-governmental ones and four at business level. Oil was the main theme of agreements reached and covered the following:

- Energy, mining and infrastructure;
- The establishment of a cooperation commission;
- Technical cooperation that included a new loan from the Chinese Government to Angola, of US$ 6,3 million;
- Cooperation between the ministries of Oil, Geology and Mining of Angola and China National Commission on Development and Reform;
- Angola's Sonangol to supply oil to its Chinese Counterpart, Sinopec;
- Two memorandums of understanding linked to a joint study on the oil exploration of Angola's Block 3/05 (formerly Block 3/80), between Sonangol and Sinopec and another one on the joint exploration of the country's new oil refinery; and
- A new telephone network cooperation contract between the Chinese group ZTE Corporation International and the Angolan firm Mundostartel, estimated at US$69 million;

Other significant Chinese developments in this sector have included the following:

February 2006: Angola became China's main oil supplier, beating Saudi Arabia to cover 13 percent of its total imports. According to Swiss-based Petromatrix gmbh(PG), China imported 2,12 million tons of crude from Angola that month compared to 1,98 million tons from the Arab country.

March 2006: China and Angola announced the establishment of a joint venture between Sonangref and Sinopec to build the much discussed US$3,4 billion oil refinery in Lobito with a capacity of upwards to 240 000 barrels per day. After years of disinterest by potential foreign investors who felt that it was a marginal project, rising oil prices and the sudden shortage of refined oil products saw China step into the breach.

April 2006: Angola overtakes Saudi Arabia in becoming the largest single supplier of crude oil to China – some 456 000 bpd.

June 2006: SSI acquired massive stakes in offshore Blocks 15, 17 and 18 at a total cost of US$2,2 billion. The three blocks have total proven reserves of 3,2 billion barrels of oil and were expected to boost oil production for Sinopec by 100 000 bpd after they come on stream in 2007. Beating off industry heavyweights such as BP-Amoco and Total SA, SSI acquired stakes of 27,5 percent, 40 percent and 20 percent in the off-shore blocks respectively. Sinopec holds a 55 percent stake in the SSI joint venture. This acquisition is linked to the supply of oil to the planned Lobito refinery.

March 2007: China suffers a major setback when Sonangol announced in March 2007 that the Lobito deal with Sinopec was no longer on. According to Angolan sources, the Chinese wanted to set up the plant to produce fuels and products that were solely adapted for the Chinese market. Sonangol refused to accept this condition and rather pulled out of negotiations than accept the construction of a Chinese' refinery. Vicente summed it up when he stated that: "We can not make an oil refinery solely to produce for China".

> Some Sinopec state that US pressure was behind Sonangol's decision. However, the real truth is that Sonangol took a "business decision" based on the fact that it wanted maximum flexibility to sell its products to markets of its choice.
>
> The collapse of the Sonaref deal constituted China's first major set-back in the Africa energy market, in terms of time, money and diplomatic effort spent and in terms of its central strategy to diversify and control its energy requirements at source. However, it will not affect China-Angola relations unduly.

2008: rumours circulate that Sinopec is putting up its share-holding in Blocks 15, 17 and 18 for sale linked to the aborted Lobito refinery deal. However, to date, no sale has taken place.

Gabon 

A key facet of the visit to Gabon by President Hu Jintao in early 2004 was securing an oil import contract worth 1 million tons per year of Total Gabon produced Gabonese oil. This despite Gabon’s declining oil production. The deal signed on 31 January 2004 involved Unipec’s Tang Suxin and the head of Total Gabon, Jacques des Grottes, with provisions built into the contract to increase oil supplies subject to bilateral agreed to revisions. Unipec is the import and export "arm" of China's Sinopec.

One of the key movers behind the oil deal at the time was Total Gabon’s Jacques Marraud des Grottes, a French economist and lawyer in his late fifties considered a "no nonsense" technocrat in oil matters, who helped break months of indecision on finalising the deal. In the past, Des Grottes worked as Elf Aquitane’s oil’s strongman in Nigeria, Angola, Trinidad and Colombia. He was promoted to Director General of Total Gabon in 2001, and currently heads Total Upstream-Nigeria

The significant aspect of this deal was that Gabon would guarantee China 1 million tons of oil per annum, irrespective of the threat of declining oil production faced by Gabon over the next few years, in the absence of new discoveries.

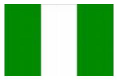
More important, and not noticed in the general media, was a second deal signed between Sinopec and the Gabonese Minister of Energy and Oil, in a ceremony presided over by Gabon’s Oil Minister Richard Onouviet and Chen Tonghai, another rising star in the Chinese oil business and one of the powerful heads of Sinopec.

The deal, covering several areas, was signed as a "private matter of the corporate world of China", just hours after the departure of Hu Jintao on 1 February 2004.

It was essentially a "technical evaluation agreement" that allows the PRC to conduct feasibility studies and technical surveys in three blocks south east and north east of Port Gentil, named LT2000, DT 2000 and GT 2000. It opens the door for PRC exploration in deep and very deep offshore waters, and also in unexplored onshore densely forested areas. It also deals with PRC's participation in refinery and technical training of Gabonese officials and employees and in a way "completes" the Total-Unipec deal, as it also includes provisions for joint actions and projects, including engineering and survey operations. While, there are doubts on China’s capacity to engage in ultra-deepwater survey and exploration work, these technical constraints are being overcome.

Total SA has around 58 to 60 percent of direct company shares of Total Gabon, and is looking for new parties willing to take risks to further open up new oil fields. China is a potentially useful partner given broader shared global outlooks on dealing with the Washington factor. This is evident in joint venture agreements signed between Total an Chinese companies in places like Venezuela.

At the time, assessments made by local analysts were that the Chinese push into Gabon had a lot to due with the expansion of oil exploration underway in neighbouring São Tomé, and Equatorial Guinea’s emergence as potentially the new Kuwait of Africa.

Nigeria 

Nigeria remains one of China's most important strategic partners in Africa and the most important in West Africa. Nigeria's attractiveness to Beijing hinges on several issues:

- Its location in the strategic Gulf of Guinea region.
- Its potentially massive domestic consumer market of 130 million people.
- Its continental and regional influence in institutions such as the African Union (AU), Nepad, Ecowas and Ecomog.
- Most importantly, its massive oil reserves.

China's interest in Nigeria coincided with President Olusegun Obasanjo's "look East policy" which emerged at the beginning of the new millennium in reaction to growing Western influence and intrusion into Nigerian domestic affairs. This decision was the result of complaints that Nigeria was being treated unfairly by Western companies; the 'interventionist' nature of some Western governments; and, an assessment that the global economic and political balance of power was shifting towards the East. At the same time, China's relations with Africa were shifting, from holding a strong ideological bias in support of communist regimes and Marxist insurgencies to being led by market and resource acquisition considerations.

To give substance to his "look East" policy, Obasanjo personally pushed for the purchase of 15 Chinese F-7 aircraft at an estimated cost of US$251 million in September 2005. China in return made noises about Nigeria obtaining a seat on the UN Security Council (UNSC).

According to government sources close to the presidency, President Obasanjo pushed for the arms deal with China because he wanted Nigeria to 'diversify' its relations, as well as to position the country in relation to mooted reforms being discussed for the UNSC. China held the key given its interest in Nigerian oil, and the influence it holds in global forums such as the UN, IMF and World Bank.

Forging Oil Links

One of the earliest known contacts in forging energy links was made in January 2000, when China's then foreign minister, Tang Jiaxuan, led a delegation of government officials to Abuja. Central to the discussions were China's involvement in the oil industry in Nigeria and an increase in defence cooperation. According to reports received at the time, the PRC delegation was pushing for a multi-million dollar contract for their China Geological Engineering Company (CGEC) in Nigeria's petroleum industry.

A year later, the Bureau of Geological Prospecting (BGP), an affiliate of the China National Petroleum Company International (CNPCI) Nigeria Ltd, won tenders for seismic survey work in Igbomarotu (River Nun) and Nembe.

In late February 2003, Nigeria's Vice-President, Atiku Abubakar, received Chen Haozhu, the influential head of the PRC Association for Friendship with Foreign Countries (CPAFFC). Haosu said that China considered Nigeria "a strategic vital partner", and congratulated the Obasanjo dispensation for enlarging the avenues of bilateral ventures, that he expected would grow substantially in the very near future.

Nigeria's growing strategic energy importance to Beijing was underlined during the visit to Nigeria in November 2004 of influential CPC Politburo member, lawmaker, strategist and head of the CPC's National Peoples Congress (NPC), Wu Bangguo. During his stay, he signed several economic agreements that included more oil deals with the Nigerian government.

Wu Bangguo

In his entourage were high-powered members of China's oil industry who had arrived to make a last minute assessment of the oil blocks put out for tender in the Nigerian/Sao Tome and Principe (STP) Joint Development Zone (JDZ). The agreements with Nigerian President Olusegun Obasanjo, covered various industrial areas including oil exploration, which looked at joint ventures between PRC-Nigerian firms in seismic surveys, exploration and the marketing of gas in African countries deemed interesting for both partners, which included STP and Chad.

Support for Nigerian Oil Companies

Indications are that at that at the time, Chinese oil companies like Sinopec and insurance companies like Sinosure, had been given mandates by the Chinese government to support Nigerian oil companies as stalking horses to secure energy resources in sensitive areas like the Nigeria/STP Joint Development Zone (JDZ). For example, Sinopec, reportedly worked with Jagal Ventures, a group owned by Anwar Jarmakani, which controls NigerDocks, the only local oil services yard. Jagal Ventures was one of the companies that made a pitch for oil blocks in the JDZ signature sales, although its name was not amongst those officially made public by the Joint Development Authority (JDA) which administers the JDZ.

Chinese oil companies like Sinopec have also forged good relations with local oil businessmen and government officials linked to the oil industry in the country. One example is the former Nigerian Energy Minister and OPEC President Dr Edmund Daukoru, who was a key Sinopec ally in the Nigerian government. In 2005, CNOOC bought a 45 percent share of South Atlantic Petroleum Inc. (Sapetro) owned by ex-Nigerian general Theophilus Danjuma.

China also ensured aid and development packages went hand in hand with the pursuit of oil concessions in Nigeria. For example, CNPC was awarded four blocks in Nigeria's licensing round in July 2005, after it offered to build a hydropower plant in the Mambila, Plateau State and take a 51 percent stake (US$2 billion) in the 110 000 bpd Kaduna refinery. [See below.]

Since 2004, Chinese petroleum companies have acquired various interests in Nigerian oil production:

- In September 2005, CNPC's subsidiary PetroChina signed an US$800 million agreement with the Nigerian National Petroleum Corporation (NNPC) to import 30 000 barrels per day for five years;

- On 9 January 2006, China National Offshore Oil Corp. (CNOOC) purchased 45 percent of Block ML130 in the Niger Delta, with reserve estimates of 600 million barrels covering about 500 square miles of Akpo Oilfield and other discoveries. The total deal offered by CNOCC was worth US$2,7 billion. Today these fields produce 175 000 bpd for CNOOC;

- Just several months later, CNPC completed the acquisition of a 51 percent stake in the Kaduna refinery for a total consideration of US$2 billion. The refinery was designed to refine 110 000 barrels of oil a day, yet due to lack of maintenance, its actual refinery capacity was only 70 percent of that capacity. Together with this deal, CNPC received the license for four oil blocks—OPL 471, 721, 732 and 298.

- China's aggressive energy purchasing policy was illustrated yet again when in early September 2009, China's largest listed offshore oil and gas producer CNOOC put in an offer to buy six billion barrels of oil - equivalent to one in every six barrels of the proven reserves in Nigeria. While Nigeria's oil authorities say this is unlikely to take place – at a price tag of US$30 billion, it remains a tempting offer. At the time of writing, talks between CNOOC and the Nigerian government were still ongoing.

7.5. Recent Oil Developments

Recent Chinese oil sector developments in Africa include the following:

- Earlier this year it was announced that CNOOC, CNPC and Sinopec were competing to be chosen to lead a bid for an oilfield in Ghana. The sale of an oilfield off the coast of Ghana, the principal asset of unlisted US-based Kosmos Energy, could fetch more than US$3 billion and is expected to attract bids from oil companies around the world. The field is believed to hold oil in excess of 1,2 billion barrels of already proven reserves. The Chinese government will choose one of China's state-owned oil firms to pursue China's bid. However, Chinese authorities denied these rumours.

- In early June 2009, CNPC reportedly signed another US$5 billion contract with Niger's government to develop the large Agadem field said to hold more than 300 million barrels of oil. This excludes mooted plans to build a 2500km pipeline at an additional cost of US$5 –US$ 7 billion to pipe the oil to southern Benin.

- Sinopec will be the first to kick off a drilling programme in the Nigeria-STP Joint Development Zone (JDZ) from the companies awarded blocks in the JDZ's last bidding round a few years ago. The delay in exploration was caused by a shortage of deepwater rigs. Sinopec will spud its first well on Block 2 using Transocean's SEDCO-702 deepwater rig which arrived on site in early July 2009.

- On 16 June it was announced that China's state oil firm Sinopec International Petroleum Exploration and Production Company Nigeria Limited (SIPEC) and the Nigerian Petroleum Development Company (NPDC) have discovered crude oil in Nigeria's conflict ridden Niger Delta region. SIPEC, a subsidiary of Sinopec, and NPDC, the exploration and production arm of the state-run Nigerian National Petroleum Corporation (NNPC), jointly discovered crude in the Oil Mining Lease (OML) 64, also known as Kakaku-1 well.

- During the visit by a 16 person delegation to Uganda in mid-June by the Industrial and Commercial Bank of China (ICBC), President Yoweri Museveni invited the ICBC to participate in the construction of an oil refinery in the country and an oil pipeline to Kenya to move refined oil to the coast. The ICBC owns 20 percent of Standard Bank which in turn owns 80 percent of Uganda's Stanbic Bank.

- The most significant development in recent months is China Petroleum Corporation (Sinopec's) bid to purchase Swiss-based Addax Petroleum for US$7,2 billion – the top independent producer of Nigerian crude. The Addax board has already accepted the offer and it just remains for the Swiss authorities to give its seal of approval to the deal. This acquisition confirms China's commitment to challenge the well established Western corporations in the Nigerian oil market

  Control of Addax Petroleum will give Sinopec a major foothold in West Africa and lay the foundation for a major expansion in the region. Addax has a daily estimated production of over 136 000 bpd and presently controls oil fields in Nigeria, Gabon, Cameroon and northern Iraq. Sinopec's ownership of Addax will allow China to expand without the headache of bidding rounds and negotiations with the various oil and gas regimes in the continent.

- In July this year, CNPC started work on the construction on an oil pipeline in Chad. The 300-km oil pipeline will carry crude from the Koudala field to the Djarmaya refinery. While the cost of the pipeline or its capacity was not disclosed, Deby's office said that the region Koudala field is located in will eventually produce 60,000 bpd of crude. CNPC also began construction of a one million tons per annum capacity refinery in October 2008. The facility is expected to become operational in 2011. CNPC owns a 60 percent stake in the refinery, which aims to supply both the domestic market and neighboring countries, while Chad's state oil company SHT owns the remaining 40 percent.

8. CHINA'S MINING FOOTPRINT IN AFRICA

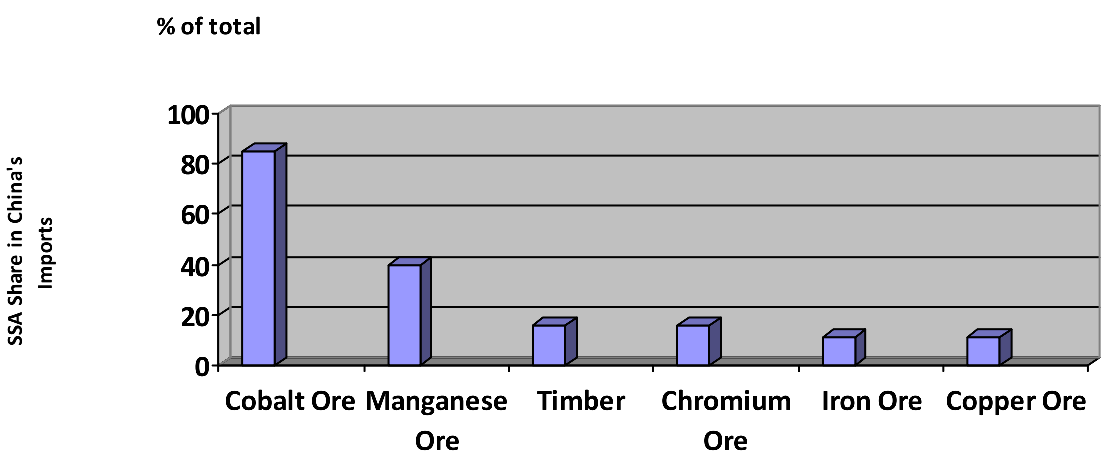
China is now the prime driver of world mineral prices and a number of Africa countries have become key beneficiaries of this process. The country is unable to meet its annual demand for copper, zinc, nickel and a range of other raw materials. Consequently, China now imports US$100 billion worth of base metals every year, consuming more than 25percent of the world's supplies. This includes 30 percent of global zinc output, 25 percent of global lead output and 22 percent of refined copper production. Furthermore, the Chinese economy absorbs 27 percent of the globe's iron and steel and 25 percent of its aluminum output.

In 2003, China passed the United States to become the world's largest copper consumer and by the following year consumed 46 percent more than the United States. In 2006, China announced plans to set up Strategic Mineral Reserve to stockpile uranium, copper, aluminum, iron ore and other minerals. The reserves are critical for providing China with a buffer to adjust to market fluctuations, manage emergencies and guarantee the security of resource supplies.

Africa plays a critical role in the provision of key minerals for the Chinese economy. In the case of minerals, China is almost exclusively reliant on Sub-Saharan Africa for its cobalt imports, and significantly reliant for manganese (the latter primarily from Gabon, South Africa and Ghana). Sub-Saharan Africa is also an important supplier of timber (mainly from Gabon, Republic of Congo, and Cameroon) and chromium (mainly from South Africa, Madagascar, and Sudan), accounting for around one-seventh of China's global imports each. However, with respect to China's imports of iron ore and copper, Sub-Saharan Africa is still a relatively small (but growing) contributor.

China has shown a growing interest in the mining belt of central southern Africa, comprising Zambia, Tanzania, and Mozambique. This area is well endowed with copper, iron, gold, manganese, and other base metals.

Sub-Saharan African share of China's imports of selected natural resources (2001-2008)



Source: **COMTRADE database by the UNSD, data obtained using WITS software – 2007/2008**

Of these three countries, Zambia has the most advanced level of Chinese engagement. China has secured direct equity interests in copper, coal, and manganese reserves. The purchase of an 85 percent stake of Chambishi copper mine for about US$20 million in 1998 was one of China's earliest overseas mining investments. After its reopening in 2003, the mine has seen continuous inflow of more than US$200 million of new investment, including construction of the smelter plants. The mine's production capacity reached 150 000 tons of copper per annum in 2008.

In coal, Chinese Collum Mine at the old Nkandabbwe mine in Sinazongwe district started production in 2003. In 2005, a private Chinese firm purchased a manganese mine with proven deposit of 4 million tons in Zambia's old industrial town of Kabwe.

In 2006, around 27 percent of Zambia's exports of copper were destined for China, compared to 100 percent of manganese.

Politically, China's engagement with Zambia has become a contentious issue. Opposition figure Michael Sata was active in criticizing the growing Chinese presence in the country during the 2006 election campaign, claiming that Chinese investments were exploitative" and that the Chinese should be expelled for mistreating Zambian workers. In reaction, Chinese stakeholders in Zambia tighten their relationship with the ruling party.

While South Africa is a natural port of call for Chinese mining companies, competition is tough in the local mining environment while the country's draconian black economic empowerment (BEE) criteria has made Chinese investors wary of committing large investments into the mining sector – a trend evident with mining companies from other countries, especially Canada.

Therefore, compared to other countries, Chinese fixed capital investment in the mining sector has been comparatively small. However, there are recent indications that Chinese companies are looking more closely at obtaining iron ore deposits in the Northern Cape. For example, Chinese Steel giant Baosteel has obtained a share in the Australian mining company Aquila which has exploration concession areas in the Province. Other Chinese mining companies active in South Africa include: Sinosteel; East Asia Metals Investment (subsidiary of Sinosteel); Jinquan Iron & Steel (Jisco); MinMetals; Zijin Mining and PMG.

8.1. Country Case Studies

Democratic Republic Of Congo

China's intentions in Africa on the mineral extraction front, could not have been made clearer after China announced a US$5 billion loan to the DRC for infrastructure development in September 2007, following up with the signing of another US$3,8 billion for mining investments projects in January 2008. The sheer size of the loan took Western countries by surprise and cemented the perception that China was becoming Africa's most important development partner. Under the terms of the agreement signed by the Minister for Reconstruction, Pierre Lumbi,, the Export-Import Bank of China pledged the nearly US$9 billion loan and finance to build and upgrade the DRC's road (4000 km) and rail system (3200 km) for transportation routes that connect its extractive industries, and to develop and rehabilitate the country's strategic mining sector in return for copper and cobalt concessions. In return, China would gain rights to extract up to 10 million tons of copper and 420 000 tons of cobalt (proven deposits) over a 15 year period, with operations expected to begin in 2013.

The agreement stipulated that only one in five workers can be Chinese. In each of the projects half of one percent of the investment must be spent on transfer of technology and on training Congolese staff. One percent has to be spent on social activities in the region, and three percent to cover environmental costs. Ten to 12 percent of the work has to be subcontracted to Congolese companies.

The DRC National Assembly approved the agreement in May 2008, involving Groupement d'Entreprises Chinoises – a Chinese conglomeration involving China Railway Engineering Corporation (CREC), Sinohydro Corporation and Metallurgical Group Corporation, which will control a total of 68 percent of the new Joint Venture Sicomines, with the rest of the shares held by Gécamines and the DRC government.

Other than long distance road and rail construction, the package also includes two hydro-electric dams and the rehabilitation of two airports. If fully disbursed, this will be the single largest Chinese investment in Africa. No other country or international financial institution has come close to initiating such a massive project in such a short period of time. Some Western diplomats privately expressed the view that if implemented properly, the deal could be good for the DRC.

Yet almost immediately the size of the loan elicited public criticism from the International Monetary Fund (IMF) that the DRC was taking on too much debt. In reaction, recent reports suggest that the loan may be paired back to US$6 billion. Additionally, the downturn in the commodity cycle has also seen many Chinese mining firms shut down their cobalt operations in the DRC. However, it has been the ongoing fighting in the eastern Congo which has seen China put all development linked to the loan on hold until such time as the security situation improves - this after several of its expatriate workers have become victims of armed robberies, heists and hijackings in eastern DRC, including reports that one Chinese worker had his head cut off and left impaled on a stake. Most Chinese expatriate mining compounds in eastern DRC have been closed down and personnel moved to safer areas and in some instances relocated out of the country to places like Angola.

Guinea Conakry 

China's determination to access critically needed raw materials has been no more better illustrated in the chaotically unstable but mineral rich country – Guinea Conakry. The shock letter written by Conte's former Secretary General, Sam Mamady Soumah in early July 2008 to Rio Tinto rescinding its potentially massive iron ore reserves in the Simandou concession sent shock waves through the mining fraternity.

Rio Tinto's top management had been aware of "rumours" about "under the table negotiations" for the Simandou concession taking place between the government and firms such as BHP-Biliton, Benny Steinmetz's BGP and certain Chinese ventures.

Indications are that the late president Conté wanted the Rio Tinto/Simfer combine to speed-up investment in the local transformation of the ore deposits, after receiving a Chinese proposal to build the rail links for Dabola and Tougué. This was strengthened round about the same time that Rio Tinto received the expulsion order from the Simandou concession, with Guinea and China discussing a deal, which could see billions of dollars of Chinese investment flowing into country in exchange for mining rights. Facing financial pressures, Rio Tinto made it clear that it was not willing to commit to any new expansion plans in Guinea Conakry until global economic condition improved. The company felt that the agreement it had with the government allowed for this delay. The government disagreed, however.

The Chinese Offer

During July 2008, a delegation, including officials from the Chinese Development Bank (CDB) spent a week in Guinea to discuss a range of investment projects with state and private sector investors, while the President of the National Parliament, El Hadj Aboubacar Somparé visited China from 13-20 July 2008. According to Ousmane Dore, Guinean Economy and Finance Minister, further missions were expected to go to Beijing over the coming months to meet with the Chinese companies about the operational details of this agreement. A “strategic committee” has been formed to oversee and implement planned projects in the country. By making bauxite and iron ore available to the Chinese, Guinea could unlock an overall sum of investment that could support these projects.

Importantly, according to reliable sources, these meetings resulted in promises of massive financial aid to Conakry which were the prime reason behind the cancellation of Rio Tinto’s Simandou concession.

Guinea’s parliamentary speaker was invited by his Chinese counterpart, Wang Jiarui, and attended several briefings (at the China Development Bank and at Henan International Mining Corp’s HQ in Henan), where, according to one reliable source Jiarui formulated the idea that Beijing could offer Conakry a mineral investment solution free of the IMF and World Bank’s fine print on strict conditions and draconian monitoring requirements. An enthusiastic Somparé arrived back in Conakry, holding a meeting with Conté, explained that the Chinese, desperately lacking aluminium, would give “everything” for Guinea’s concessions: roads, hospitals, dams, food, machinery, schools, even entire cities.

The Chinese were again contacted, this time by Prime Minister Souaré, who met President Hu Jintao in Beijing, during the Olympic Games in September, as well as the heads of China-Eximbank, the CDB, and a consortium of metal and non metal mineral companies, including powerful Chinalco – once already involved in an ambitious plan to develop Guinean Bauxites but canceling it due to Conakry’s demand of the involvement of several middlemen” networks).

He also traveled to Zengzhou, in the Henan province, where he met the heads of the recently formed Henan International Mining Corp. Ltd, the consortium that in principle would explore the Simandou concession, and other bauxite treasures in Guinea. This consortium includes at least 8 to 12 companies: Yongcheng Coal, Henan Yongshang Metals and Minerals, Xuchang Minerals and Industry, Henan Hongxing Mining Machinery, Henan Ruishi Special Refractary Co., CAEC, etc. The Chinese were reportedly offered a share of 41 to 50 percent on the whole Simandou iron ore area, if, in return, they would offer a “sustainable all round development plan” for the country.

In the end part of the Simandou concession went to Israeli entrepreneur Benny Steinmetz. His ability to develop the deposits are highly questionable. China’s appetite to Conakry has dipped somewhat given the political confusion in the country – even considered too risky for Chinese companies, while world economic conditions remain poor.

Towards the end of 2008, another Chinese joint venture, Henan International Mining Co, started negotiating the granting of several bauxite permits in the west of the country. The licenses cover 558 km2 and hold and estimated 10 billion tonnes of ore. The joint venture, created on 26 September 2007, includes China Henan International Cooperation Group Co Ltd (Chico, 41 percent), Yongcheng Coal & Electricity Group Co Ltd (51 percent), Henan State-owned Assets Operations Co (4 percent) and Henan Zhonglian Mines Co Ltd (4 percent) and has capital of US$ 26,5 million.

8.2. Recent Mining Developments

- In January 2009, Liberia has signed a US$2,6 billion agreement with China Union to develop its main ore mine. China Union has promised to build a one-million-tonne-a-year refining facility at the Bong iron mines, which are situated approximately 150km from Monrovia.

- On 24 April 2009, China granted Niger a US$95 million preferential loan to expand uranium production. China's National Uranium Corporation (SINO-U) is expected to produce 700 tons annually when production reaches capacity next year.

- The China Non-Ferrous Metals and Construction (CNMC) and Yunnan Copper Industry is set to commission a US$300 million copper smelter in Zambia's Chambishi town. The town is now a tax-free economic zone, intended to attract Chinese investors.

9. CHINA'S TELECOMMUNICATIONS FOOTPRINT IN AFRICA

China's increased involvement in the African telecommunications industry is part of a multidimensional engagement in the continent to serve its broader strategy to enhance its global standing, counter Western influence and to obtain resources and new export markets to feed its rapidly expanding economy. Alongside construction, energy and mining, telecommunications is one of the four strategic pillars underpinning China's economic development and providing the necessary platform from which to challenge the West for global hegemony.

It is therefore regarded a vital industry for Chinese strategic interests on several fronts:

- Acquisition of foreign technology;
- Dual use military application;
- Reinforcing China's space and satellite development programme; and
- Breaking into new markets.

Such assessments are closely driven by the Chinese Communist Party (CCP) and related ministerial and strategic planning institutions which have as their primary mandate, the emergence of competitive international companies aligned with the strategic political considerations of the motherland. Importantly, Chinese telecom companies do not operate in isolation but operate in tandem with Chinese geo-strategic objectives. This makes the need for effective countervailing strategies all the more important in dealing with Chinese telecommunications challenge in Africa.

Initial assessments suggest that China has chosen several hubs from which to roll-out its telecommunication strategy on the continent. These include Egypt, Algeria, Tunisia Kenya, Nigeria and South Africa.

Leading the pack are Chinese heavyweight companies such as Huawei Technologies, Zhongxing Telecom Ltd (ZTE) – both linked to the Chinese military and intelligence establishments, China Telecom, and Alcatel Shanghai Bell (ASB). Improving technical capacity, linked to low costs of production, access to cheap state subsidized funding sources and state political support provide such companies an important competitive edge not available to independent telecom companies.

9.1. The Chinese Business Method

The links between telecom deals and China's African strategy are not new. According to Mark Natkin, managing director of Beijing-based IT and telecom consultancy Marbridge: "Chinese telecom vendors have identified opportunities in developing nations and can leverage their price advantage to develop relationships that vendors from rich countries can't be bothered with. China is taking a much longer-term approach that better integrates business and political objectives. If you're the company that gets in there and builds the core network, you have a good shot at winning all upgrade contracts to follow. It's like betting on a portfolio of high-risk stocks. Many will be losing propositions, but those will be outweighed by the few that take off".

Importantly, Natkin added: "It might be coincidental, but many of the telecom deals done by Chinese vendors in Africa and other developing countries have been with oil-producing countries". Part of Chinese economic penetration strategies into new markets is to let Chinese oil companies act as the vanguard of Chinese business and later political interests. Chinese oil companies allow for low-level intrusion into new markets without attracting unnecessary attention. But they inevitably herald an influx of government officials, mainly from the intelligence community, to help assess both business and political opportunities in such countries. This has been especially evident in countries in Africa which have not had diplomatic relations with Beijing, most notably Chad (prior to 2006) and Sao Tome Principe.

Compared to the established Western telecom gear-makers, Chinese companies offer more cost-effective equipment and solutions. In addition, according to Zhou Tao, executive vice-president of ASB, the Chinese Government's increasing financial support to African countries is also giving a boost to the establishment of telecom infrastructure.

The Chinese government's role was underlined in 2004 when Deputy Minister of Commerce Chen Jian stated: "China will further expand telecom cooperation with African nations in line with mutual benefits and common development. Moreover, the Chinese government will support its telecom enterprises to run more telecom services in Africa." This in a nutshell explains the core of the Chinese telecommunication strategy in Africa.

Some important strategic indicators underlining the business threat posed by Chinese telecoms companies are the following:

- As a result of government support for its telecommunication companies, Chinese flagship companies, Huawei Technologies, ZTE and ASB can keep their prices extremely low, and tailor-make solutions for poor African countries. Critics of ZTE and Huawei point out that they sell cheaply to troubled governments like the regimes in Algiers or the Sudan in deals that effectively amount to foreign aid, and with the full support of the Chinese government.

  For example, because of its "national champion" status in China, ZTE can obtain low-cost money that it can then lend to its own customers. Loans for African contracts are being encouraged via preferential loans from government banks, which amount to a de facto subsidy. Money is funneled through lending channels, via preferential loans from the China Ex-Im Bank, through the China Development Bank. [See below.]

  According to Russell Southwood, CEO of Balancing Act (a consulting firm and online publisher specializing in internet and telecoms in Africa) all major telecoms equipment providers engage in customer financing, but in ZTE's case there is no transparency in customer lending: "Not only are they offering preferential loans, but it's impossible to tell what add-ons become part of the package. They're likely to say 'if you want something like Extra Departmental Branch Offices (EBDO - a 3G mobile voice technology), we'll wrap it into the price,'" explained Southwood.

- Chinese companies establish themselves as key suppliers early in the development of each market. They then position themselves to win subsequent network upgrades as economies improve. They also gain an opportunity to showcase and refine its more advanced technologies-for example, Wideband - Code Division Multiple Access (W-CDMA) networks deployed in Tunisia and Libya. Countries are concerned more about price and less about track records. Leveraging their experience in these markets and adding low-cost African production facilities to reduce freight expenses, the companies thus pave the way for future expansion in Africa.

- Chinese companies can offer services and products at a fraction of the cost of their Western counterparts because of the abundance of labour and low paying salaries. For example, China has an annual turnout of two million engineering graduates, while France has 300 000 and Germany just 100 000. However, average annual salaries of engineers in China only amount to US$19 000 per year as opposed to roughly US$110 000 in Germany and France. Likewise, Chinese labourers work 50 hours on average per week, whereas French and German labourers work 38 hours.

- According to Chinese officials from Ministry of Information Industry (MII), China, as a developing country, has similarities with developing countries in Africa and enjoys a rich experience in ICT development from the perspective of a developing country. The director said that Africa needs all kinds of capacity building, such as the training for both students and teachers, and capacity building and e-learning are a key factor to promote the development in the continent.

- In West Africa, companies in the area say they find procuring equipment from Chinese companies attractive for an array of reasons. For instance, ZTE offered the best proposal in terms of price when Kasapa Telecom Ltd., a subsidiary of Hutchison Telecom and one of four mobile operators in Ghana wanted to procure equipment. "Five vendors submitted proposals; two Chinese and three were not. ZTE won on the basis of price, speed and service and demonstrated commitment," according to Robert Palitz Managing Director of Kasapa. He further elaborated: "We have the ability to direct the growth of the network over the contract period so that we can quickly respond to marketplace conditions while benefiting from the prices negotiated. The vendor includes quality-of-service parameters."

  Asked about the outlook for Chinese telecom equipment vendors in Africa, Palitz said: "I can't predict but certainly the non-Chinese vendors have a challenge to meet in markets where increased penetration will depend on lower costs per subscriber. As the Chinese vendors become more experienced in project management outside China, the historical advantage of older vendors may diminish."

- Zhou Tao, executive vice-president of ASB states that Chinese Government's increasing financial support to African countries is giving a boost to the establishment of telecom infrastructure. The Export-Import Bank of China granted ASB financial assistance of US$63,3 million in 2004 to aid its overseas expansion. "As China and African countries build solid political mutual trust, African countries are willing to get Chinese companies involved in more infrastructure projects," said Zhou. "We believe Chinese telecom equipment makers will have even bigger business opportunities in Africa in the future."

- According to Victor Yip, an analyst with UOB Kay Hian Securities in Hong Kong: "Doing business in China has taught ZTE and Huawei to focus on keeping their products simple and cheap. People in developing markets don't need fancy (sic) - they want something that works."

- According to Richard Windsor, communications equipment analyst with Nomura, one of the greatest threats that Asian (Chinese and Indian) mobile terminal manufacturers pose to their US and European counterparts is their comparative openness to the so-called ‘white label’ phone model, where operators can brand the mobile phone as their own or other vendors can purchase components (from the Asian manufacturers) to make the terminal themselves. Duncan Clark, chairman of BDA Consulting, a telecoms research firm based in Beijing stated in this regard that “ZTE is willing to forgo its branding, go the white label approach and customize to what operators and customers want.”

- According to Shi Lirong, senior vice president of ZTE, one reason why a growing number of service providers in Europe and North America are forging new partnerships with Chinese suppliers is because their relationships with traditional partners are failing to deliver: “R&D cost-cutting exercises over recent years may have lost Western-based telephony equipment manufacturers-including Lucent/Alcatel, Nortel, Siemens-their technological edge in the market place,” he says. “However, the story is radically different for Chinese equipment manufacturers that have so far concentrated sales efforts on developing areas. We haven’t had those problems,” he says. “There was no bubble to burst in these countries, so the trading environment is normal. Market investment is still increasing. For R&D investment there is no problem; we are still increasing budgets.”

- Finally China is always careful to engage potential clients at the highest possible level. A macro-strategic intervention approach is key to winning over the power elites, which will buy into any proposed business plan. Only then do Chinese officials work down the food chain to engage with local parastatals and businessman, unless they are also well connected to the power elites.

9.2. Targeted Countries in Africa

The top African telecom markets for Chinese companies are Algeria, Egypt, Tunisia, Morocco and South Africa, comprising 60 percent of China’s total telecom assets on the continent. Outside of these, only Nigeria and Angola are becoming truly significant. Of importance here is that Chinese telecommunication developments in Africa have initially focused on coastal countries – those that strategically straddle main shipping routes and strategic choke-points – known in military parlance as sea lanes of communications (SLOCs). Tracking shipping movements, especially in times of war, suggests that Chinese telecom investments in Africa closely follow global strategic considerations of the CCP when it looks at the global nature of its telecommunications strategy. It is of course not the sole motivating factor for its investment decisions related to telecoms, but it is a significant one.

A second tier of countries are those which provide market access or springboards for investment into other regional sectors of the sub-continent, or which are rich in energy and natural resources, critical for China’s economic growth prospects. In the first instance, Kenya is a useful example, given its strategic location in East Africa. Sudan is an example of the second instance where its oil riches provide China with over 300 000 barrels of oil per day or some 7 to 8 percent of its total oil imports. Other second tier countries include: Angola, Ethiopia, Ghana, Ivory Coast, Tunisia and Zimbabwe.

There are important military and security considerations linked to China's penetration of the African telecoms market. For example, the most important main fixed base related to Beijing's space programme outside of China, entirely manned by PRC technicians and built with Beijing money and technology, is the coastal Namibia tracking station in Swakopmund. Chinese companies responsible for the more sensitive construction tasks included: China Great Wall Industry Corp (CGWIC); China State Construction Group, Windhoek; China Aerospace Machinery and Electronics Corporation (CAMEC); and China Aerospace International Holding Ltd (CASIL).

9.3. The Role of Telecoms Alliances in Africa

Looking at the pattern of China's penetration of the African market, the following emerges:

- Chinese firms will link up with global operators to a) piggyback their existing networks to sell their product and service lines, and b) use as launch pads to penetrate and entrench themselves in new markets.

- Link up with local telecom companies to access political leverage to clinch deals in targeted countries.

- Link-up with fellow Chinese companies to compete against foreign companies for contracts.

- Avoid JVs with non-Chinese companies in the absence of the above criteria.

Against this background, the opportunities in the African market are obvious. For instance, the number of mobile phone subscribers in Africa hit 280 million in May 2008 (compared to 76,8 million in 2004 and just 7,5 million in 1998) representing a market penetration rate of over 30 percent. All the major Chinese companies already involved in the African market have categorically stated their intent to focus on Africa for future growth. Key to their future strategy in the market will remain competitive pricing, the expansion of wireless connections and partnerships with major western companies.

The African environment enjoys a positive outlook as far as the wireless market is concerned. 3G services have been commercially available since 2003 in Africa. Further 3G launches are expected. ZTE's exciting TD-SCDMA system is destined for the African market after passing tests with flying colours last year. It was successfully tested at the Beijing Olympics, where ZTE was the largest supplier of TD-SCDMA handsets for the Olympics. The company supplied about 30 percent of the purchase order placed by China Mobile, thus making the company the biggest 3G provider of both network infrastructure and handsets of the global sporting event. The handset division was one of ZTE's fastest growing units in 2007, with year-on-year sales revenues growing by 69,16 percent shipping over 30 million handsets in 2007.

9.3.1. Selected Important Partners and Contracts

Looking at the role played by foreign alliances in China's entry into the African market, the following is noted:

- In December 2006 Comptel Corporation (A leading Helsinki-a leading OSS software vendor for convergent mediation, charging, provisioning and network inventory) was selected by Huawei as a qualified partner. This means that Comptel is a preferred Huawei partner for the deployment of mediation & provisioning services to its customers. Huawei and Comptel have already delivered joint-projects, including a CDMA Voice, Data Provisioning and Mediation solution for Telecom Namibia.

  [Note: The Comptel InstantLink provisioning solution covers all the processes from accepting an order to activating a billable service. It interacts with Huawei equipment, allowing service providers to activate new customers and services fast and efficiently. Comptel Eventlink is a convergent mediation solution that is designed to collect and process usage information from many diverse sources, including Huawei network elements, and forward them to billing systems.]

  Comptel has been present in the Middle-East and Africa region since 1997 including countries like South Africa, Namibia, Nigeria, Ghana, Morocco, Sudan, Oman, UAE, Qatar, Pakistan, Jordania and Saudi Arabia. Comptel was established in 1986 and is listed on the Helsinki Stock Exchange (CTL1V) in Finland.

- In October 2006 Emirates Telecommunications Corporation ("Etisalat") selected Huawei as its major supplier for the construction of its nationwide UMTS/HSPA network. Under the 3-year contract, Huawei will provide the new generation UMTS equipment including more than one thousand Node-B base stations for the construction of a nationwide (UMTS/ HSPA) network, which will be the first HSPA network based on Iub/IP (Interface UMTS B/ Internet Protocol) transmission in the Middle East and North Africa. Huawei has been working with Etisalat since December 2003 for the launch of its commercial 3G services in the UAE. Etisalat has networks covering more than 14 countries including Egypt, Saudi Arabia and Sudan. Etisalat is also involved with The East African Marine Systems (TEAMS) initiative, which aims to provide more submarine cable links to the continent, particularly East Africa.

  Etisalat represents an important cog in Huawei’s ongoing expansion plans in both Africa and the Middle East. For example, in 2006 a consortium led by Etisalat won the rights to develop Egypt's third mobile network, with a winning bid of 2,29 billion Euro. The network is being built jointly by Ericsson of Sweden and Huawei at a cost of approximately US$1,2 billion. The venture, Etisalat Egypt, competes with existing service providers Vodafone and Mobinil.

  During the Financial Times Telecom World event held in London, in November 2007 Etisalat COO Ahmed Abdulkarim Julfar, confirmed that the company has further major expansion plans in Africa.

  [Note: Etisalat ranks among the Financial Times Top 500 Corporations in terms of market capitalization and is the sixth largest company in the Middle East in terms of market capitalization according to London-based magazine, The Middle East.]

- Huawei was selected by South Africa’s MTN, which is the largest mobile operator in Africa, as a strategic partner. MTN, which is one of the largest cross-national mobile operators in southern Africa, selected Huawei's GSM Base Station Sub-System (BSS) to support its GSM expansion project in order to meet Africa's increasing demand for mobile services.

- In late 2006 Huawei was selected by Comium Mobile to build a GSM network in Cote d'Ivoire. The contract includes providing a full turnkey GSM, GPRS, 3G and Intelligent Network. The project adopted Huawei's EnerG GSM solution and new generation GSM Dual Density Base Transceiver Station, or BTS. Comium Mobile selected Huawei as a result of a successful three year partnership with Huawei in Sierra Leone and Liberia, to deploy the GSM network. [**Note:** Comium is aggressively pursuing the acquisition of new licenses across West Africa. Comium Mobile is a fully owned subsidiary of the Comium Group Luxemburg. In addition to the Ivory Coast, Comium is licensed to carry out GSM 900/1800, International Voice and Broadband Wireless Internet services in Liberia and Sierra Leone. It offers integrated mobile and telecom services comprising of post-paid and prepaid voice communications, value-added services, SMS, and secure high speed Internet Access, together with low cost alternative International calling card services.]

- In 2006 Oasis Sprl, the Congolese operation of Millicom International Cellular awarded Huawei a turnkey contract to provide a new GSM network. Under the first phase of the contract, Huawei supplied and installed its Huawei EnerG GSM technical platform and deployed more than 500 base stations across the country. The network offers voice communication as well as high speed Internet, video on demand, MMS and electronic payments. The initial phase of the network covered 85 percent of the population in the largest 182 cities. [**Note:** Millicom Incorporated was formed to pursue cellular telephone opportunities in America, and in 1982, was awarded by the US Federal Communications Commission one of three cellular development licenses. In 1982, Millicom founded, with Racal Electronics Plc, a joint venture which evolved into Vodafone Group Plc. Millicom International Cellular S.A. (“MIC”, “the Group”) was formed on 14 December 1990 when Industriförvaltnings AB Kinnevik of Sweden and Millicom, contributed their respective interests in international cellular joint ventures to form the Group. In 1993, MIC entered into discussions with Millicom, regarding the acquisition of Millicom. MIC officially began trading on NASDAQ on 31 December 1993. As a consequence of the merger MIC acquired all Millicom’s interest in MIC plus MACH and Millicom’s interest in 3C (UK), a UK based pay telephone operation. The remaining businesses of Millicom, including its successful satellite TV operations, the broadband license for Britain and Innova Inc, a computer networking company, were contributed to a new company, American Satellite Network Inc.]

Its operations in Africa are as follows:

Country	Company Trade Name	Equity Holding As at December 31, 2006	Country Population (millions) (i)	MIC Market Position(ii)
Chad	*Millicom Tchad*	*87.5%*	*9.9*	*2 of 2*
DRC	*Oasis*	*100.0%*	*62.7*	*4 of 4*
Ghana	*Mobitel*	*100.0%*	*22.4*	*2 of 4*
Mauritius	*Emtel*	*50.0%*	*1.2*	*2 of 3*
Senegal	*SENTELgsm*	*100.0%*	*12*	*2 of 2*
Sierra Leone	*Millicom Sierra Leone Ltd*	*100.0%*	*6.0*	*4 of 5*
Tanzania	*Mobitel*	*100.00%*	*37.4*	*3 of 4*

- In 2005 ZTE signed a technology agreement with Portugal Telecom which heightened ZTE's prospects in Africa. The R&D Memorandum of Understanding (MoU) involves product and service development, and gives both companies a chance to enter new markets. It also allows for the two firms to jointly bid for carrier projects- PT holds stakes in operators in Angola, Cape Verde, Kenya, Morocco, and Mozambique.

- In 2005, ZTE also signed a deal with France Telecom to become its global supplier of Asymmetric Digital Subscriber Line (ADSL) equipment. France Telecom has 118,6 million customers worldwide. It also has an agreement with Alcatel to integrate its Code Division Multiple Access (CDMA) radio access portfolio into Alcatel's CDMA end-to-end solutions. [Note: France Telecom has a fairly large presence in the telecommunications industry in Francophone Africa, with majority or controlling interests in Senegal (Sonatal), Mali (the SNO Ikatel), Côte d'Ivoire (Côte d'Ivoire Telecom) and Mauritius (Mauritius Telecom). Specifically ZTE will play a key role in a 100 000-line CDMA telecom project in Egypt for the CDMA upgrade slated for Cairo and the Nile Delta.]

- In 2003, ZTE, joined with a regional telecom group in Africa known as Comtel to install a new communication system in 20 countries on the continent. Approximately $240 million will be spent to complete the project to install Asynchronous Transfer Mode (ATM) technology for Africa's major free trade bloc, the Common Market for Eastern and Southern Africa (Comesa). ZTE will implement the project, installing the fibre optic cables on existing telecom pylons or electricity power lines linking the Comesa region, which extends from Egypt to Swaziland. The Chinese company will become a major shareholder in Comtel as it had committed a substantial amount of money towards the $240 million required for the project.

Comtel was established by Comesa as an initiative to promote the establishment of a regional telecommunications network in the region. Registered in Mauritius on 26 May 2000, Comtel is set to save Africa $120 million each year, the amount paid to Western countries for the use of their telecom circuits for carrying international calls. Comtel will also introduce a direct telecom link between Comesa member states and other parts of the world. Currently, many calls from Africa have to pass through New York to get to Asia. The 20 Comesa members are Zambia, Zimbabwe, Kenya, Malawi, Namibia, Seychelles, the Democratic Republic of Congo, Egypt, Mauritius, Angola, Ethiopia, Uganda, Sudan, Rwanda, Swaziland, Burundi, Eritrea, Djibouti, Comoros and Madagascar. China's participation in this project emphasizes the high priority being afforded to economic engagement with African countries in the field of telecommunications.

Cumulatively, the ICT sector in Africa attracted a total of almost US$3 billion of Chinese investment between 2001 and 2007. China's involvement in the ICT sector in Africa mainly takes the form of equipment sales. In some cases, this involves normal commercial contacts between Chinese manufacturers and public and private operators in Africa. However, in some cases, it entails inter-governmental financing tied to purchases of Chinese equipment by state owned telecom incumbents.

While international attention has tended to focus on Africa's new private operators such as Vodacom, MTN and Celtel, Chinese firms are emerging as key players in the supply of technology and equipment for networks typically to national telecom incumbents. By far the largest ICT project has been in Ethiopia (US$1,5 billion), which involved the associated rollout of mobile coverage in rural areas.

The four-year project, which was initially agreed upon in 2006, was to be undertaken by ZTE, Huawei, and Chinese International Telecommunication Construction Corporation (CITCC). It was expected that if completed, the project will more than double the country's optical fiber deployment, more than triple mobile network expansion capacity, double rural telecom coverage, and quadruple the length of the fixed telephone network. In 2007, ZTE commenced construction of the fist two phases of the project. The three most active Chinese telecom equipment supply firms were state-owned ZTE Corp, privately held Huawei, and the mixed private-public 50-50 French-Chinese joint venture Alcatel Shanghai Bell. In most of the cases recorded by the database the state-owned Chinese banks directly provided the funds for the equipment to the host government. In some cases, ZTE was able to finance its deals through standing line of credit with China Ex-Im Bank of US$500 million, issued in 2004. Similarly, Huawei was granted US$600 million export seller's credit from China Ex-Im bank, as well as US$10 billion in credit financing from the China Development Bank, both in 2004. It is important to stress that these lines of credit were given to the contractor firms for their worldwide operations.

A salient example of China's ICT projects is the National Communication Backbone Infrastructural Project in Ghana, agreed to in June of 2006, whereby the China Ex-Im Bank is financing US$31 million of a US$70 million project initiated by the Ministry of Communications through a concessional loan. The project is aimed at rehabilitating and expanding fixed line communications technology in the country.

9.4. Chinese Telecommunications Companies in Africa

Huawei Technologies

Huawei is the main supplier to telecommunication giants China Telecom and China Unicom, and one of the world's ten-largest producers of telecom equipment. Its main products include switching systems, intelligent networks, Synchronous Digital Hierarchy (SDH) transmission networks, wireless, datacoms, broadband integrated services (B-ISDN), power supplies, and freespace optical systems. Company sources claim that "only" one percent of sales involve military customers, although this likely deflated number still represents more than US$30 million per year in equipment sales and service.

Huawei's products and solutions are deployed in over 100 countries and serve 31 of the world's top 50 operators, as well as over one billion users worldwide. In 2006, it had annual revenues of US$8,2 billion and over 44 000 employees. Over half its revenues came from overseas sales (US$ 4, 8 billion).

Huawei is often described as "a Chinese firm with close ties to Beijing's military and a history of illicit exports and industrial espionage", an allegation it vehemently rejects.

ZTE communications

Originating from the Number 691 electronics factory under the China Aerospace Industry Corporation (CAIC), Zhongxing Telecom (ZTE) has grown to become China's largest listed telecommunications equipment manufacturer and wireless solutions provider. It lists shares in Hong Kong and Shenzhen and is China's second-biggest telecom equipment vendor after Huawei Technologies Co. The company develops and manufactures telecommunications equipment for fixed, mobile, data and optical networks, intelligent networks and next generation networks as well as mobile phones.

The company has aggressively expanded in developing markets by exporting networking products, establishing joint ventures and investing in local communication operations. ZTE Chairman Li Taifong publicly confirmed in October 2006 that the African market has been targeted by the company as its "next business hub."

ZTE has established three WiMAX R&D centers in America and China since its WiMAX operations began in 2002. With more than 400 R&D personnel dedicated to WiMAX operations, ZTE owns a growing patent portfolio in the WiMAX field.

Alcatel Shanghai Bell (ASB)

Alcatel-Shanghai Bell (ASB) is one of the biggest telecommunications equipment and solution suppliers in Asia. ASB is the Chinese flagship company of Alcatel-Lucent in Asia Pacific. It is the first foreign invested company limited by shares in China's telecommunications industry, with extensive global resources. ASB benefits from Alcatel-Lucent's comprehensive next-generation (NGN) portfolio.

In 2007 ASB teamed up with Datang Mobile (which initially developed TD-SCDMA network solutions) to provide TD-SCDMA to Chinese service provider, China Mobile. Datang and ASB deployed TD-SCDMA for China Mobile in Shanghai and in the southern city of Guangzhou. ASB provided the Node B equipment to be used in the network.

China Mobile

China Mobile Limited, China's largest telecoms company, was listed on the New York and Hong Kong Stock Exchanges in 1997. As the leading mobile services provider in China, the group boasts the world's largest unified, contiguous all-digital mobile network and the world's largest mobile subscriber base. In 2006, the Company was once again selected as one of the "FT Global 500" by Financial Times, and in the "The World's 2000 Biggest Public Companies" by Forbes Magazine.

In April 2007 China Mobile indicated that it planned to buy companies in Africa and Southeast Asia as growth accelerates in those regions. However, it denied reports that it was planning to buy a stake in South African based mobile player, MTN Corp. However, sources confirm that for a period, MTN was the target of some sort of Chinese acquisition attempt. [See below]

9.5. Some Country Case Studies

Algeria 

Algeria is one of China's key strategic allies in Africa. The two main reasons for this have to do with oil and the war on terrorism.

On the energy front, Algeria was the first African country visited by Chinese President Hu Jintiao during his first ever overseas trip after becoming president in 2003. He touched down in Algiers in early February 2004 and signed several agreements related to the energy and telecommunications sectors within the broad framework of a new strategic cooperation agreement.

However, China was already active in Algeria's telecoms industry prior to Hu Jintao's . visit. Huawei was established in Algeria in 1999 and today has access to over 80 percent of all the operators and private network markets in Algeria. The company is the biggest CDMA wireless local loop (WLL) system and terminal provider in Algeria, and provided Algeria Telecom with a wired and wireless integrated CDMA WLL network solution, which adopts an integrated switch centre (C&C08) that can merge with Algeria Telecom's existing PSTN. In addition, the network can connect with Honet, fixed telephone line, ADSL and other vendor's CDMA WLL equipment, making it extremely flexible and requiring less start-up costs to construct the Algerian access network which covers 7 provinces through 113 000 lines.

In April 2003 Huawei was tasked with expanding Algeria's GSM network in 14 regions.

In 2005, Huawei won the bid of the purchased items for the next generation backbone transmission network equipment from Algeria Telecom. This project's backbone transmission network will cover all territories within Algeria, which requires the network and equipment to be able to provide abundant data service characteristics, intelligent characteristics, and high reliability of next generation network oriented applications. Huawei won the project thanks to its customized ASON-based OptiX OSN system.

In March 2007 Huawei was selected by the Algerian federal railway - Société Nationale des Transports Ferroviaires (SNTF) to provide a GSM-R communication solution for the 220 kilometer-long Tabia-Mecheria railway line, an important passenger transport route in Algeria. In terms of the contract Huawei will provide GSM-R network design and engineering services to SNTF, with ALSTOM supplying the railway signalling system. When completed, the Tabia-Mecheria line will be Algeria's first modern railway equipped with world-class GSM-R technologies.

In May 2007 Huawei officially launched the CDMA 2000 1xEV-DO network in Algiers, the capital of Algeria. With Huawei's LiteFME solution, Algeria Telecom's PSTN, CDMA WLL network and ADSL network can be converged, including CRBT (Colour Ring Back tone), EV-DO data service, pre-paid portal for EV-DO service, video phone in fixed network and Integrated Centrex, which is a PBX-like service for enterprise users. [**Note**: Earlier in 2007 Algeria Telecom launched three new services, 'ADSL Assila Pack Pro 3000', 'ADSL Assila Pack Pro 4000' and 'ADSL Assila Pack Pro 8000' for its business customers with speeds up to 8 Mbps.]

Other developments include:

- The donation by the company of telecom equipment including GSM, CDMA, switching and access products worth US$ 30 million,
- The establishment of a training centre towards the end of 2006.
- The opening of a new regional office for northwest Africa in Algiers in September 2007.
- Work currently taking place on the trial project of EV-DO Rev.A, which can reduce the customers' OPEX, CAPEX and user churn while increasing service revenue.

ZTE

In 2003, ZTE secured a contract to build Africa´s largest CDMA WLL in Algeria, after presenting a bid for a mobile network that was 18 to 21 percent less expensive than comparative bids made by US companies. The final contract was worth US$32 million, for a first phase of installation, with several spin-offs. Prices were kept low by the company, due to a Sinosure supported Industrial and Commercial Bank of China (ICBC) “soft loan” – a classic example of state subsidized Chinese deals. This deal included the construction by ZTE of two CDMA WLL networks, which cover 43 provinces in all eight districts of Algeria.

In October 2004 ZTE announced that it was to open a manufacturing facility in the country (for wireless fixed terminals and other equipment) in cooperation with local company INATEL.

By 2005, the company had provided a national CDMA network covering 95 percent of the country (including the three provinces of Tizi Ouzou, Bouira and Bejaia in northern Algeria). The new network involves a Mobile Switching System (MSS), Base Station System (BSS), Packet Data Serving Node (PDSN), Operation and Maintenance Center (OMC), a repair centre, a training centre and a software support centre.

In 2006 ZTE was awarded a contract to supply optical network equipment to ATM Mobilis, the largest mobile operator in Algeria with 1,2 million subscribers at the time. Under the contract, ZTE is to provide its optical products including transmission equipment, power supply, optical network management software and SDH/PDH analyzers.

Egypt 

With a population of over 60 million, Egypt is the third largest mobile market in Africa after South Africa and Morocco. The Egyptian mobile market is dominated by two private operators, MobiNil and Vodafone Egypt. MobiNil and Vodafone were for years the only providers for mobile telecommunications before the Emirates-based Etisalat was chosen as the third provider offering third generation (3G) services in 2006.

In 2002 the Ministry of Communications and Information Technology of Egypt and the Ministry of Information Industry (MII) of China signed a memorandum of understanding aiming at the development of the ICT industry in both countries.

<u>Huawei</u>

Huawei entered Egypt in 2000 and its Middle East and North African operations are headquartered in Egypt. Huawei also has a training centre in the country. Telecom Egypt used Huawei's TELLIN solution to build a Fixed-line Intelligent Network (FIN) that covers the whole country. Huawei enabled Telecom Egypt to provide CDMA WLL services to both fixed and mobile subscribers, including voice and data services, with a network capacity of 100 000. In addition, Telecom Egypt built a MSAN (Multi Service Access Network) nationwide comprising 500 000 lines which made use of Huawei's Honet access network solution. Telecom Egypt also deployed Huawei's OptiX 10G equipment to build the core Cairo Metropolitan network, which has more than 50 nodes. In 2006 Telecom Egypt and Huawei signed an agreement to manufacture CDMA wireless local loop terminals.

Huawei used Raya NS (RNS) to undertake the turn-key installation of Huawei CDMA2000 WLL switches and base stations in Upper Egypt and Suez Canal regions to expand Telecom Egypt telephony services to remote areas.

Egypt’s IN Hardware Installation Network supplied by Huawei Technologies covering 8 sites: Roda, Abbassia, Alexandria, Suez, Tanta, Mansura, Sohag and Menia, were also implemented by RNS. RNS further completed the installation of 4 fibre optics rings covering 17 sites along with its network management system. RNS was awarded the installation by Huawei which received the contract to perform the first trial for 10G and 155/622M fiber optics transmission equipment.

In 2005 the Egyptian Company for Mobile Services (Mobinil), Egypt's leading mobile service operator and Huawei started to work on Softswitch trials in Egypt and finished the first call on this trial mobile network during this period. Mobinil signed a commercial contract with Huawei in 2006 to expand the network capacity to 5 million prospective customers. [**Note:** Mobinil which was the first equipment supplier to introduce Softswitch technology into 2G/3G mobile core network commercial construction, selected Huawei for the provision of its core network. Mobinil’s shareholders are Orange and Orascom Telecom Holding.]

In 2006, Telecom Egypt selected Huawei to provide Dense Wavelength Division Multiplexing (DWDM) technology. This technology enables multiple video, audio, and data channels to be transmitted over one fibre and increases the efficiency and bandwidth of networks by supporting different formats. The three year contract will increase the capacity of Telecom Egypt's Cairo network and reduce operating costs while increasing quality of service.

According to Dawlat El Badawi, the planning vice chairman of Telecom Egypt:

> *Emerging demand for advanced, higher-quality communications poses a paradigm-shifting challenge to telephone operators. Originally designed to carry circuit-switched voice traffic, existing networks now need to carry heavy data loads, deliver streaming video, and provide Internet access to a rapidly growing user base. The decision to evolve our network is significant and is the result of in-depth research and analysis. Huawei offers industry leading transmission network architecture with its DWDM technology and enable us to give our customers access to new, advanced services while enhancing the security and quality of existing services.*

The Huawei DWDM equipment has been applied to over 250 national and inter-city transmission networks. In the Middle East, Huawei DWDM Technologies have been widely adopted in many countries like the UAE, Saudi Arabia Oman, Tunisia, Algeria, and Morocco.

In 2005, Huawei Technologies inaugurated a regional technical assistance centre and a training centre in Cairo, aimed at educating partners, customers and sub-contractors of the company's extensive portfolio of telecoms equipment. The training facility covers an area of 300 square metres and comprise13 classrooms and labs, with a capacity of 150 trainees at any given time. On its opening, a total of 58 training programmes were available.

At the time, Tian Feng, vice president of Huawei Technologies boasted that "our entry into Egypt four years ago and our knowledge and experience is equal to the best in the world" and added that "the strategic location of Egypt is important to us". The total size of the investment in the two centres amounts to US$20 million.

<u>ZTE</u>

On 6 May 2004, ZTE and Huawei won a contract to launch a mobile phone network using CDMA technology in Egypt after fighting off fierce competition from other global giants. The contract, signed between the two Chinese companies and the Egyptian Communications Company (ECC), aimed to launch the CDMA mobile phone network to serve up to 100 000 users at a cost of more than US$20 million.

The ECC picked the two Chinese firms after inviting an international tender that attracted seven global telecommunication companies. According to ECC's Chairman Okail Bashir, the selection was not based on low prices only, though prices are one of the important criteria, but technical efficiency which was the essential element.

The first phase of the project entailed 48 000 lines in the Delta and 52 000 lines in Cairo's 16 suburbs. Phase II includes the establishment of an 800M core network along with an access network and fixed wireless terminals. In 2005 ZTE signed a further contract to expand the CDMA WLL network to 100 CDMA WLL.

Angola 

Angola has become one of China's most important telecoms market in recent years. The largest player in the country is ZTE.

In 2005 ZTE deployed its first ever Africa commercial WiMAX network in Angola following an agreement of US$69 million signed with Mundostartel (MST), Angola's second largest fixed-line operator. ZTE provided Mundostartel with the equipment to build a nationwide WiMAX network. The network covers three cities (Luanda, Benguela and Lobito) and provides broadband and VoIP services for more than six million people. It will eventually be deployed in 8 provinces. It was also the first time that ZTE installed an NGN based on an IP platform with CDMA2000 1x and EV-DO technology.

Under the terms of the agreement, ZTE supplied MST with its end-to-end WiMAX solution including base stations and CPEs (Customer Premises Equipment) which offer scalability to an 802.16e (mobile WiMAX) network, roaming support architecture and product serialisation.

ZTE said the network would provide NGN technology, which allows analog services like traditional fixed-line voice calls to be carried on the same network as digital signals such as mobile telecom traffic. It would be among the first of its kind in Africa.

[Note: Mundo Startel has the license to roll out fixed-line telecommunications network in Angola and intends to increase its market share up to 40 percent by 2010. Telecom Namibia owns 44 percent of MST and contributed US 4,2 million of the original US$9,7 million in equity costing of the wireless network.]

In November 2006, Angola's Prime Minister Peido Nandó visited the Shenzhen ZTE HQ where he was presented with the firm's new generation proposals for Angola. ZTE has 100 people working full time in Angola and is now eyeing the Sao Tomese market. With projects in Angola currently worth US$400 million ZTE has been working on a NGN access network, Intelligent Optical Terminal (IOT) and GSM/CDMA networks, with Angola Telecom (the largest telecommunications company in the country) and MSTelem as its local partners. It has also been working on a classified secure telecoms network for Angola's Armed Forces (FAA), valued at around US$80 million, because the military's top brass are dissatisfied with the state of secure communication connections to command centers.

<u>Alcatel Shanghai Bell (ASB)</u>

In 2002 Alcatel Shanghai Bell (ASB) and Angolan Telecom signed a US$60 million contract to expand and optimize the telecommunication network in south and east Angola (Namibe, Huile, Cunene and Lunda Norte). The deal covered design, project, products and equipment solutions.

Shanghai Bell provided Alcatel S12 switching equipment, Litespan integrated access equipment, SDH622M and SDH155M optical transmission equipment and optical and electric cable. It was also commissioned to set up a satellite earth station and reconstruct 4 satellite earth stations and all the exterior lines for Angolan Telecom. [**Note:** The construction and installation started in 2005. Japan Telecommunications Engineering and Consulting Service (JTEC) managed and supervised the installation.]

China International Telecommunication Construction Corporation (CITCC)

In 2005 CITCC completed four phase projects for the improvement of Angola Telecom's telephone network in Luanda. CITCC also built 42 km of new telecom ducts, laid 366 km of telephone cables, and supplied telephone lines for 200 000 people.

Huawei

Huawei is present in 6 Angolan provinces, where it has invested US$7 million to build a training centre of telecommunications technologies and upgrade the ITEL (School of Telecommunications Technologies) at the University of Telecommunications. The university is currently under construction in Luanda.

Huawei has also introduced NGN, access network, intelligent optical transmission, GSM, CDMA and datacom products to Angola.

It has signed cooperation framework agreements with Angola Telecom and MSTelcom.

South Africa 

Another critical area for Chinese telecom development in Africa, South Africa serves as the head-quarters and logistics centre for both ZTE and Huawei on the continent. The Huawei Sub-Saharan command centre in Johannesburg is particularly impressive, located on the 1st floor, Building 28, The Woodlands, Woodmead in Johannesburg. Huawei also has a Technical Training Centre in South Africa, co-manned by Telkom.

Chinese firms are busy in trying to bring in South African technology to Beijing and Shanghai, and to establish joint ventures with big operators like MTN, in third countries where they have lower prospects of competing.

Huawei

Huawei first entered the South African market in 1998 in Pretoria, and relocated to Johannesburg in 1999. A training initiative with the University of Cape Town (UCT) is currently underway, and it will seek to supply basic and advanced product training to telecoms engineers. Huawei has supplied the university with the necessary equipment needed to operate a fully functional Huawei training facility.

Huawei is Telkom's only strategic partner for its 21CN integrated access network, providing an access platform integrating voice, IP and video. Furthermore, Huawei provides Vodacom with advanced 3G terminals and CellC with high-end IP networks and value added services. Huawei also became a strategic global partner of MTN in 2005, having signed a 3-year framework agreement worth US$600 million, featuring communications equipment provision and service. Huawei is also listed as the first partner to be chosen by the fixed network operator SNO. The Government of the Northwest Province has also purchased and implemented an IP WAN from Huawei.

Huawei has focused much attention on training programmes. For example, the company cooperated with Telkom to support South Africa's "Talent Plan" by funding Zululand University, and providing postgraduate students with education funds and research subjects.

Huawei has also set up an IP network training and certification centre in UCT to provide free IP engineering, technical training and certification for South Africa and surrounding countries. Over the past year, the centre has provided successful training and certification for more than 100 people.

Furthermore, on 6 August 2008 another training centre was opened in South Africa located in Woodmead. This facility brought the number of Huawei training centres in Africa to five, with the other facilities located in Nigeria, Kenya, Egypt and Tunisia. At the end of 2007, over 4000 Africans had graduated from these centres.

ZTE

ZTE entered the market through Vodafone Group plc, then a 50 percent share-holder in South Africa's Vodacom in May 2007. Vodafone unveiled ultra-cheap cell-phones, aimed at bolstering its position in emerging markets and at offering an alternative to Nokia and Motorola's cheapest handsets. The second-generation, or 2G, phones, called the Vodafone 125 and the Vodafone 225, are the fruit of Vodafone's recent partnership with ZTE. **[Note:** Vodafone is also working with Huawei on 3G handsets and with Sagem, the phone-manufacturing unit of France's Safran, on an ultra-cheap GSM handset.]

China Eyeing Mtn?

For a period in 2007/early 2008, rumours persisted that China Telecom, the country's largest fixed-line telecommunications operator by users, was planning to buy a stake in South African mobile operator MTN Group. According to European sources, the Chinese takeover of MTN had long been planned. First it was thought that an umbrella group of enterprises should do it at the end of 2005. Then the plan was for China Mobile to make a bid with heavy China Eximbank financial support.

9.6. Recent Developments

- September 2008: ZTE Corporation announces a US$70 million contract to expand the country's telecoms network. China's Huawei Technologies has won a US$20 million contract to build a fibre optic network in Tripoli. Libya is planning a nation-wide Internet and mobile phone service. Chinese companies are expected to be at the forefront of these developments.

- October 2008: It was reported from Nigeria that plans are afoot to use the infrastructure of NIGCOMSAT for commercial telecommunications, which will be run by the government and ZTE, with the intention of rolling out lines across the country with the name of NIGCOMSAT and competing with the private telecommunications operators (PTOs), as well as GSM operators. NIGCOMSAT is said to be building a telecommunications network that would provide voice and data services with a host of other value-added services. [Note: NIGCOMSAT was launched into space in China on May 17, 2007 and was conceived to take care of the integrated communication infrastructure of Nigeria's security agencies, including the State Security Service (SSS), Nigeria Intelligence Agency (NIA), as well as the Office of the National Security Adviser (NSA)

- November 2008: China's ZTE Corporation won a contract to build a 2,5GHz mobile WiMAX commercial network in Mauritania. In terms of the agreement, ZTE will provide a core network, equipment, wireless access units and communications terminals.

10. CHINA'S INFRASTRUCTURE FOOTPRINT IN AFRICA

China is presently involved in infrastructure project in 35 African countries. A concentration of projects is to be found in Angola, Nigeria and the Sudan. However, China is planning a new range of projects in other countries, especially in the DRC. The country's activities have been divided fairly evenly among two main sectors: power generation (especially hydropower), and transport (especially railroads), followed by ICT sector (mainly equipment supply). Water projects attracted the least amount of activity.

A more extensive profile of Chinese funded projects in each of the major infrastructure sectors is provided below.

10.1. China's Growing Competitiveness

One way of gauging the international competitiveness of the Chinese construction Industry is to look at the performance of Chinese firms under open tenders. Multilateral Agencies, such as the World Bank and it affiliated African Development Bank (ADB), require unrestricted International Competitive Bidding (ICB) to take place on all significant contracts that they finance. The procurement data from these agencies is publicly available and can be used to calculate the share of contract value going to Chinese firms bidding for projects in different segments of the market. This in turn provides an objective indication of the competitiveness of Chinese construction firms.

In the case of the World Bank, it was possible to establish that since 1999 Chinese Contractors' have been winning a significant share (10-20 percent) of African infrastructure contracts awarded by the International Development Association (IDA). The accumulated contract value won by Chinese contractors was US$738 million over the period 2001–06. While substantial, this figure is much lower than the value of Chinese commitments to infrastructure finance over the same period, which are estimated at more than US$12 billion.

Looking at more recent data from both the World Bank and the ADB, it is evident that the success of Chinese firms has been largely confined to the area of civil works. The presence of Chinese firms is almost non-existent in the area of consulting services, and minimal in the area of equipment supply where they capture a mere 3 percent of the market. However, in the area of civil works Chinese firms accounted for 31 percent of total contract value over the period of 2004-2006.

With the exception of France, which has been winning around 12 percent of the World Bank's civil works contracts, no other country has won more than a 5 percent share. These figures illustrate the competitiveness of Chinese contractors in this market. The World Bank procurement data also provides (partial) information on the nationality of the second most highly ranked bidder for each contract. This shows that in as many as 20 percent of the total number of contracts won by Chinese firms, the second most highly ranked bidder is also a Chinese firm.

Chinese firms have also tended to capture the larger civil works contracts. The average size of a civil works contract awarded to a Chinese contractor was US$6 million in the case of the African Development Fund (an ADB affiliated structure) and US$11 million in the case of the International Development Association arm of the World Bank, compared to more typical contract values of US$3 to 4 million.

Overall, about 70 percent of the value of contracts won by Chinese firms under multilateral projects was accounted for by just four countries: Ethiopia, Mozambique, Tanzania, and the DRC. Once again, this is quite different from the geographical spread under Chinese funded projects, where more than 55 percent of the contract value is accounted for by Angola, Sudan, and Nigeria. This indicates that Chinese contractors have significant presence and experience in a number of countries that have not yet featured prominently in Chinese financing deals.

Looking sectorally at China's footprint in Africa's infrastructure development path, the following picture emerges:

Dams

Most dam projects undertaken by Chinese companies have a hydro-power dimension to them (see under "Power" section). In October 2008, SinoHydro concluded a loan agreement with the Ghanaian government for US$562 million. The loan is earmarked for the construction of the Bui Dam in Ghana's Brong Ahafo region. The dam is expected to improve water storage and irrigation along the Black Volta River. The project is expected to be completed in five years.

Power

The sector attracting the largest amount of Chinese financing has been the power sector with more than US$5.3 billion in cumulative commitments at present. Much of this effort has been concentrated in hydroelectric schemes. As of the end of 2007, the Chinese were involved in financing 10 major dams in 9 different African countries. The total cost of these projects is estimated to be more than US$5 billion, of which the Chinese were financing over US$3,3 billion. The combined generating capacity of these plants amounts to more than 6 000 MW of electricity, a significant fraction of the 17 000 MW of hydropower generating capacity that exists today in Africa. Indeed, four of these projects will more than double the total electricity generating capacity within the host countries where they are located.

Some of these projects include the following:

- The largest hydropower project on this list is the 2 600 MW Mambilla scheme in Nigeria, implementation of which is now uncertain.

- The largest power project completed to date is the massive 1 250 MW Merowe dam in Sudan, which was opened earlier this year.

- November 2008 - China's Shenzen Energy Group announced that it was planning to go into partnership with the First National Bank of Nigeria PLC, to build a 3 000 MW power plant in Nigeria. The estimated cost of the project is US$2,5 billion, with a commencement date for early in 2009. Nigeria's total installed capacity is 3 500 MW but frequent power disruptions sees power generating capacity collapse to just 1 000 MW on occasions due to poor maintenance its aged power stations, corruption and mismanagement.

- October 2008 - Kenya awarded a US$65 million contract to Sinohydro Corporation to build a new 20MW hydroelectric power plant (HEP) in Western Kenya. The new HEP, Sangoro plant, will be located 5km downstream from Sondu Miriu HEP. The project is expected to be completed within three years.

- October 2008 - China's International Cooperation Group (CHIC O) has been awarded a US$45 million contract by Mozambique to construct a supply system in the central province of Manica. The project will include the construction of a new water treatment station at Chicamba Dam and six water storage tanks.

- March 2009 - it was announced that China's Sinohydro Corporation will undertake construction of a US$400 million power plant on the Kariba North Bank in Zambia. China's Export and Import Bank is providing 85 percent of the funding, while the Development Bank of South Africa (DBSA) is providing the remaining 15 percent. Zambia intends to develop a number of power projects in alignment with its vision for the 2030 development plan.

- Finally, the Poubara hydropower dam in Gabon is to be built by Sinohydro as part of the US$ 3 billion Belinga Iron Ore project; however, the amount of Chinese financing committed into the project is not known.

Natural resources are being used to secure some of the financing. The Congo River Dam in the Republic of Congo and Bui Dam in Ghana, which are currently under construction, are being financed by the China Ex-Im Bank loans backed by guarantees of crude oil in case of the Congo River Dam, and cocoa, in case of Bui Dam. The loan for the Souapiti Dam in Guinea will be linked to mining (Bauxite) revenues.

Outside of hydropower, China has also been active in building thermal power stations, the most significant of which have been in Sudan and Nigeria. In 2005, the Shandong Electric Power Construction Corp. agreed to build three separate thermal power stations in Sudan: a 500 MW coal fired power plant in Port Sudan, a 300 MW gas fired power plant in Al-Fūlah and a 320 MW gas fired power plant in Rabak. Earlier, the Harbin Power Equipment Company had agreed to build the E1-Gaili Combined Cycle Power Plant.

In Nigeria, the federal government is constructing, with the help of credit line from China Ex-Im Bank, three gas-fired power stations: Papalanto (335 MW) in Ogun state developed by Chinese group Sepco, Omotosho (335 MW) in Ondo, developed by China National Machinery & Equipment Import & Export Corp. (CMEC), and Geregu (138 MW) in Kogi state developed by Siemens. Other than electricity generation, Chinese companies CMEC and China Machine- Building International Corporation (CMIC) have occasionally got involved in electricity transmission through major projects in Tanzania and Luanda (Angola), respectively. Thus, at present, China's central focus is on the construction of large hydropower projects. Given the current power supply crisis in Africa, and the fact that the region has barely developed 5 percent of its identified hydro potential, these schemes are critical for Africa's economic development. In that sense, the emergence of China as a major financier of hydro schemes is a trend of great strategic importance for the African power sector.

Reports emerged earlier this year that Shenzhen Energy Investment Co., partly owned by Huaneng Power International Inc., and the fund may build a 1,03 billion-yuan ($151 million) gas-fired plant in Ghana.

Standard Bank and the Industrial and Commercial Bank of China (ICBC) is to finance the expansion of a coal power station in Botswana for over US$800 million. An amount of US$140 million, as bridging finance, will be provided for Morupule B Power Station in eastern Botswana. The deal is backed by financial guarantees from Botswana's ministry of finance.

Ports

On 13 January 2009, China agreed to begin a US$280 million expansion contract to extend the port at Nouakchott, by more than 900 meters, adding significantly to the port's current capacity of 500 000 tons of cargo per annum.

Rail

China's foray into Africa really began in large part due to the construction of the Tanzania-Zambia railway in the 1970s, which became to symbolize China's contribution to African economic development.

In recent years, China has made a major comeback in the African rail sector, with financing commitments on the order of US$4 billion for this sector. They include rehabilitation of more than 1 350 kilometers of existing railway lines and the construction of more than 1 600 kilometers of new railroad. To put this in perspective, the entire African railroad network amounts to around 50 000 kilometers.

The largest deals have been in Nigeria, Gabon, and Mauritania.In Nigeria, the Chinese have committed to financing a construction of the Abuja Rail Mass Transit System; and to the rehabilitation of 1 315 kilometers of the Lagos-Kano line under the first phase of Nigeria's railway modernization programme. The total cost of the Lagos-Kano rail project is estimated to be US$8,3 billion, of which the Chinese were to cover US$2,5 billion through a line of credit part of which would be also be allocated for supporting power projects.

However, In October 2008, the Chinese rail projects were put on hold pending a review of the agreements after a period of tensions linked to allegations by Nigeria that China was not delivering on its investment promises. [**Note:** Nigeria suspended the rail contract with the China Civil Engineering Compan y (CCECC) last year, saying the cost was inflated and the government did not have enough funds to modernise the country's century-old rail system. Former Nigerian President Olusegun Obasanjo awarded the contract to the Chinese company in 2006 and promised the firm an oil block in return as an incentive. China facilitated the deal wit h an initial offer of a US$2 billion loan.]

In 2007, work started on the rehabilitation of the 1302 km Benguela Railway line in Central Angola at a cost of US$300 million, However, in February 2008 rehabilitation work was suspended owing to delayed disbursements from the credit line of the Hong Kong-based China International Fund (CIF). Over 1000 route-km of the Benguela need rebuilding. Besides apparent funding problems, the process was being hampered by the presence of land mines and the need to reconstruct 50 bridges. The completion of restoration of the railway to the border with the DRC is not expected to be completed before 2012

China Ex-Im Bank is preparing to finance the 560-km Belinga-Santa Clara railway in Gabon, which, together with Poubara hydropower dam, and deepwater port at Santa Clara, is part of the already mentioned Belinga Iron Ore project. The China Ex-Im Bank's loan for the project is to be repaid via sales of iron ore to China.

In January 2009, the China Civil Engineering Corporation signed a US$805 million contract with the Libyan government to build to build 172 kilometres of railway lines in the North African country.

The most recent railways project was the commitment to finance a 430-km railroad linking Nouakchott to phosphate-rich Bofal in Mauritania, which was agreed upon in 2007. The project is financed by a US$ 620 million China Ex-Im Bank loan and will be implemented by Chinese Transtech Engineering Corporation.

Roads

The Chinese have been active in building roads across Africa. World Bank data recorded more than 18 projects involving Chinese commitments for construction and rehabilitation of more than 1 400 kilometers of road. However, the aggregate value of finance for confirmed projects at around US$550 million is substantially below that reported for the other sectors.

The road projects that Chinese firms have undertaken have been relatively small compared to average project sizes in other sectors, and many of them are financed by grants from the Ministry of Commerce. Indeed, the database recorded only two road projects financed by Chinese sources were larger than US$100 million in size, both of which were in Angola and part of the Ex-Im Bank line of credit provided in 2004. Road building has been an especially important activity in Angola, Botswana and Ethiopia. By far the most active Chinese road construction firm was the China Road and Bridge Corporation (CRBC).

Sudan has granted China's Sinohydro corporation a US$300 million contract to construct 486 kilometres of roads in the country. The construction is expected to make a significant contribution to improving Sudan's road transport network in the northern and central parts of the country.

Water and sanitation

Water and sanitation account for a relatively small share of China's total financial commitments to African infrastructure development. Participation in confirmed projects was about US$120 million, and another estimated US$200 million went into Angola's water sector as part of the China Ex-Im Bank credit line of 2004. In 2005 a series of water projects for Nigeria was announced.

Most of these projects were smaller scale in nature and more focused on meeting immediate social needs. China's water supply projects include a number of smaller dams that are not related to hydropower but directly to water supply, in Cape Verde and Mozambique.

10.2. Some Country Case Studies

Angola 

China's involvement in infrastructure finance in Angola began in 2002 – following the conclusion of the civil war – with a series of relatively small projects involving the rehabilitation of rail and power transmission infrastructure and the installation of a new fiber optic link.

It was in 2004 that China substantially scaled up its involvement in Angola with the agreement of a China Ex-Im Bank line of credit to allow the government to repair infrastructure damaged in the country's 27-year civil war that formally ended in 2002.

The overall size of the line of credit was US$2 billion, however only half of it went toward infrastructure (electricity, roads, water, telecom, and public works), with the other half dedicated to health, education, and fisheries This line of credit was disbursed in two equal installments over the 2004-06 period.

The US$2 billion loan was backed by an agreement to supply China with 10 000 barrels of Angolan crude per day for a period of 17 years. Indeed, this type of natural resource-backed financing deal (of which this was the first major example) has come to be known as "Angola mode" (Chen, 2007b). The Centre for Chinese Studies at Stellenbosch University indicates that the interest on the loan has been lowered to 0.25 percent from an initial level of over 1 percent, and that the loan has a 3-year grace period and 15-year repayment term (Stellenbosch University 2006).

Tied to the Chinese loan was the agreement that the public tenders for the construction and civil engineering contracts would be awarded primarily (70 percent) to Chinese state-owned enterprises approved by the Chinese government. In response, the China Ex-Im Bank compiled a list of 35 Chinese companies approved by both the bank and the Chinese authorities to tender in Angola.

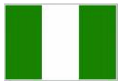
In September 2007, China Ex-Im bank issued another US$2 billion loan reportedly devoted all to infrastructure needs.

In 2006, Angola also agreed a loan of US$2,9 billion from the China International Fund (CIF) covering general infrastructure development. This has been run under the office of President Dos Santos in what is known as the "Reconstruction Ministry" headed by General Helder Viera "Kopelipa")

Today over 100 Chinese companies are now active in Angola, with approximately 60 000 Chinese workers employed on different projects there.

Some projects include the following:

- The China Road and Bridge Corporation (CRBC) has begun rebuilding the national road that links the Angolan city of Uige to Maquela do Zombo. The project, estimated to cost around US$80 million is expected to be completed next year.

Nigeria 

China's engagement in Nigeria amounts to total financing commitments of US$5,4 billion. The initiation of activities dates back to 2002 with the agreement on the first phase of the National Rural Telephony Project (NRPT), when China's two telecom giants ZTE and Huawei began actively pursuing equipment supply and network rollout projects for both fixed and wireless services in the country.

In March 2002, China Machinery and Equipment Import and Export Company (CMEC) and Shandong Power Construction Company agreed to a $390 million deal with the Nigerian Ministry of Power and Steel to build two gas-fired power plants with a total capacity of 670 megawatts. CMEC President Li Shuzhi said the plants would help ease the electricity shortage in Nigeria and promote economic and trade cooperation between the two countries.

Nigeria's first loan from the China Ex-Im Bank came in 2005 to support construction of power stations at Papalanto (335 MW), Omotosho (335 MW), and Geregu (138 MW) in Ogun, Ondo,and Kogi states. The construction of Papalanto plant, financing commitments to which we were able to confirm via Chinese sources, was undertaken by Sepco of China while the China Ex-Im Bank agreed to finance US$300 million of the estimated US$400 million construction costs. The deal was oil-backed such that in return
CNPC (or PetroChina, which is CNPC's listed arm) secured a deal to purchase 30 000 barrels of crude oil a day from the Nigerian National Petroleum Corporation (NNPC) for a period of one year, renewable.

In March 2005, the PRC agreed to construct 598 boreholes in 18 of the 37 Nigerian states - including the capital, Abuja – to support the country's water supply programme. The aim of the free-aid water project was to provide "clean drinkable water to ordinary Nigerians living in out-of-the-way areas." Nigeria also accepted another offer from the PRC for the construction and rehabilitation of small and large dams currently slated for the National Water Supply Programme and irrigation.

In 2006, there was a substantial scale-up in China Ex-Im Bank financing with almost US$5 billion of projects agreed. These included contributions of US$2,5 billion to a major Lagos-Kano railway upgrading project, contribution of US$1 billion to Abuja Rail Mass Transit project, which involves the construction of a high speed rail link between Lagos and Abuja, as well as a light railway system connecting Murtala Mohammed International Airport and Nmandi Azikwe International Airport with the Lagos and Abuja city centers respectively.

<u>Sudan</u>

Since 2001, China has provided US$1,3 billion to the finance of infrastructure projects in Sudan. The early infrastructure projects were all related to the power sector, beginning with construction of the El Gaili Combined Cycle Power Plant in 2001, and the Qarrel thermal station in 2002 (financing for which, however, was not confirmed by Chinese sources). China later financed three substantial thermal generation projects for coal-fired and gas-fired station in Port Sudan, Al-Fulah, and Rabak. Thus, a total of more than 2 200 MW of new thermal generating capacity are being added with Chinese support.

By far the highest-profile power sector project has been the recent completion of the 1 250 MW Merowe dam that began in early 2004. This massive US$1,2 billion hydropower project was the largest international project that China had ever participated in at the time the contracts were signed (although it has now been superseded by the Mambilla hydropower project in Nigeria, which will be more than twice the size).

Financers of the project included the China Ex-Im Bank (US$400 million), the Saudi Fund (US$150 million), BADEA (US$100 million), the Kuwait Fund for Arab Economic Development (US$100 million), and the Abu Dhabi Fund (US$100 million). Chinese company Sinohydro was involved in the construction of the plant, while, Harbin Power Engineering Company and Jilin Province Transmission and Substation Project Company took over the construction of the 1 776 kilometers of transmission lines within the same project.

The government in Khartoum announced that part of the benefits of this dam would be a major increase in the country's electrification rate following much needed investments in distribution. The project has entailed the resettlement of 55 000 to 70 000 residents away from the fertile agricultural areas surrounding the River Nile.

In December 2008, developmental contracts to the value of US$1,5 billion were concluded between Sudan and China. The projects comprise the building of the Al-Fulah 405-MW power station at a cost of US$680 million, construction of the Dongola-Halfa pipeline at a cost of US$120 million and building the Dibaybat-Malakal road at a cost of US$100 million.

10.3. Impact of the Global Recession

China has not entirely escaped the impact of the global recession. It has slashed demand for Chinese exports, resulting in a drop in domestic electricity use and prompting generators such as China Datang to look overseas for expansion.

Large scale industrial projects have been put on hold or abandoned. China’s Sinoma International, for example, recently reached agreement with the Nigerian Dangote Group to suspend a cement project worth US$1,45 billion and cut the size of another in Nigeria by nearly two-thirds. The suspended project involves six cement assembly lines, and the other project involving seven lines was cut from US$1,81 billion to US$ 689,5 million.

Chinese mining projects have been badly affected. Ambitious plans for Guinea Conakry have been put on hold. Plans to develop aluminium mines in Guinea Conakry in exchange for the construction of dams, roads and bridges has been held up by a change in the global economy and a coup in December 2008 which has created political instability and uncertainty.

Wide-scale retrenchments have also taken place at Chinese run mines in countries such as Zambia and DRC due to the slump in cobalt and copper prices.

Chinese investors are delaying plans to conclude a US$3 billion investment in Gabon’s Belinga iron ore deposit. Given the fall in Chinese exports to the US and the EU, major new Chinese investments are under closer scrutiny.

On the positive side for China, declining asset base values of foreign companies have spurred ambitious buyouts of such companies especially in the mining and petroleum sectors. Reports have been received that in exchange for cash injections by Chinese companies – foreign companies have to relinquish part or all their mining concession licenses to the investors.

11. THE ROLE OF CHINA'S FINANCIAL INSTITUTIONS

Critical to China's economic successes in Africa has been the important use of the country's state backed banking institutions. Under-pinning the aggressive buy-out of foreign resource companies, mineral and energy reserves and large institutional investment projects in the continents oil and infrastructure sectors, are a phalanx of state funding agencies supported by massive national reserves of accumulated liquidity of over US$2 trillion, ready to be shifted into the global market at a moments notice.

These entities include the China Development Bank (CDB), Industrial and Commercial Bank of China (ICBC) China International Trade and Investment Corporation (CITIC), China Export and Credit Insurance Corporation (CECIC), Sinosure and the China Export-Import Bank, whose executives work closely with Chinese oil corporates in putting together financial deals at preferable subsidized interest rates. These state driven institutions have vast resources at their disposal and are able to provide discounted loans to Chinese corporations on the overseas acquisition trail not necessarily subject to the same rigorous accountability and transparency constraints that govern Western business ventures.

It is this golden triangle that exists between Chinese companies, the state and quasi-commercial lending institutions that provide Chinese oil companies with cheap finance to undercut their Western competitors. The China Development Bank, for example, is the largest quasi-commercial bank in the world. With assets of US$350 billion, it is bigger than the World Bank and the Asia Bank. The China Exim-Bank is the world's third largest export credit agency – its principal mandate being to "implement state policies in industry, foreign trade and economy, finance and foreign affairs". The newly created China Investment Corporation (CIC) sits on an acquisition war chest of US$200 billion, courtesy of the Chinese Central bank, now wanting to diversify its foreign exchange holdings out of US dollars and Treasury bonds into resource assets.

Indications are that China Exim Bank provided an open line of cheap credit worth US$1,2 billion to CNPC and its subsidiary PetroChina, for overseas exploration and acquisition purposes. CITIC Resources, a subsidiary of CITIC, which specializes in equity investments in energy and natural resources, has also been working closely in putting together oil deals involving Chinese oil companies in several African countries, most notably Chad and Nigeria.

Consequently, with this type of financial backing, the China National Offshore Corporation (CNOOC) was able to put in a higher cash bid of US$18,5 billion for Unacol two years ago than that offered by Chevron-Texaco back in 2005. Only US legislators were able to stop the deal from going through.

In 2004 for instance, Huawei obtained a US $10 billion credit line from the state-owned China Development Bank and US$600 million from the Export-Import Bank of China to fund its global expansion. That, analysts say, helped Huawei undercut competitors' bids by as much as 70 percent and offer vendor-financed loans. For example, Nigeria received US$ 200 million in loans from the China Development Bank in 2004 to buy Huawei equipment. Lending rates at the time were well below the 6,39 percent benchmark one-year lending rate in China – sometimes as low as one or two percent.

All this amounts to subsidized risk investment – courtesy of the Chinese tax payer.

Importantly, in the absence of such “investment packages” Western companies find themselves at a clear disadvantage, unable to negotiate discount signature bonuses like their Chinese counterparts. Innumerous instances, a Western mining company for example cannot commit to infrastructure to secure a mining project which Chinese companies are able to do with the assistance of Chinese banks, geared specifically at resource acquisition ventures.

Another strategy being used by Chinese financial institutions to facilitate trade and investment is buying into overseas banks which have an extensive African footprint, by way of branches and clientele. In October 2007 the Industrial and Commercial Bank of China (ICBC), the largest bank in the world by market value, purchased a 20 percent share in South Africa’s Standard Bank Group Ltd. for $5,4 billion. Standard, operating in 18 African countries, leads all banks in African loans and has assets of nearly US$120 billion (Caggeso, 2007). China complemented this purchase by acquiring a stake in the United Kingdom banking house of Barclays. Using the $200 billion assets of the China Investment Corp., China paid $3 billion for a stake in the US investment banking firm Blackstone. Blackstone then helped CDB acquire a $7 billion stake in Barclays Bank, the United Kingdom’s leading African bank, with dominant positions in such resource powers as Nigeria, South Africa, Zambia, and Zimbabwe. These purchases guarantee Chinese access to powerful interests in the financial community of key African countries, and facilitate investment through non-bilateral government to government arrangements.

11.1. China Exim-Bank

The vast majority of infrastructure financing arrangements done by China in the African continent are financed by the China Exim Bank, which (like any Exim bank) is devoted primarily to providing export seller’s and buyer’s credits to support the trade of Chinese goods. These credits reached a total of US$20 billion in 2005, making the China Exim Bank one of the largest export credit agencies worldwide. In addition, the China Exim Bank is the only Chinese institution that is empowered to provide concessional loans to overseas projects.

By June 2008, China Exim Bank had financed more than 300 projects in Africa worth at least US$6,5 billion. Infrastructure is the core of China Exim Bank’s undertakings, as approximately 80 percent of projects approved have involved infrastructural development.

The China Exim Bank is increasingly making use of a deal structure - known as the “Angola mode” or “resources for infrastructure” - whereby repayment of the loan for infrastructure development is made in terms of natural resources (for example, oil). While this approach is by no means novel or unique, and follows a long history of natural resource - based transactions in the oil industry - China has taken its implementation to a higher level.

By providing preferred lines of credit to Chinese state-owned enterprises and foreign governments wishing to purchase Chinese made goods, the China Exim Bank supports the overseas expansion of Chinese firms in line with the country’s “Go Global” strategy, whose long-run goal is to increase the productivity and competitiveness of these enterprises vis-à-vis their global competitors.

The arrangement is used for countries that cannot provide adequate financial guarantees to back their loan commitments and allows them to package natural resource exploitation and infrastructure development.

The China Exim Bank's terms and conditions are agreed on a bilateral basis, with the degree of concessionality depending on the nature of the project. The World Bank's Debtor Reporting System offers some insight into Chinese lending to Sub-Saharan Africa, including both infrastructure and non-infrastructure loans.

On average, the Chinese loans offer an interest rate of 3,6 percent, a grace period of 4 years, and a maturity of 12 years. Overall, this represents a grant element of around 36 percent, which qualifies as concessional according to official definitions.

However, the variation around all of these parameters is considerable across countries; thus interest rates range from as low as 0,25 (as in the case of Angola) to 6 percent, grace periods from 2 to 10 years, maturities from 5 to 25 years, and overall grant elements from 10 to 70 percent. Chinese loans compare favorably with private sector lending to Africa but are not as attractive as ODA, which tends to provide a grant element of around 66 percent to Africa.

In the case of concessional loans, there is a requirement that a Chinese enterprise be selected as the contractor or exporter. Moreover, no less than 50 percent of the equipment, materials, services, or technology needed to implement the project should be secured from China. In the Angolan case, the figure was even higher at 70 percent.

11.1.1. The Angolan Example

Angola constitutes the best example of just how intertwined China's economic and political interests are and how effectively Exim Bank's loans were used to leverage Chinese corporate access to Angola's oil sector.

Chinese interest in Angola coincided almost simultaneously with a reorientation in Angola's foreign policy towards the East. Several issues were emerging to aggravate relations with Angola's traditional Western partners:

- Growing criticism of Angola's rampant corruption problems by NGOs such as Global Witness and global financial institutions like the International Monetary Fund (IMF) and World Bank demanding greater transparency and good governance considerations with regard to oil revenue flows;

- The Elf Aquitane corruption scandal exposing the payment of bribes to African elites including Angolan government officials, in return for favourable access to oil markets;

- Luanda's continuing civil war against UNITA;

- The absence of democratic elections;

- The so-called Falconegate scandal in France which fingered high-ranking Angolan officials involved in the illegal acquisition of French arms, including officials in the

President's Office i.e. General Helder Viera aka "Kopelipa" – the President's main security chief;

- The most important aspect was funding – to jump start the rehabilitation of the social fabric and the country's infrastructure practically destroyed in nearly 30 years of civil war. According to the Angola bank BCI, the country needed US$15 billion in direct loans, at the start of the post-war (April 2002) reconstruction period of which only US$3 to 4 billion could be raised in Angolan banks or other credit institutions.

The bulk – some US$11 to US$12 billion would have to come from abroad. Angola found itself in a catch 22 situation – it owed the Paris Club of Creditors some US$11 billion in foreign debt – monies which the Angolan government was unable to repay, let alone properly service its interest debt repayment obligations. Relief could only be gained by embracing an IMF structural adjustment programme which required fundamental institutional reform of the Angola's government institutions and the opaque use of its oil revenues. Once an IMF programme was place, negotiations with the Paris Club could move forward providing much needed debt relief for Angola.

At the turn of the millennium, Angola briefly flirted with an IMF Staff Monitoring Programme (SMP) to try and put into place building blocks for the reform of Angola's economy and governing institutions. However, it would require the dismantling of the way Sonangol conducted business – effectively a "sovereign state" within the Angolan government – more powerful than the Finance Ministry and the Central Bank of Angola (BNA) combined. At the time, this was not something the Presidential Palace (the "Futungo") was willing to consider.

After oil prices started to rise from its low levels of around US$10 per barrel by the close of the last century – Angola dumped the SMP programme and aggressively switched to raising oil backed loans on the international money market via Sonangol. Effectively the state oil company became lender of last resort for the Angolan government and quickly built up a reputation for scrupulously adhering to debt repayment schedules of such loans – much to the delight of international bankers.

However, the price of such loans were extremely high, with Angola paying premium interest rates for its high risk status, using oil backed guarantees that were much lower than prevailing market rates. At one stage Sonangol was locking up nearly its entire future planned oil production as oil pay back guarantees for the loans. The oil backed loan policy also came under scathing criticism from the Bretton Woods institutions. They argued that arguing that it was an expensive alternative to embracing IMF reforms, and postponing much needed reforms to stabilize the Angolan economy and the reintroduction of Angola back into the mainstream global economy.

In addition, the much promised "donors conferences" never materialised in Angola's attempts to attract IMF monitored foreign money and soft loans. Angola's top negotiators at the time led Finance Minister José Pedro de Morais and the ever competent Aguinaldo Jaime - head of the Angolan Central Bank (BNA) at the time, were met with the constant refrain that *"it is immoral to lend to a country soaking rich with natural resources, as Angola, a country that is unable or unwilling to initiate sizeable political reforms"*.

In the end a stalemate was reached with foreign donors, who would not lend because of the lack of reforms, and Angola would state that the lack of reforms was due to the refusal to lend.

11.1.1.1. Enter the Chinese

It was this confluence of events which saw China enter the Angolan equation, already hungry for the acquisition of raw materials. With the ending of the civil war in April 2002, Angola needed rapid socio-economic development to fast-track the development of an emaciated populace. This became Dos Santos's most important policy objective - to leave behind a legacy of socio-economic development (a type of economic peace dividend) for which he would be remembered for, before he stepped down.

China provided the solution – flush with cash, Beijing was willing to leverage its political influence in Africa by using its growing pile of cash filling up the Central Bank coffers and related state backed financial and developmental state owned enterprises (SOEs) such as the China Exim Bank, China Development Bank (CDB), China Construction Bank (CCB), Sinosure, China International Fund (CIF), etc.

Importantly, there were no political or "moral" strings attached to such loans – with China strictly sticking to its principle of "non-interference in the sovereign affairs of nations states. At the time, Aguinaldo Jaime confided to several interlocutors that China had a supplementary advantage: its banks had enough liquidity to immediately disburse money, and saw loans as a continuous process, until the necessities of the borrower would end.

Angolan officials say they turned to China because Beijing was willing to offer assistance without political strings attached, especially on the issue of transparency, as well as opening up important sectors of the Angolan economy. The Chinese were prepared to negotiate low interest rates and reasonable repayment schedules, but with the understanding that there would be economic and political prizes to be won, especially in the oil industry.

11.1.1.2. A Loan Chronology and the Oil Link

Thus examining a time line assessment of the loans made to Angola since 2004, shows a close relationship between lending announcements and the clinching of important energy projects between both countries. This interlock is outlined below along with a sequenced analysis of when various loan disbursements were made to the Angolan government.

- 2000: In the same year that Defence Minister Kundy Pahyama visits China in May 2000, Angola's oil exports to China surge from 40 000 bpd in 1999 to 174 000 bpd in 2000.

- 2002: The China Construction Bank (CCB) and China Eximbank invest US$145 million in Chinese firms working in Angola.

- 26 November 2003: A "Framework Agreement" is signed between China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and the Angolan Ministry of Finance. This is the legal basis for the whole credit contracting process between the two states that was to follow in the period ahead. Very importantly, it was determined that the credit line could extend up to US$10 billion, until the end of the reconstruction period.

- February 2004: Sonangol head Manuel Vicente visits Beijing to discuss joint projects and steps to enlarge the Chinese stake in Angola's upstream and downstream sectors. Discussions included Sinopec's possible participation in the proposed Lobito oil refinery set to produce 240 000 bpd of refined petroleum products.

- 2 March 2004: – Chinese Deputy Prime Minister, Zeng Peyan, visits Angola and then Angolan Prime Minister Piedo Nandó visits Beijing. China Eximbank and the Angolan Ministry of Finances sign a US$2 billion loan agreement, with a further facility of US$500 million set aside to be drawn upon if required. The initial US$2 billion loan is divided into two equal parts. US$1 billion would cover 18 contracts for public works, 60 different projects and a host of supplementary plans including 1 500 trucks for farmers and agricultural merchants, a new power grid for Luanda, agricultural projects, and a 371 km road linking the capital with the crucial northern town of Negage, through heavily mined parts of the country. The balance would go to 27 contracts and 50 social projects covering health and education, public works and social development.

- September 2004: Visit to Luanda by the Exim Bank head Yang Zilin to look into allegations of corruption around the loan and means to monitor more effectively its disbursements. Shortly after the visit, Angola establishes a Technical Monitoring Office (GAT) for the Chinese loan, working under a Inter-Sector Monitoring Commission. The Commission, headed by then Finance Minister José Pedro Morais, include the Minister for Public Works, the BNA Governor, the Secretary at the Council of Ministers and the Chairman of Sonangol. The GAT is made of experts from the Ministry of Finance, BNA, cabinet ministries involved in projects and Sonangol officials - as the loan is guaranteed against oil production. [See below.]

- At the time of the visit, China's Sinopec oil company eased out India's ONGC-Vindesh to acquire Shell Oil's 50 percent stake in Block 18, operated by BP-Amoco. .

- October 2004: Upon consultation with Beijing, President Dos Santos and Nandó decide to create a specialised office, to supervise the national build up, oversight and spending of foreign funds, and channel and monitor part of the Chinese loan. Known as the National Reconstruction Office (GRN), it presides directly under the chief of security in the presidency, General Hélder Vieira Dias, aka "Kopelipa". Importantly the GRN started as a monitoring entity over the Eximbank loan, following allegations that Angolan officials via questionable economic entities were skimming off massive commissions from the fund. The main culprit identified was António Van Dunem, Secretary of the Council of Ministers and the direct link between the President and the Cabinet who shortly after his exposure was sacked.

- November 2004: China ejects Total SA from Block 3/80 in retaliation over the Falconegate affair. Sonangol enters into discussion with Sinopec to take over the block.

- 26 February 2005: Visit to Luanda by the high powered Prime Minister Zeng. Several oil related and financial agreements are signed, including the handover of US$6,3 million interest free loan for "technical projects" and the signing of two memorandums of understanding linked to a joint study on the oil exploration of Angola's Block 3/05 (formerly Block 3/80), between Sonangol and Sinopec and another one on the joint exploration of the country's new oil refinery.

- March/April 2005: A new loan agreement is signed between the China International Fund (CIF) and the GRN, with documents signed in Hong Kong and Luanda. A initial amount of US$2,9 billion is disbursed to previously war ravaged corridors such as Luanda-Lobito, Malanje-Saurimo, Saurimo-Dundo, Saurimo-Luena, including a slew of presidential projects - revamping of the current Luanda airport and the construction of a new one (US$450 million), expansion and repairs to railway lines – including the famous Benguela railway line (US$300 million), dredging Luanda bay, a new sewage system for the capital, etc. An additional US$6 to US$7 billion was envisaged for disbursement over a four year period but have yet to be fulfilled. However, in 2007, many CIF projects came to a standstill due to problems within CIF and its parent company - construction arm of Beiya International Development Ltd., the parent company of China Angola Oil Stock Holding Ltd., which trades Angolan oil. By the end of 2008, 80 percent of the initial US$2,9 billion disbursement had been spent. The balance of the US$6billion to US7billion has not been spent and is likely to become part of a "joint venture" financing deal that will include China EximBank.

- March 2006: China and Angola announced the establishment of a joint venture between Sonangol Refineries (Sonangref) and Sinopec to build the much discussed US$3,4 billion oil refinery in Lobito with a capacity of 240 000 bpd. In the same month the original US$2 billion loan is increased by US$1 billion to US$3 billon, rendering China the biggest foreign player in Angola's post-war reconstruction process.

- May 2006: SSI beat off international competitors in bids worth US$2,4 billion to win crucial stakes in Blocks 15 (20 percent) and 17 (27,5 percent). The two blocks have total proven reserves of 3,2 billion barrels.

- 20 June 2006: Chinese Prime Minister Wen Jiabao undertakes a blitz visit to Angola, and Prime Minister Nandó meets visiting Exim Bank boss Yang Zilin. A Memorandum of Understanding (MoU) is signed between Yang Zilin, Angolan Prime Minister Nando and Finance Minister José Pedro Morais, extending an additional lending facility of US$2 billion to Angola.

- April 2007: Gao Jian, head of the China-Africa Development Fund (CADF) and the Vice President of the China Development Bank (CDB) meet Deputy Prime Minister Aguinaldo Jaime. First discussions take place on loans not attached to oil guarantees. Established in 2006 with seed capital of US$5 billion, the CADF based Equity Fund, is used by Beijing as a "first step" to investment in Africa. Jian has been in touch with the Angolans, usually accompanied by CADF CEO Chi Jianxin. Indications are that a loan is planned from CADF in April/May later this year at Libor plus 1,5 percent. However, the amount to be loaned will not be as high as the Exim Bank amounts. [**Note:** No loans as yet have been made by CADF to Angola. This remains part of ongoing negotiations between both countries.]

- 19 July 2007: An additional US$500 million is granted as part of the credit extension linked to the provisions of the 2004 Exim Bank loan. The conditions linked to this loan are precisely the same as those governing the first disbursement of US$2 billion as per the March 2004 Exim Bank loan.

- 20 September 2007: Finance Minister José Pedro Morais meets new Exim Bank head Li Ruogu (a US educated technocrat, who worked in IMF circles and the African and Asian Development banks) to finalise the contractual document for the MoU signed between Yang Zilin, Angolan Prime Minister Nando and Finance Minister José Pedro Morais in June 2006, making available an additional US$2 billion loan. Conditions vary slightly from the initial Exim Bank loan structure negotiated in 2004. Interest is set at Libor plus 1,25 percent with the repayment period reduced from 17 to 15 years,

- 3 July 2008: New Exim Bank head (Li Ruogu and José Pedro de Morais sign a "Complementary Individual Financing MOU", which sees the disbursement of a separate US$134 million loan to three communal development projects in Angola. The terms of the loan are the same as the September 2007 Exim Bank loan. The credit will fund the modernisation of the electricity system in two towns in Lunda Norte and Luanda Sul provinces, the construction of a water treatment plant and canals in the Luanda area and a road upgrade projects in two other provinces.

- August –September 2008: President Dos Santos visits Beijing and Shanghai, for the Olympic Games. China and Angola affirm the need to start a new approach to loan agreements. Dos Santos and Aguinaldo Jaime meet CADF head Gao Jian, and plan a new series of loans no longer guaranteed by oil, but by "sovereign guarantees" issued by the Angolan treasury. Jian calls this a "risk sharing loan". Gao Jian is also the Vice-President of the China Development Bank (CDB).

- December 2008: With global markets collapsing, Dos Santos returns to China to obtain guarantees that loans promised to Angola will not be interrupted, and to ask for the possibility of additional funding . He is told by Chinese officials that the global credit crunch is "temporary". Dos Santos meets with the Exim Bank board, under Li Ruogu and reviews a new set of proposed loans, partly decoupled from oil backed guarantees, as the Chinese believe that Angola's growing currency liquidity is enough to satisfy their credit concerns. The CIF payment crisis issue is also reviewed (see below), as are other FDI projects. Discussions centre on the possibility that stalled CIF projects like the new Luanda airport and the New Luanda City Project – could be co-funded with Exim Bank money, as could other flagship projects such as the planned SONAREF refinery, the new Soyo Technological and Industrial City and Development Pole, new power generation projects, the expansion and training of the TAAG air fleet and crews and Sonangol's LNG project.

- 19 January 2009: During a quick two day visit, China's Commerce Minister Chen Deming meets with new Angolan Finance Minister Severim de Morais, and states that direct loans made to Angola from Exim Bank totalled US$4,5 billion in the 2004-2008 period. The figure, however, is over US$5,5 billion.

- 7 February 2009: Angolan Finance Minister visits China to put the finishing touches to a new US$1 billion loan from Exim Bank. Indications are that this will not be oil backed but linked to "sovereign guarantees". No details are forthcoming on this at the time of writing.

There is no doubt that Angola was given unusually generous terms on the loans, even by normal Exim Bank standards: British index Libor 3 M (three months) plus 1,5 percent. Payment to be spread over 17 years, with 5 years of grace. Two semi-annual payments, were scheduled for 21 March and 21 September each year. Although rates are favourable, if compared to the famous 2005 Standard Bank loan of US$2,35 billion (at Libor plus a 2,5 percent interest rate), interest payments do not vary much from other loans made to Angola, re LR Luminar, Deutsche Bank of Spanish Santander. India Exim Bank offered a loan at Libor plus 1,75 percent. However, all these loans differ in one respect - they are based on “sovereign guarantees” (i.e., promissory notes from the Ministry of Finance) and not on “real guarantees”, as mandatory allocated quotas on oil production, or loan amount equivalent oil barrels.

This year, Angola has reopened discussions with the IMF. Reasons have been suggested in some quarters was that Angola’s reliance on Chinese funding was becoming excessive and that alternative funding avenues are now needed, to balance Angola’s foreign debt portfolio.

11.2. The China-Africa Development Fund

The CADF was officially established on 14 March 2007, following Chinese President Hu Jintao’s promise at the China-Africa summit in Beijing in 2006, to provide additional funding for investment in Africa. The CADF is funded and controlled by the China Development Bank (CDB), a state-owned bank which has played a key role in developing China’s economy over the past twenty years.

The CADF is one of eight elements in China’s planned enhanced engagement with Africa over the next three to five years as outlined by President Hu Jintao at the 2006 Forum on China - Africa Co-operation (FOCAC) Summit in Beijing. At the FOCAC summit, President Hu emphasised that China was seeking a new mechanism to facilitate investment in Africa. The fund’s business scope includes equity and quasi-equity investments, fund investments, investment management and consulting services. Its mission is to support African countries’ agriculture, manufacturing, and energy sector development; to expand transportation and telecommunications networks; and to promote the pace of urban infrastructure, resource extraction and the establishment of trade zones, or Chinese business centres, in Africa.

Chinese officials have promised that the fund will be more comprehensive than similar offerings by international organisations such as the ADB and the International Finance Corporation (IFC). Chinese multi-nationals and state-owned companies have already received assistance from the fund in accessing the African market. Telecommunications giant, Alcatel Shanghai Bell, for example, has received backing from the CADF to explore new opportunities in Africa.

The CADF provides a mechanism for Chinese companies to establish and maintain business networks across the continent, by providing them with low interest bearing loans and on-site facilitation services. It is expected that the initial US$1 billion will be spent during 2009, with an additional US$2 billion available in 2010 and the remaining US$2 billion on offer in 2011/12.

The CADF will provide a major incentive for Chinese companies to come to Africa. In addition, the CADF backed by official links, will assist Chinese companies in overcoming the many challenges of doing business in Africa. The fund is now well positioned to assist Chinese companies to fill the vacuum left by retreating Western businesses, especially mining houses such as Rio Tinto, as Western economies contract.

The more than 900 large Chinese companies active across the African continent will be able to access CADF funding for new projects and for the expansion of existing operations.

Since its inception, the fund has invested US$400 million in over 20 projects in Africa, including:

- Malawi - cotton project;
- Ghana - 560 000 kW power station;
- Ethiopia - glass factory (other projects in the following sectors are under investigation: agriculture, manufacturing and construction);
- Egypt - Suez Trade Park;
- Liberia - projects under discussion include agriculture and construction;
- Nigeria - Lachish Trade zone;
- Zimbabwe - chromite project;

The CADF has also concluded a co-operation agreement with EcoBank, the leading independent regional banking group in Africa. EcoBank is active in 25 African countries providing a range of services from micro-lending to major investments.

The specific objectives of the fund have been identified as investing directly in Chinese companies which have set up operations in Africa, or plan to invest in Africa. The CADF co-operates alongside Chinese government and diplomatic initiatives to strengthen China-Africa relations and strategic partnerships. The fund identifies appropriate projects and expects to show a profit from its operations. It is intended to improve Chinese corporate capacity, without further burdening African countries' debt profiles. Though a specialised team manages the fund with the overriding objective of ensuring profitability, it is beholden to the CDB which in turn operates under the jurisdiction of the all-powerful State Council. The primary target of the fund is Chinese companies operating in Africa which want to expand operations, or undertake new ventures.

The CADF's business scope includes the following:

- Equity investment - support for Chinese companies in Africa (usually the CADF will not be the major shareholder);
- Quasi-equity investment - investments in stocks and bonds;
- Fund investments - the CADF may invest in capital funds which have African exposure; and

- Investment management and consulting services - the CADF will provide advice for Chinese corporations seeking to invest in Africa.

Target industries identified by the CADF include:

- Agriculture and manufacturing industries;
- Infrastructure, including power generation; transportation, telecommunications and water supply;
- Natural resources, such as oil, gas and raw materials; and
- Industrial parks for Chinese enterprises in Africa.

The CADF is prepared to invest in new or existing Chinese enterprises which are initiating or expanding operations in Africa. Once on a sound footing, the CADF may decide to terminate support for any particular Chinese enterprise.

The CADF is fully funded by the state-owned China Development Bank (CDB), which has been a key institution in supporting China's infrastructure development and the promotion of basic industries and strategic industries. The activities of the CDB provide the model and guidelines for China's activities in Africa through the CADF backed by significant financial capacity. CDB activities in China are substantial and have included the following:

- Electricity supply - the CDB has provided over US$500 billion to build power stations and develop power-lines throughout China;
- Roads - China's Development Bank has played a key role in developing China's main road system with an exposure of over US$490 billion;
- Railways - the CDB has a strategic partnership with China's Ministry of Railways which has produced an extensive rail network in China. The CDB is presently involved in a high-speed rail project which will link the mid-west to Beijing;
- Petroleum - the CDB has invested over US$100 billion in oil fields, refineries, pipelines and support networks throughout China; and
- Agriculture, public infrastructure and telecommunications - in all these areas the CDB has played a key role in funding new development projects and advancing economic development in China.

Thus the CADF's funding partner has extensive and wide-ranging experience in developing an emerging economy and providing the capital and advice for positive outcomes. The China Development Bank of course is a key player in promoting and implementing China's "go global" strategy of which Africa is a major focus of attention.

By the beginning of January 2009, CADF had concluded deals worth almost US$400 million in over 20 projects since its inception. At least another 100 proposed projects are presently under consideration by the fund. The fund has also established strategic partnerships with 10 major enterprises in China in order to expand business co-operation with African countries.

11.2.1. CADF Opens New Office in South Africa

On 16 March 2009, the China-Africa Development Fund (CADF) opened its first African representative office located in the city of Johannesburg. The opening was marked by a signing ceremony of an MOU between CADF and the South African Department of Trade and Industry (DTI). Little information, however, was provided on the nature of the MOU signed between both countries. Only a general statement that the MOU will "increase Chinese investment opportunities" in South Africa was offered. Chinese officials acknowledged afterwards that more information should have been forthcoming on the MOU.

The opening of the CADF office in Johannesburg, however, does constitute a more fundamental engagement with Africa by Beijing. According to Chen Yuan, Chairman of the board of the China Development Bank (CDB), the new office will serve as a channel to accelerate investment in both South Africa and the Southern African Development Community (SADC) region and that funding will be made available for a range of projects in Africa intended to assist in the continent's development. An amount of US$5 billion has been ear-marked for the fund by the CDB, of which US$1 billion is now immediately available. To date, CADF has committed US$400 million to Chinese companies new investment projects in Africa.

Chairman Chen Yuan (See Annexure IV) explained that the fund will open the way for a new wave of Chinese investment in Africa to promote long-term economic development in Africa. Chen indicated that the fund will invest in "multiple industries" to provide a range of economic development options. CADF President Chi Jiaxin (See Annexure IV) explained that the office was the first of its kind in Africa, but many more were planned for other parts of the continent as a means to facilitate an active investment programme. The CADF will provide the foundation for expanded China-Africa trade and investment and will make it more attractive for Chinese investors to come to South Africa and Africa as a whole.

Zhong Jianhua, China's Ambassador to South Africa indicated that his office was ready to facilitate an increase in Chinese companies visiting the country. He predicted a growing interest in Africa following the opening of the CADF office and assured delegates that the embassy would work closely with the CADF to advance new Chinese investment programmes. The ambassador also indicated that the opening of the CADF office followed closely on the visit of a high-ranking Chinese business delegation to South Africa three weeks earlier led by senior executives from the country's telecom sector, in search of new investment opportunities in South Africa.

Opening of the CADF office in Johannesburg – on left ANC Treasurer Mathews Phosa and on right Chen Yuan, Chairman of the Board of the CDB

South Africa's Deputy Trade and Industry Minister, Elizabeth Thabethe, said the CADF will focus on collaboration in the following areas: mining, transport, energy, agriculture, infrastructure development and the information & communication technology sector. In this respect, South African officials are looking to building new commercial relations with a range of Chinese investment companies, backed by the CADF. Speaking briefly on the MOU signed between herself and CADF CEO Chi Jianxin, she said that it would provide "financial assistance" to South African companies in "distress", alluding to the impact that the global financial crisis was having on local business.

Also a key speaker at the event, African National Congress (ANC) Treasurer Mathews Phosa commented that the opening of the new CADF office was indicative of the trust that China had in South Africa's legal institutions. He pointed out that in recent years China's growing economic and political prestige had resulted in South Africa turning "east" in search of new economic partnerships. Phosa said that projects financed by the Chinese to help emerging entrepreneurs in South Africa would be supported by the ANC. Despite the contraction of the world's key economies, Phosa was impressed that China is still willing to make new investments in Africa and help African economies overcome financial difficulties, and that the "decline" in Western interest in Africa is expected to be filled by a new wave of Chinese investments. He welcomed China's interest in Africa and emphasised that Chinese investments were welcomed by South Africa, SADC and the continent as a whole.

Mathews Phosa assured attendees that the China-South Africa relationship will be stepped-up after the April elections – predicting an escalation of co-operation in the months ahead focused on "people to people" (party to party) engagement. .

The presence of Phosa as a non-government party functionary at the opening was somewhat unusual. However, it followed up an earlier meeting that was had between Chen Yuan and ANC President Jacob Zuma, to discuss improved China/SA collaboration. Reliable reports indicate that China had made a substantial donation to the ANC to assist the party in the funding its April 2009 election campaign.

11.3. Industrial Commercial Bank of China

The Industrial Commercial Bank of China (ICBC) – China's biggest bank - made headline news in the African context when it bought a 20 percent share of South African Standard Bank for US$5,1 billion in 2007. Two years on and ICBC and its Standard Bank partner are in the process of planning a continent-wide acquisitions programme that may see it rope in over US$500 million by 2010. Standard Bank's impressive access to the African market, backed by Chinese capital is set to transform the continent as Chinese acquisitions expand and accelerate. Standard Bank's advantage is based on its network of 1 000 branches in 18 African countries with new outlets planned in the DRC and Angola.

Standard's broad coverage has opened a new avenue for China's state backed ICBC to advance Beijing's geo-strategic agenda across the continent.

Contradictions between Standard's traditional approach to banking and China's state-driven, long-term vision for Africa are evident, but progress is being made on crafting a compromise business model. Clive Tasker, chief of Standard's African Division is said to be planning a US$5 billion acquisition programme with a strong focus on oil, telecoms, mining, base metals and power generation. Target states include the DRC, Ghana, Tanzania, Mozambique and Nigeria.

The first step is expected to be a US$1 billion resources fund intended to leverage ICBC into major African commodities markets. Over the longer term, Standard Bank is increasingly expected to front for China's strategic resource acquisition programme.

The ICBC-Standard Bank co-operation list now covers over 60 projects and is expected to expand significantly over the next few months. ICBC's annual profit growth rate has totalled 37,5 percent on average over the past six years.

12. IMPLICATIONS FOR JAPANESE INVESTORS

The fundamental lesson to learn from China's economic engagement with Africa is that Western companies are primarily answerable to their share-holders while Chinese companies are primarily answerable to the state or more specifically the CCP. Herein lies conflicting world views on how business is conducted and what the ground rules of engagement should be. Profit is not the primary consideration driving the decision-making process of major Chinese companies. Instead positional access to cheap raw materials and consumer markets, using the subsidized muscle of state financial institutions to monopolize resource access in countries to ensure a secure supply of resources to China is. In a nutshell political imperatives of the CCP inevitably override or at the very least influence business decisions taken at board levels of major Chinese companies.

When political and national security considerations underpin investment decisions, Chinese companies are willing to pay a higher price or a "political premium" to clinch energy and development deals that would otherwise be considered unviable or too expensive by Western companies. Likewise the institutional support enjoyed by Chinese SOEs investing in Africa by their respective governments effectively lowers the risk threshold of such entry into unstable African markets.

For Western companies, the challenge is more acute, having to compete not just Chinese companies but against a whole phalanx of state backed political and economic institutions which provide a measurable advantage to such companies operating in the African energy environment. In a sense, Western companies are competing not just against Chinese corporates, but rather against the economic and political institutional power of the nation state itself.

Japanese companies doing business in Africa, will therefore require a holistic approach to investment decisions to meet the China's investment challenge in Africa - one that will require closer coordination and collaboration between the private sector and the state on a range of economic and political issues. An element of state leverage in the form of tailored economic and political packages to sweeten investment deals mooted by private companies is one consideration. For example, Western companies often express frustration at the lack of infrastructure to support new planned energy or mining projects in most African countries. China circumvents this problem by offering not just money for a mining project but assistance in establishing the necessary infrastructure network to support the mining operation, in addition to foreign aid grants, political junkets and other "add-ons" to make the deal attractive to the recipient company.

Other adoptive positions for Japanese companies to consider include the following:

- Immitate the successful elements of the Chinese approach, without embracing the "dark side".

- Every business approach into African countries requires a parallel political approach. Successful business deals are not just clinched on the quality of the product but who one is speaking to and the choice of local JV partners.

- Every business plan must include projects to assist civil society through training and education, science and technology development.

- A good business intelligence platform is required in order to know who to contact, who to lobby, who to sell. The Chinese have been extremely successful in doing this.

- Forging links with local media is important and PR firms are crucial, both from a PR point of view and to help expose opaque practices, inefficient systems, and inferior hardware and software being offered by Chinese firms. Without prior public knowledge, it is sometimes difficult for African leaders to decide on technologies that are arcane to them, most of the times.

- It is always important for foreign investors to deal with targeted countries at the very highest macro level. There is a need to co-opt the power elites before focusing on negotiations with government parastatals and potential private local JV partners. There is a need to lock in the interests of the top decision-makers before pursuing the business side of any new investment venture.

The emergence of a new Chinese business model which integrates Chinese overseas investment projects with its overall global economic, military and political objectives, constitutes a package of incentives unmatched by other foreign companies.

The challenge facing non-Chinese operators in Africa is not just understanding business plans of Chinese firms, but how they fit into China's broader internal development plans related to both consumer and military needs, the importance of high technology acquisitions and China's global hegemonic outlook.

ANNEXURE I: THE FOCAC FUC STRUCTURE

Giving support and policy content to FOCAC is the powerful Follow-Up Committee. As previously indicated, Vice-Minister Ji Peiding was one of the top executive planners of the new PRC African policy. However, when he went on to become Beijing's top man in Hong Kong, the FUC group lost one of its main inspirational figures. Nevertheless, key political heavyweights in the Chinese political establishment who have lent weight and credibility to this new structure, include:

- Former Foreign Minister (1998-2003) and State Councillor: Tang Jiaxuan.
- MOFTEC Head: Shi Guangsheng.
- MOFTEC Deputy Head Sun Guangxiang

A "shadow steering committee" consisting of the Secretary-General (Foreign Ministry Director of West Asia and Africa), senior Chinese ambassadors to Africa, such as Liu Guijin, and former Commerce vice-Minister and now Ambassador to the Russian Federation , Liu Guchang.

Senior MOFTEC/MOFCOM officials identified as having worked in the CACF and FUC are:

- Vice-Minister Sun Guangxiang (an electric engineer with experience in Sudan).

- Former Deputy-Director and Director-General of West Asian and African Affairs Wei Jianguo, who is now Vice Minister of Commerce. He is a French graduate with experience in Morocco and Tunisia.

- Assistant Minister of the Ministry of Foreign Trade and Economic Cooperation of China, He Xiaowei, a graduate in Spanish and Politics and also a veteran of Mozambique and Guinea-Bissau affairs.

- Assistant Minister of the Ministry of Foreign Trade and Economic Cooperation and now Commerce Vice Minister - Gao Hucheng, a former industrial worker. He is a French graduate with experience in both Congos. He is considered the "hard line" political director of the group.

Heading the administrative side of FUC is its Secretary-General Ms. Xu Jinghu, Director-General of the African Department in the Chinese Ministry of Foreign Affairs.

Xu Jinghu

Initial plans for the FUC were to have 30 members from 19 departments. However, FUC now has over 50 members from 21 public departments of the PRC (some were integrated after a review of initial plans, drawn-up between October and December 2000). Delegates are drawn from the Foreign Ministry, MOFTEC/MOFCOM, the International Liaison Department (ILD) of the CCP (mainly dealing with intelligence matters), the State Development Planning Commission, the State Economic and Trade Commission, the Ministries of Education, Science and Technology, Finance, Communication, Agriculture, Culture, Health, the China Council for the Promotion of International Trade, the People's Bank of China as well as the Import-Export Bank of China.

FUC's mandate, besides a classic economic and trade view, is the supposed implementation of a political strategy towards Africa, that will ultimately strengthen Beijing's influence in the global game arena. Its main aim is to strengthen the PRC's positions in:

- The UN Security Council.
- The UN General Assembly.
- International Joint Commissions and special bodies.
- Human Rights bodies of the UN and other fora.
- In the WTO applicants structures.
- In the IMF and World Bank structures.
- In its tense standoff against the US.
- In the drive for the total political and economic isolation of Taiwan.

In addition its role is to:

- Create new markets for the PRC's expanding economy;
- Creating a dependency" towards Chinese products (in that sense Chinese factories in loco will be a supplementary appetizer);
- Export low and middle technology weapons, which could subsidize the PRC top technology arms producers; and
- Produce military products in joint ventures with at least two African partners: Egypt and South Africa, and secondary instances to possibly granting licences to Sudan and Namibia as well. [This is already happening in Sudan.];

APPENDIX II: THE FORUM ON CHINA-AFRICA COOPERATION

[16-18 December 2003]

The second Forum on China-Africa Cooperation (FOCAC) took place against the backdrop of four main issues that currently drive China's Africa policy:

- Developing a broad front against US or Western hegemonic aspirations;
- Securing new consumer markets for its growing production base;
- Securing new raw material supplies;
- Neutralising Taiwan's search for international respectability;

The FOCAC meeting in Addis Ababa was preceded by a meeting of the Third Senior Officials Meeting (SOM) of the second China-Africa Cooperation Forum (FOCAC), which ended in Addis Ababa on 12 December 2003, with the adoption of the draft agenda for the second ministerial conference of FOCAC slated for the following week. The SOM was presided over, jointly, by Kongit Sinegiogis, director general of African affairs and permanent representative of Ethiopia to the African Union (AU) and Du Qiwen, secretary-general of the Chinese FOCAC Follow-up Committee (FUC).

In an opening statement at the SOM, Ethiopian State Minister of Trade and Industry Taddese Haile, said "*China's cooperation with Africa, particularly in some critical areas can make a real difference in assisting African countries in their earnest fight for transforming their political and socio-economic development,*" Of much greater significance, Haile, continued, " *We consider China as our vital strategic partner*. "

The FOCAC Meeting

The FOCAC meeting itself that commenced on from December 15 through December 16, saw six African presidents in attendance. They included Congo-Brazzaville President Sassou-Nguesso, Mozambican President Joaquim Chissano, Sudanese President Al-Bashir, Ugandan President Yoweri Museveni, Zimbabwean President Robert Mugabe and Comoro President Azali.

Other high-level officials from most African states were also in attendance. These included Ethiopian Prime Minister Meles Zenawi, South Africa's then Deputy President Jacob Zuma and Foreign Affairs Minister Nkosazana Dlamini Zuma, Tanzanian Prime Minister Frederick Sumaye and Minister for Foreign Affairs and International Cooperation Jakaya Kikwete and Minister for Industry and Commerce Juma Ngasongwa. Also present at the Forum were 69 African ministers and representatives of international and regional organizations.

The Chinese delegation, underscoring the importance of the forum to China, was led by Premier Wen Jiabao, who made his first visit to Africa since becoming his country's leader. The senior person in the delegation was Beijing's Foreign Minister Li Zhaoxing.

This was the first ministerial conference of the FOCAC to be held on the African continent. The first was held in Beijing in 2000, with nearly 500 attendees, including more than 80 ministers in charge of foreign affairs, international trade and economic cooperation from China and 45 African countries that have diplomatic relations with China.

The FOCAC has been described as a: collective consultation and a new departure in the history of Sino-Africa relations. It was designed, according to Chinese public relations "*to be a future-oriented movement in the context of South-South cooperation*."

The main agenda of this, the second FOCAC ministerial conference, was to review the implementation of the "Beijing Declaration" and the "Program for China-Africa Cooperation in Economic and Social Development." These documents had been adopted during the first meeting in Beijing, and provided a framework for the establishment of the partnership. They explored initiatives and measures toward Sino-African cooperation, in areas such as human resources development, agriculture, infrastructure development, investment and trade.

As the Forum began, African leaders called for more cooperation with China for the continuing development of the continent under the frame-work for the establishment of the partnership. They explored initiatives and measures toward Sino-African cooperation, in areas such as human resources development, agriculture, infrastructure development, investment and trade. To strengthen and accelerate the decision-making process of the FOCAC mechanism, the Chinese established a Follow-up Committee in December 2001, composed of senior officials from 21 African ministries, commissions and agencies.

As the Forum began, African leaders called for more cooperation with China for the continuing development of the continent under the framework of the Forum, and within the guidelines of the New Partnership of Africa's Development (NEPAD).

In his opening speech, citing the establishment of the African Union and NEP AD as examples, Prime Minister Wen said these are expressions of Africa's collective commitment to placing the continent on a generalized course of peace and development.

Economic Developments

The Chinese premier announced that his government had, ahead of schedule, established its debt exemption commitments and cancelled 31 African countries' debt, totalling 10,5 billion yuan (US$1,2 billion). Wen continued to talk about Chinese training programs, saying that in 2003, a further 10 000 young Africans would join the 7,000 now receiving professional and technical training in China.

After the opening of the Forum, the premier announced that Tanzania, Ethiopia, Kenya, Tunisia, Seychelles, Zambia, Zimbabwe and Mauritius would be given the status of "*approved destinations for outbound Chinese tourists*" or “Approved Destination Status”. This status means that Chinese travel agencies can organize mass visits, as they are already doing with Egypt, South Africa and Morocco, which were approved last year.

There are strings attached with this, however. One is formal and informal pressure from Beijing to have African ADS countries regulate tourism fees - from hotels and meals to safaris and tours - at levels considered bearable by Chinese tourists. As a big part of the market is not state directed, this could result in nefarious attempts to pass legislation violating established rules of market competition. Just after the passing of the Chinese decision in Ethiopia, one large group of PRC tourist operators, headed by businessman Tony Li (of China Golden Bridge Travel Service Corp., Head Office, Beijing, a corporation founded in 1986), did several exploratory trips to Zimbabwe, Tanzania and Kenya, to enquire about the precise prices practised by local entities, and suggested several substantial reductions. This is unlikely to be accepted by privately run tourist spots.

Bigger Chinese trip and booking services, like China International Travel Service Shanghai Corp. Ltd, Peace International Tourism Corporation, Guangdong Overseas, Shantou Tourist General Corp., the China Youth Travel Service or Travel Service Beijing, Hua Du Travel or Xinhua Tours, all are poised for the higher segments of African travel, said to still be in South Africa, Egypt, Mauritius, Morocco and Tunisia.

It was also decided that China and Africa would co-operate in maximising projects already established in NEPAD - for example, the need to revamp extensive infrastructures, or a sound agriculture development plan until 2006 - and so use Beijing's resources to support what was deemed as a rational strategy for development and growth of the whole continent. However, no specific projects were put forward by China to strengthen NEPAD on the continent.

The China Africa Business Conference

Perhaps the most significant event at the FOCAC meeting was the parallel hosting of the "China-Africa Business Conference" between December 14 to 16 at the same venue, where more than 320 entrepreneurs representing Chinese and African companies participated in the conference. The 142 participating Chinese entrepreneurs were from more than 100 companies (see previous lists) while more than 180 business people from 24 African countries attended the conference. The conference was organised by the China Council for the Promotion of International Trade (CCPIT), under a special commission headed by executive Vice-Chairman Yu Ping.

Among speakers on the business forum were Dick Patel, Zambia Commerce Minister, Olive Kiongo, Uganda National Chamber of Commerce and Industry, Manuel da Cruz, Angola Vice-Minister of Trade, Avelino Bonifácio (Cape Verde Minister of Trade).

It was announced by the CCPIT officers that PRC banks agreed on making available more credit funds for Chinese companies wanting to invest in Africa, while the main areas of interest were quickly identified:

- Officers from the CCPIT and the China Chamber of International Commerce (CCIC) presented the proposal for the establishment a permanent Sino-Africa Industry and Trade Federation, that could accept as members all continental entities having a proven economic interest in doing so (in principle, it could include "Group of 7" members; see under).
- There was a general compromise to have a pre-selected list of African goods included in a reduced tariff or no tariff area of Chinese import economy.
- Another big goal is the planned Foreign Direct Investment by Chinese firms and the and the state in Africa, valued at $30 billion over the next 5 to 7 years. One third of this amount is said to be for Nigeria. Mustapha Bello, theNigerian head of foreign investment council, will soon address the issue in a high level visit to Beijing and Shanghai.

Chinese officials who attended the trade forum said they have signed 20 trade agreements with eight African countries -Ethiopia, Tanzania, Sudan, Uganda, Rwanda, Cape Verde, Nigeria and Mauritania - worth $68 million, covering the supply of energy, cement, chemicals, pharmaceuticals, textiles, sugar mills and agricultural products. Most of these were clinched before the meeting.

Political Developments

PM Wen Jiabao met separately with senior African leaders present (13 total), and briefed them not only on the FOCAC agenda, but also on political and security issues, including PRC's posture on terrorism and the Taiwanese question.

The ones who had the privilege of hearing Jiabao on more exclusive matters included South African Vice president Jacob Zuma, Mozambique President and AU Chairman Joaquim Chissano, Zimbabwe's President Robert Mugabe, Congo Brazzaville's President Sassou Nguesso, Sudan's President Al Beshir, AU Commission Chairman Alpha Konare, Ethiopia PM Meles Zenawi, Sierra Leone Vice President Solomon Berewa, Burundi's Vice President Alphonse Meie Kadege, Tanzania's Prime minister Frederick Suraye, Comoron President Azali Assoumani, and Uganda's President Yoweri Museveni

Security Developments

On the defence and security side, besides promises to increase the present level of PRC peacekeepers in Africa, Beijing also affirmed its willingness and means to work against weapons trafficking, terrorism, money laundering, computer crime, narcotics smuggling, and other forms of organised crime, including shared intelligence work, police training and by discussing the use of armed forces in preventing, deterring or repressing such phenomena.

China's concern over international terrorism had to do with the activities of the Uighur Muslim separatists in China's Xinjiang Province fighting for an independent Turkestan "homeland". Chinese intelligence officials have claimed that these elements are linked into the Al Qaeda network and its affiliated groupings that also reach into Africa.

But most African foreign ministry security officers who heard the Chinese view on terrorism, especially from Sudan, Ethiopia and Nigeria, expressed serious doubts about the reality of the so called "terrorist threat", saying that no documents were provided by China on the levels of activity and routes of possible escape that militants from the Central Asia trouble spot might have been using.

Algeria seemed to be the only country more wiling to take China seriously on the matter, having instructed its security service keep watch over any contacts between the Al Qaeda aligned Salafist terror group in Algeria and Uighur elements. In return, PRC officers announced at security briefings at the Forum that Beijing would help assist in the establishment of a suitable centre for Study and Research on Terrorism in that country.

China promised material support for security initiatives of the African union's Peace and Security Council, and stated that PRC state defence industries would supply top notch non lethal equipment for engineering, de-mining, transportation, patrol, air sea and land reconnaissance, emergency relief, environmental protection and other non lethal security tasks and duties.

Other Developments

- A major stress was placed on the training and education of new generations of able Africans, ready to use China's skills in development. This would be done by Beijing's African Human Resources Development Fund, created in 2002. The target is the training of 10 000 African professionals in Chinese schools or by PRC instructors, over the next three years;

- The PRC also wants to increase the present level of medical presence in Africa, from current 1 100 in 40 countries to around 2 000 in virtually all the continent. Chinese Deputy Prime Minister Wu Yi is presiding over the commission studying the financial structure and offsets for this ambitious plan. HIV, Tuberculosis and malaria are seen as the main diseases needing PRC specialised help, at the level of prevention, treatment and specialised drug and equipment supply

- A Sino-Africa Youth Festival was planned for later 2004, in mainland China, under the designation "Beijing meeting". In principle, the PRC would invite and pay for around 15 African arts groups to be present and perform. There will also be a month of "Chinese Culture Trip to Africa", with travelling arts and performance groups, exhibitions, seminars and special events.

- The PRC has followed up on the FOCAC meeting with a reception in Beijing on 12 January that was intended to consolidate and advance the FOCAC agenda. The event was jointly sponsored by the Chinese Association for Friendship with Foreign Countries (CPAFFC) and the Chinese-African People's Friendship Association (CAPFA). Beijing is expected to make greater use of CPAFFC and CAPFA in advancing relations with African countries. These two organisations will be used to broaden links with selected African countries in an effort to consolidate diplomatic relations and perhaps more importantly to consolidate links in non-governmental areas such as with civil society/NGOs. The organisations are expected to specifically target selected African ambassadors in Beijing in an attempt to more effectively use them as messengers to the home government.

Beijing has indicated its intention to consolidate the already established business centres in 11 African countries. The centres are expected to serve as focal points for new Chinese trade and investment initiatives in Africa. According to Beijing, almost 650 Chinese companies are now involved on the African continent. Beijing also claims that Chinese companies are contracted to invest over $900 million in Africa over the next few years. However, diplomatic sources point out that the contractual investment is deceptive. In effect, Chinese companies borrow from local or Chinese banks in the country concerned, no funds are actually transferred from China to Africa.

Beijing has also indicated its intention to provide African countries with "unconditional assistance within its capacity." However, the historical record shows that the PRC has always expected something in return for assistance. Moreover, Beijing is increasingly insisting that it is not prepared to provide aid to African countries as it did in the past. Instead, Beijing is insisting on a relationship based primarily on trade and investment. Diplomatic sources point out that China has been frustrated by African counties misuse of aid and failure to repay loans. Consequently, Beijing decided to cancel part of the debt owed them by African countries (money which they did not expect to receive in any event) in exchange for the extraction of promises of political support from the debter nations. The drive for a more normal commercial relationship with African countries is expected to significantly benefit China, given the PRC's low labour costs and increasingly effective economy.

ANNEXURE III: MINISTRY OF COMMERCE

A key organ playing a major role in the formulation of Chinese global economic policy is undoubtedly the Ministry of Commerce (MOFCOM), which prior to 2003 was known for many years as the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). The Ministry plays a significant role in forging economic relations between China and other states – and is the primary bureaucratic interface between China the rest of the world as far as two-way trade and investment is concerned.

Under Chen Deming, it leads and defines the international stance of China's commodity resource base, and has key inputs on investment, technological competition, markets, prices, etc. Influential key figures, with vice-ministerial rank, are Yu Guangzhou, Ms. Ma Xinhong, Gao Hucheng and Yi Xiaozhun.

Yi Xiaozhun is responsible for matters related to the World Trade Organisation (WTO), and also for the Ministry's extremely relevant Business Intelligence Unit (see below), which also receives inputs from the State Administration for Commerce, under Zhou Bohua.

Comprising a staff of some 1350 people, relevant functions of MOFCOM that impinge on pricing, production, domestic use and the export of raw and processed materials are the following:

- Responsibility, under the guidance of the "Unified State Plan" and in collaboration with entities like the Ministry of State Security (MSS) and allied military entities such as NORINCO in the compilation of short (one year), medium (5 years) and Long term (> 5 years) foreign trade plans.

- To organize the construction of export commodity production bases.

- Supervise the management, collection and analysis of data (formal economic statistics, mostly open source) on foreign economic and trade businesses.

- Give guidance to foreign economic and trade enterprises in management and financial accounting.

- Organize inter-governmental economic and trade negotiations;

- Establish Joint Committees, under authorization of the State Council, to enter into bilateral governmental economic and trade treaties and agreements on behalf of China;

- Organize and manage China's trade treaties and agreements;

- Formulate related rules and regulations in the management of foreign economic cooperation and trade.

- Organizing and coordinating the negotiation and signing of foreign government loans, foreign business investments, technology imports and exports (including imports of complete plants); and the examination and approval of agreements and contracts concerning major projects utilizing foreign capital and technology.

- Exercise sectoral management in overseas projects involving contractual construction, labour export and overseas economic cooperation.
- Exercise sectoral management of import/export licenses and export quota system. Examines how sectors exercise the setting up of foreign economic enterprises in China and abroad.
- Supervise the running of China's commercial offices and economic counselors abroad in embassies and consulates (in conjunction with MSS and the Military Intelligence Department).
- Examine foreign business representations in China.
- Participate in the study and formulation of the overall tariff rate, tariff structure, exchange rates and other regulating measures governing external economic relations.
- Organise research and studies of international economic and trade situations and markets; and to keep abreast of international economic and trade information.
- In accordance with the "Unified State Policy", provide guidance to organs attached the Ministry as well as to different regions and organs along with organization and coordination.

7.5.1. The CCPIT

An important sub-structure of the Ministry is the Chinese Council for the Promotion of International Trade (CCPIT). Ostensibly acting as a promotional investment entity for Chinese investments abroad, is used by MOFCOM's Business Intelligence Unit (BIU) as a primary instrument for gathering business intelligence against the country's competitors. This includes foreign pricing strategies, key trade figures, tricks of the trade, production secrets, competitor investment and business plans, etc. It also plays a key role in advising and spearheading Chinese investment forays abroad, including Africa. The CCPIT is directly connected to the Chinese Chamber of International Commerce (CCIC).

It is headed by Wang Jifei (influential in party and business circles), who is supported by Zhang Wei (Vice-Chairman), and Wang Jinghen (Secretary General).

The CCPIT participates in the policy formulation of product prices, especially in what concerns international trade. It has superior knowledge of pricing negotiations abroad and all close and open secrets of international commerce. This is achieved in part via the aggressive use of intelligence gathering sub-units located in MOFCOM which work closely with their counterparts at the Ministry of State Security (MSS) and the PLA's military intelligence wing.

MOFCOM's role in international industry negotiations and commercial intelligence gathering is crucial for the country's oil, coal, steel and related metals producers and it is here that corporate, security and defense bureaucracies find a synergistic interface – a pooling and coordination of resources to give Chinese negotiators a sharper competitive edge over their opponents.

ANNEXURE IV: A.) PROFILE CHEN YUAN - GOVERNOR CHINA DEVELOPMENT BANK

Chen Yuan

Chen Yuan holds a Master's degree in Industrial Economics from the Graduate School of the Chinese Academy of Social Sciences. His father was a leading member of the Chinese Communist Party (CCP) and his family has played an important role in the Beijing Municipal region of the CCP. In 1982, Chen was appointed secretary of the Xicheng District Committee of the Beijing Municipal Committee of the CCP. Later he was promoted to director-general of the Beijing Municipal Commerce and Trade Department.

During the 1980s, Chen played a key role within the economic reform movement of the CCP, seeking to liberalise and revitalise the Chinese economy. In 1988, he was appointed vice-governor of the People's Bank of China. His efforts at strengthening the bank quickly earned him a good reputation as an effective banker. Ten years later, Chen was promoted to the position of Governor of the China Development Bank and secretary of the China Development Bank CCP Committee. Governor Chen has proven himself to be a first class banker overseeing the rapid growth of one of the largest banking institutions in the world. His solid leadership underpins both the CDB and the newly formed China-Africa Development Fund.

In summary, the CDB/CADF combine provides a solid platform for a new wave of Chinese investment in Africa. African businesses have the opportunity to form joint ventures with Chinese enterprises and open new avenues for co-operation and growth. China's very significant US dollar reserve provides the foundation for long-term engagement with Africa and prospects for African development. The challenge is for African entrepreneurs to engage the CADF to maximise mutually beneficial outcomes. Where African companies engage China effectively, prospects for long-term growth improve. The key is to mobilise CADF capital for employment in Africa, while offering China effective returns.

B.) PROFILE - CHI JIANXIN – CADF PRESIDENT

Chi Jianxin on right

Chi Jianxin served for a number of years in the Investment Banking Department of the China Development Bank. As CEO of the China-Africa Development Fund (CADF), Jianxin travels extensively across Africa researching new opportunities for investment. He has a particular interest in agriculture and believes there is vast potential in Africa for improved agricultural production and agro-processing. He has plans to increase China's funding and technical support for agriculture in Africa and is already looking at new projects in places like Angola

Jianxin's strategy is to invest in projects which promote development in Africa, rather than to merely seek quick deals on resource extraction. He has a broad vision for continental-wide development which will benefit both China and Africa over the longer term. He has described his fund as "for profit, but not for profit," suggesting that China is willing to use the fund to build a foundation for economic growth in Africa, rather than to seek short-term advantage. Funding for badly needed infrastructure in Africa is one of his priorities as he argues that without roads and railway lines Africa's chances of rapid economic growth remain poor.