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Rising China and Africa's development: oil





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About this course

About this course

Welcome to this free course, *Rising China and Africa's development: oil.* It should take around 15 hours to study. It is split into five three-hour sessions covering the following:

Session 1: The rise of China and resource demand

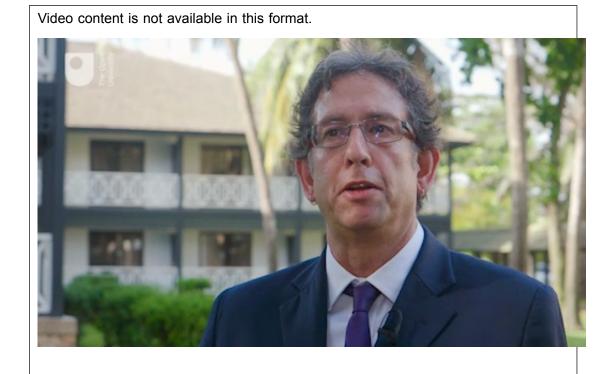
Session 2: The politics of resource governance

Session 3: Local content and linkages

Session 4: Global oil markets, geopolitics and diversification

Session 5: Leveraging better development from natural resources: beyond the resource curse.

Watch the following video in which Open University academic and leader of the Chinese oil project, Giles Mohan, introduces the course.



In the 'Summary' at the end of each session, you will find a link to the next session. If at any time you want to return to the start of the course, click on 'Full course description'. From here, you can navigate to any part of the course.

It's also good practice, if you access a link from within a course page, to open it in a new window or tab. That way you can easily return to where you've come from without having to use the back button on your browser.

About this course About this course





Session 1: The rise of China and resource demand

Introduction

Since around 1990 China's growth has seen the country transform itself. Watch the following video with course author and OU academic Giles Mohan.

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Video 1





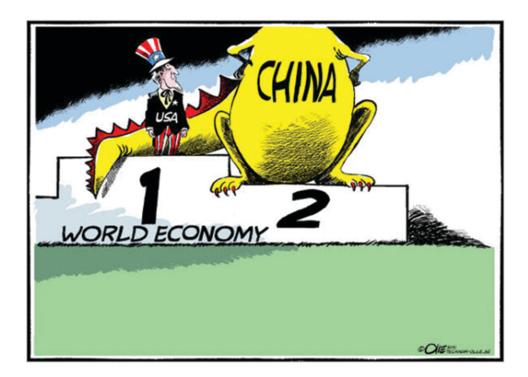


Figure 1 The Chinese economy is often depicted in comic ways as a challenge to US global hegemony

The data is impressive as the graphs (Figures 2a–d) in this PDF show.

The data reveals that China's economy has been growing steadily since the mid-1980s following the implementation of wide-ranging reforms from the late 1970s. These changes resulted in growing gross domestic product (or GDP) which is the total value created within the economy.

Figure 2c shows China's GDP was quite flat from 1960 to around 1990 but then started to rise dramatically. Alongside this growth, from the early 1990s the incidence of poverty hugely declined, which suggests that much of this economic growth spread throughout the economy. These improvements in well-being also translated into dramatic improvements in life expectancy. In 1960 life expectancy stood at just 44 years whereas in 2017 it was around 77 years.

These economic and social improvements were allied to major changes in lifestyle, one of the most notable being a move away from people living predominantly in rural areas and a rapid rise in the ratio of Chinese people living in cities. Figure 2d shows that in the 1960s and 1970s around 17 per cent of China's population was urbanised but it started to rise from the early 1980s and now stands at around 60 per cent. Changes in lifestyle and industrial shifts also resulted in increased energy consumption which Figure 2b reveals experienced an almost five-fold increase between 1971 and 2015.

These so-called 'development indicators' tell us a story of economic growth and reduced poverty, structural shifts in China's economy, massive changes in the way people live, and growing pressures on energy and resources. What fuelled this and what are the wider implications of this transformation that is still unfolding?

This short course examines these huge shifts in China's economy and society, but focuses on what they mean for the rest of the world, particularly the countries of the global South that produce the natural resources which feed this growth.



Box 1 The global South

The term 'global South' started to emerge in the late 1960s. Although a contested and controversial term that is tied to concepts such as the 'Third World', the global South is commonly held to refer to 'to countries classified by the World Bank as low or middle income that are located in Africa, Asia, Oceania, Latin America and the Caribbean' (Clarke, 2018). In other words, developing nations.

China is a very powerful and increasingly wealthy country with many large international companies based there. When these Chinese firms do business with countries in sub-Saharan Africa and elsewhere in the global South they come to this as a country which has only recently, as the graphs showed, broken away from underdevelopment. China is still considered a developing country according to global growth indicators set by international financial institutions such as the World Bank and World Trade Organisation. As of June 2018, China's nominal GDP growth was \$9,782 and the World Bank considers countries with a per capita income of less than \$12,275 as developing (CEIC Data, 2018). China also comes as a nation that was also colonised by Western powers in the nineteenth and twentieth centuries. Despite having the world's second largest economy, China is still considered a developing nation and, as such, they promote a discourse of 'South—South' cooperation and 'mutual benefit' between fellow developing countries and distance these relationships from the supposedly more damaging ones linked to Western interventions. So, the first question this course addresses is:

Does China's international engagement spell increased cooperation between developing countries for mutual benefit?

The countries that Chinese officials and firms deal with in the global South are often much less powerful and have smaller economies than China, and so there is the potential for these relationships to not be cooperative but, rather, profoundly unequal. And the real goal of these relationships between China and the global South is about economic benefits for China in the shape of access to raw materials or as markets for Chinese goods and services. So, the opposing question the course probes is:

Are Chinese practices expoitative, signalling a new phase of neo-colonialism?

In addressing these questions this free course will help you to:

- understand China's economic transformation and its implications for the supply of natural resources (Sessions 1 and 5)
- appreciate how Chinese policies and institutions have both guided and responded to these changes, particularly around China's internationalisation in search of natural resources (Sessions 1 and 4)
- understand the growth and development of Chinese national oil companies (Sessions 1 and 4)
- understand the place of Africa in China's resource geopolitics (Sessions 2 and 4)
- appreciate the role of African politics and institutions in shaping how Chinese investments in oil play out (Session 2)
- assess the wider impacts of Chinese oil engagement on African growth and development (Sessions 3 and 5)



 appreciate the complex policy choices available to African governments in managing their oil (Sessions 2, 3 and 5).

1 A brief introduction to China's relationship with Africa

China has engaged with Africa for many centuries, with Zheng He's voyages to East Africa in the fifteenth century considered the start of regular contact between China and the African continent.

During the European colonial era, Chinese indentured labourers were shipped to Southern Africa in the nineteenth century to build infrastructure and work plantations following the abolition of slavery. While many of these so-called 'Coolie' labourers were returned to China, a few stayed on and established the first permanent settlements of Chinese people in Africa. In the mid-twentieth century Maoist China reached out to Africa as part of its geopolitical strategy of forging key alliances with 'socialist' countries and to oppose Russian and American influence on the continent. The Tanzam Railway, linking Tanzania and Zambia, is held up as the pinnacle of this era of socialist cooperation and still resonates today as a symbol of China's supposedly benign interests in Africa.

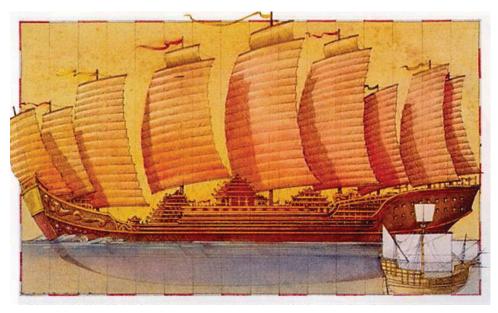


Figure 3 Zheng He's ship. Zheng He was admiral of the Chinese fleet during the Ming Dynasty and commanded expeditionary journeys across Asia and to East Africa from 1405–1433



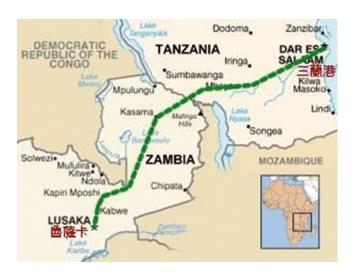


Figure 4 Map showing the Tanzam railway. Completed in 1975, it stretches 1,100 miles linking Dar Es Salaam to Lusaka



Figure 5 'Serve the Revolutionary People of the world'. Promotional poster from 1971 depicting a Chinese worker helping to construct the Tanzam railway



2 An increasing need for greater levels of resources

China's engagement in Africa began to ramp up shortly into the new millennium. In the following video, Dr Janet Liao introduces the reasons for this by explaining changes in oil demand.

Video content is not available in this format.

Video 2 Changes in oil demand



So, as the graphs showed, China's economic growth had been high throughout the 1990s and from 1993 the country was forced to import oil for the first time, constructing a pipeline from Kazakhstan, importing from Russia and South East Asian countries such as Burma. This turn of events stimulated the development of various policies to encourage both outward investment and international trade. China's search for resources took them across the globe – Australia, Latin America, Canada, the Middle East, SE Asia and Africa. In the context of Africa, the main political vehicle for strengthening ties between China and Africa was the Forum on China–Africa Cooperation, or FOCAC. FOCAC began in 2000 but became notably visible at a high-profile meeting in Beijing in 2006 attended by many African leaders, and which signalled a shift in the global world order. For centuries it had been Europe that had largely intervened in Africa while the 'American Century' had seen a waning of Europe's influence and the growing role of organisations like the US-based World Bank and IMF in African development. But FOCAC showed that for Africa 'looking eastwards' could be both politically and economically advantageous.





Figure 6 Photo of delegates at the launch of the 2006 Summit Forum on China-Africa Cooperation (FOCAC). It opened on 4 November in Beijing with representatives from 48 African countries attending under the Summit's banner of 'friendship, peace, cooperation and development'

While FOCAC is a multilateral organisation, much of the dealings between China and Africa are brokered between the Chinese and a specific African country; that is, they are bilateral deals. The discourse of these relationships is about 'win-win' cooperation and new 'South-South' development relations. The Chinese have been keen to play on the legacy of Zheng He and the Tanzam Railway, declaring that their interests in Africa are only virtuous and decidedly not imperialist.

The extract below is from Chinese President Xi Jinping's speech to the 2018 FOCAC meeting, which was also held in Beijing. The language is brimming with phrases like 'friendship', 'cooperation', 'equality', 'sincerity' and 'peace'. The 'five no' approach formula dates back to the 1960s and is based on respect for African sovereignty, signalled by the idea of 'non-interference'.

Xi: China, Africa embark on distinctive path of win-win cooperation

3 September 2018

Chinese President Xi Jinping said... that China and Africa have embarked on a distinctive path of win-win cooperation.

Xi made the statement in a keynote speech delivered at the opening ceremony of the 2018 Beijing Summit of the Forum on China-Africa Cooperation.

Africa's development has great potential and the continent is full of hope. China-Africa friendship and cooperation have broad vistas, and China and Africa can forge an even stronger comprehensive strategic and cooperative partnership. Xi said.

China values sincerity, friendship and equality in pursuing cooperation. The over 1.3 billion Chinese people have been with the over 1.2 billion African people in pursuing a shared future, he said.

The country follows a 'five-no' approach in its relations with Africa: no interference in African countries' pursuit of development paths that fit their national conditions; no interference in African countries' internal affairs; no imposition of China's will on African countries; no attachment of political strings to assistance to Africa; and no seeking of selfish political gains in investment and financing cooperation with Africa, Xi said. 'No one could undermine the great unity between the Chinese people and the African people. ... No one could hold back the Chinese people or the African people as we march toward rejuvenation.' ...



China takes an open and inclusive approach to cooperation. China stands ready to work with other international partners to support Africa in pursuing peace and development, Xi said. 'No one could stand in the way or obstruct international efforts to support Africa's development.'

(Source: https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1591554.shtml)

2.1 Business-minded China

In many ways, China's approach is more business minded, one which sees the Chinese state supporting its firms in accessing resources and markets, often backed by lending from China's banks. This approach has been termed mercantilist because the Chinese state encourages and incentivises its large firms to enter these markets. In terms of China accessing natural resources in Africa, there have been numerous deals, such as with the Democratic Republic of Congo and Zambia. For oil, China's main interests have been in the Sudan/s (which will be discussed in Session 4), Angola, Algeria, Libya and Nigeria. The reaction of Western countries to Chinese mercantilism has largely been alarmist – that the Chinese are muscling in on markets in 'unfair' ways.



Figure 7 Cartoon demonstrating US concerns that China's suddenly increasing growth has surpassed the US

These supposedly unfair ways include using aid to soften up leaders, turning a blind eye to authoritarianism, using tied bank loans, and overlooking labour and environmental standards. The Chinese have come into global oil at a time when major oil fields have been taken by the leading Western international oil companies (or IOCs) such as Shell, BP and ExxonMobil. As a result the Chinese National Oil Companies have to take what they can and this often means dealing with countries whose political systems are questionable. It is not that the 'Communist' Chinese prefer unaccountable states, but rather this is all they have access to. In reality Chinese firms want stability and



manageable risks, and are increasingly joint-venturing with Western firms and African national oil companies. Watch Giles Mohan summarise Chinese interests.

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Video 3



Activity 1 Reactions to China's global rise

China's global rise has been greeted by some with alarm. Why might there be alarmist reactions from the West to China entering Africa?

Spend 10 minutes noting down three possible reactions and the reasons underpinning them.

Provide your answer...



Answer

There is no 'correct' answer to this activity, but here are some of the reasons that have circulated over the past 20 years or so. There are also some of the counter-arguments.

Responses

The Chinese deal with dictatorsuncritically and so perpetuate insecurity, persecution and lack of human rights. But, equally, Western companies have dealt with authoritarian leaders without too many qualms. Also, in the oil sector the older fields are already sewn up by the IOCs so China has had to take what it can get, which means dealing with some less democratic states.

The Chinese exploit African economies and extract both commodities and profits without giving much back. Likewise many Western companies have exploited Africa.

The Chinese ignore labour, environmental and other standards which is not only inherently damaging to the people and planet, but gives the Chinese unfair commercial advantages compared to other firms. There is truth in this to some degree, but some Western firms have also been lax over such standards.

The Chinese are taking over spheres of influence that have been under the direct and indirect control of Western powers for the last few centuries. This is true, but it raises the question of whether any external power should seek to dominate another country or region.

The Chinese Communist system is anti-democratic and so goes against 'good' political systems, such as those developed in the West. The Chinese system has become less open of late and this is worrying. But other states have also become more authoritarian and Western democracies are also not always worthy of emulation. Political voice has to be continually fought for and all countries are capable of moving along a scale of more or less openness.

The Chinese are untrustworthy and, despite what they say about caring for African development, we can't always believe them. This is a very long-standing racial stereotype perpetrated in the West as a way of denigrating the Chinese, without any basis in truth.

Discussion

Possibly the most concering thing running through these responses is that we are saying that the Chinese are 'no worse' than many Western powers who have intervened (some would say interfered) in Africa. The point is that Africa has consistently been treated as a supplier of raw materials to be exported for other countries' industrial development and this has stilted the continent's development.

The remainder of the course will address the realities on the ground as to what are the impacts of China's expansion into Africa for the continent's development. You start by looking at the transitions in China's political and economic life that have led to the rising demand for African resources.



3 Chinese economic reforms and energy security

Since the 'open door' era started in 1978, the Chinese economy has experienced an unprecedentedly rapid growth, lasting for nearly 40 years. This growth enabled China to become the world's second largest economy in 2010, after the United States (Leung, 2011). As mentioned in the introduction, accompanying this growth was a rapid rise in China's energy consumption. According to the China National Bureau of Statistic (NBS) and the BP Statistical Review of World Energy (BP Energy), between 1978 and 2017 China's energy demands increased nearly 5.5 times, from 571.44mts of oil equivalent (Mtoe) to 3.13 billion Mtoe. In 1993, China turned into a net oil importer from a net exporter, and its oil consumption grew more than five times from 2.41 million barrels per day (mb/d) in 1991 to 12.8 mb/d in 2017 (as shown in Figure 8). In 2008, China surpassed Japan to be the world's second largest crude importer, and in 2013, it overtook the United States to be the top oil importer on the planet. By 2017, China had to import 422 mts of crude oil to meet its demands, accounting for 69 per cent of the country's oil consumption (NBS Yearbook, 2007; BP Energy, 2002 and 2018).

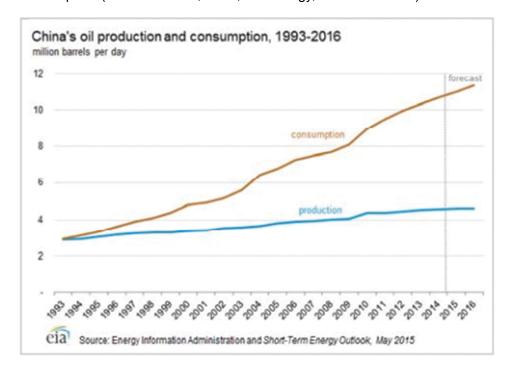


Figure 8 China's Oil Production and Consumption, 1993–2016

In the mid-1990s, when the shortage of domestic oil supply became obvious and irreversible, the Chinese leadership was initially tempted to insist on the Maoist principle of 'self-reliance', and attempted to exploit domestic sources. It was only after the promises of the oil field in Xinjiang Province and offshore petroleum exploration in the East and South China Seas failed to materialise, that the Chinese leadership was forced to accept that China would have to rely more on oil imports and to do so for the long-term.

From the late 1990s, China's top leadership started to consider 'walking on two legs' – a policy of utilising both domestic and international resources. The then Secretary-General



of the Chinese Communist Party – Jiang Zemin – argued in January 1997 that 'we will still focus on domestic resources in developing our petroleum industry, ... but also need to actively participate and utilize international resources, i.e. to walk on two legs' (Wu, 2018). Under the new policy guidance, China's oil imports have shown a constant increase and Chinese NOCs have also gone global, with Africa as one of the significant locations to help it achieve oil security.

These large oil companies had not always been relatively autonomous from the Chinese Communist Party, but evolved out of various reforms and restructurings. The Chinese economic system during Mao Zedong's era (1949-1976) followed the Soviet model of a planned economy, which allowed little role for the market. Major industries did not operate as commercial entities but were instead directly subordinated to government ministries. Only after a series of government reforms, begun in 1982, aiming to separate the government from the industries were the industrial functions removed from the ministries. Three major state-owned oil companies - the China National Petroleum Corporation (CNPC), the China Petroleum & Chemical Corporation (Sinopec) and the China National Offshore Oil Corporation (CNOOC) - came into being during this process (Liao, 2015). Entering the new century, the three Chinese NOCs were listed on the international stock markets, which theoretically would allow them to better integrate with the international system in operation and in efficiency. In practice, the NOCs were allowed to enjoy a prescribed regional monopoly in the Chinese oil market and in return they were expected to share responsibility for helping the Chinese leadership ensure a stable oil supply (Shi, 2006). The mechanism for Beijing to influence the companies' performance was through the control over the appointment and dismissal of the NOCs' leadership, which is assessed 'not only on how well they run their companies, but also on how well they serve the CCP's [Chinese Communist Party] interests' (Downs, 2006, p. 23). If they can demonstrate success in both areas the NOCs' executives have a chance to be promoted to higher positions.

The new millennium ushered in further reforms and new policy initiatives aimed at boosting the international competitiveness of China's large state-owned enterprises (SOEs), which included the NOCs.



4 The 'Going Out' period

In the next video Dr Janet Liao introduces the rationale behind China's shift in oil policy to a more outward looking approach.

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Video 4



China's 'Going Out' strategy was formally initiated in October 2000. Part of the rationale for the 'open door' era was, as the name suggests, about bringing foreign investment into China. Much of this investment was in manufacturing industries, largely located in Special Economic Zones in the Southern, coastal regions of China. A high proportion of the output from these factories was then exported to the major consumer markets around the world. This model proved very successful for 20 years, as the GDP growth data we discussed earlier showed.

The Chinese realised that this model could not be sustained indefinitely as domestic wages began to creep up and there was over-supply of goods and services in some sectors. So, after the strategy of attracting FDI to China, Beijing wanted to encourage SOEs (including the NOCs) to go global, to find markets for Chinese goods and services and to secure raw materials. The strategy to encourage and support Chinese companies to invest overseas was achieved through incentives and subsidies as well as liberalisation of regulatory systems and administrative rules (*China Policy*, 2017).

During this process, the Chinese state played a predominant role in China's energy and finance sector, via financial provisions to Chinese NOCs through its two policy banks – the China Export and Import Bank (CHEXIM) and the China Development Bank (CDB). Among the \$114 billion of outward foreign direct investment (OFDI) loans provided by Chinese banks between 2000 and 2014 to support Chinese energy companies going global, 88 per cent was from the CDB and CHEXIM, and only 12 per cent was from commercial banks in China.

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Between 2000 and 2014, China's global energy investment was resource-seeking — Chinese energy companies had a clear preference for mergers and acquisitions (M&A) over greenfield investment, with the former accounting for 82 per cent of the total investment (Kong and Gallagher, 2017). Over the past decade such state orchestrated coordination between its energy and finance industry has not only enabled the Chinese energy companies to become global investors in the form of OFDI and cross-border M&A, but also made China the world's leading provider of finance for energy to governments around the world.

Activity 2 Exploring OFDI data

Below are two representations of data on Chinese outward FDI, or OFDI. One is a graph showing the annual volume of OFDI with a line showing where China ranks in global terms in this regard. The other is a map of where the investment went in 2016. Have a go at answering the following questions, which don't require a detailed understanding of statistics.

- 1. Roughly how many times bigger was the volume of OFDI in 2016 compared to 2002?
- 2. In what year was the biggest relative jump in OFDI?
- 3. In what year was the biggest absolute jump in OFDI?
- 4. In what year did China jump the fastest up the global rankings?
- 5. Which region received the most OFDI in 2016 and why?
- 6. Which region received the least OFDI in 2016 and why?

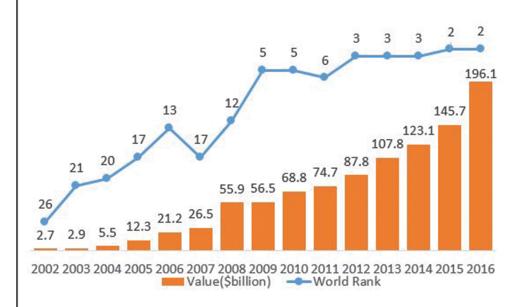


Figure 9 Graph of annual volume of Chinese outward foreign direct investment (OFDI) and China's global ranking in terms of OFDI.



China's OFDI Net Flow in 2016



Data Source: China National Bureau of Statistics

Figure 10 China's OFDI Net Flow in 2016

Provide your answer...

Answer

- The volume of OFDI was roughly 73 times bigger in this 14 year period. This large jump demonstrates China's move from being a net importer of FDI to a net exporter of FDI.
- 2. Between 2007 and 2008 the value of OFDI doubled from \$26.5 to \$55.9 billion.
- 3. The biggest absolute jump in OFDI occurred between 2015 and 2016 when it rose by just over \$50 billion
- 4. Between 2008 and 2009 China jumped seven places from 12th to 5th. This was during the depths of the global financial crisis and China was relatively insulated from it, so used its large foreign exchange reserves to make large investments overseas.
- Asia received the most, which suggests China is mainly a regional player seeking markets and supply chains closer to hand. It has made large investments in the advanced economies of Europe and North America where returns are increasingly profitable.
- 6. Africa received the least OFDI. This may seem surprising given the subject of this module, but while absolute amounts are relatively low, they are investing in countries with small economies so that even one or two large investments can have a comparatively big impact.

As the Chinese economy internationalised Chinese firms, banks and government departments had to deal with the governments and businesses of global South countries, with their own histories and experiences of economic and political development. The interactions between China and a range of countries in the global South requires us to consider the politics of these relationships, which you will do in Session 2.



5 Chinese oil companies in Africa

Chinese national oil companies (NOCs) were formed out of various ministerial restructurings following the initiation of the major reforms. Reforms in 1982 and 1988 saw a number of NOCs emerging for the first time in Chinese history. Nevertheless, at the early transitional stage from planning to marketisation, the industry was not completely separated from the government. The NOCs went through another wave of transformation in the late 1990s which was occasioned partly by China's further economic and governmental reforms to establish a socialist market economy as well as the need to position the NOCs for global competition that would result from China's impending WTO membership. Hence, in 1998 CNPC and Sinopec were restructured to become fully vertically integrated companies with both upstream and downstream operations, and their administrative functions were removed completely.

In theory, Chinese NOCs no longer enjoy administrative ranking in the Chinese political system. However, as the CEOs of the three oil majors are still appointed by the Central Organisation of the Chinese Communist Party (CCP), many believe that the NOCs are in effect vice-ministerial level corporations, though their CEOs could be seen as higher ranking officials.

Between April 2000 and February 2001, CNPC's subsidiary PetroChina, Sinopec and CNOOC were all listed on international stock markets, allowing the NOCs to better integrate with the international system. However, since the majority of their shares were owned by the Chinese government, the NOCs did not become fully commercial companies through international listing.

Despite the enduring power of the Chinese government over NOCs' key personnel appointments and ownership of NOCs' shares, the actual control of the government over the NOCs has been less effective than many could envisage, for two main reasons. The first is NOCs' bargaining power against the government via political networks among their powerful leaders. Many of the CEOs either have had a close relationship with the top leadership, or were promoted to higher levels after their tenure as CEOs. The second reason relates to the NOCs' remaining monopoly in China's oil sector, which not only undermined the government's efforts to reform the domestic fuel pricing system, but also enabled the NOCs to employ the government's 'going global' strategy to serve their own benefit.

While the three NOCs all emerged from government ministries, significant differences do exist between them, especially with respect to their corporate mission, market position and relationship with the Chinese leadership, all of which are also linked with their history and evolution. CNPC maintains the greatest ties with the Chinese Communist Party and it is able to leverage more government support, while CNOOC, which is currently the smallest among the three, has an advantage in building partnerships with multinational firms because part of its initial mandate was to partner foreign firms in order to develop technological capabilities in offshore operations. Having been incorporated as the downstream producer of energy for direct consumption, Sinopec is ahead of the rest in terms of refining and downstream activities. For now, all three should be viewed as competitors who in many ways still retain their unique characteristics and advantages.

You saw earlier how China began importing oil from 1993, which was around the time it actively went in search of new oil fields. In Africa, this began in Sudan, as you'll discuss in more detail in Session 4. Now watch Janet Liao and Giles Mohan outline the evolution of the Chinese NOCs in Africa.



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Video 5





6 Summary of Session 1

This session posed the key questions about whether China plays a positive or negative role in Africa. Driving China's engagement is demand for resources to fuel its growth, and this requires China to invest in and trade with a range of countries in the global South where these commodities are produced. The Chinese state has supported this internationalisation of its economy through its diplomacy and financing, which came together under its 'Going Out' policy. In the case of oil, China's three large national oil companies have spearheaded overseas projects mixing equity investments with oil-for-infrastructure deals. The NOCs are tied to the Chinese Communist Party but also increasingly operate through independent commercial decisions, taking account of the specificities of the oil fields and countries where they work. It is to these specificities that you now turn, in the next session.





Session 2: The politics of resource governance

Introduction

As you have seen, China's interest in many countries of the global South is in accessing their natural resources and in opening up new markets for Chinese goods and services. The Chinese also have certain geopolitical interests around their claim over Taiwan and their wider role in global politics, for which allies in the global South are an important part. With the growing demand from China for natural resources, we saw rising commodity prices from the early 2000s, labelled by some as a commodity 'supercycle' whereby demand from China (and other large and rapidly rising economies) lead to a long period of both high demand and high prices (Farooki and Kaplinsky, 2012). For natural resource-producing African countries, this new source of demand created high growth rates (albeit from low starting levels) and led more optimistic observers to label these countries the 'African Lions' (Bhorat and Tarp, 2016) in a nod to the growth of the so-called 'Asian Tigers'. This recent growth of African resource producers has raised long-standing questions about the potentially positive relationships between natural resources and development, as well as the obverse around the so-called 'resource curse'.

The dominant understanding of how natural resources affects development is the so-called 'resource curse' thesis. In this session you will learn the main presumptions of this theory, but go on to challenge it because the resource curse argument can simplify the relationship between resources, economic growth and development. The resource curse is a multifaceted issue, but much of the supposed 'problem' lies with the political institutions that shape how resources are governed. As such, you will focus on political dynamics and how they can influence resource governance, which are often generalised or overlooked, to illustrate that 'politics matters'. You will draw on the complex and contested realm of Nigerian politics of oil governance and attempts by the Chinese government and oil companies to navigate them, to illustrate the importance of politics in this context.

By the end of this session, you should be able to:

- understand the 'resource curse' thesis and its key policy recommendations, and to challenge its limited analysis of politics
- appreciate that China's engagement in Africa does not occur against a blank slate but that political institutions matter
- provide an overview of 'political settlements' theory, which helps us analyse political institutions and their role in natural resource governance
- understand how China's oil engagement in Africa plays out politically and socially as a result of political interaction.



The key questions you should reflect on during the course of the session are:

- How does the politics of African states shape how Chinese oil deals play out and with what effects for African development?
- What does the changing investment strategy by Chinese actors in Nigeria say about how they are learning and adapting to the 'political game'?

1 Rich in resources, but low in growth

While many developing nations around the world are sitting on an abundance of minerals, fossil fuels and other natural resources, it has been well documented that they can struggle to effectively capitalise on these assets and translate them into stable economic growth and wider socio-economic development. In fact, the opposite is often true, that resource richness and dependency often result in economic stagnation, poor growth rates and rising inequality (Di John, 2011; Ross, 1999).

Jeffrey Sachs and Andrew Warner's (1995) paper, 'Natural resource abundance and economic growth', is one of the most notable studies pointing out this trend. They examined natural resource-based exports as a percentage of GDP in 97 developing countries over a 20-year period (1970–89). What they found was a statistically significant negative relationship showing that economies with a high ratio of natural resource exports tended to have low growth rates.

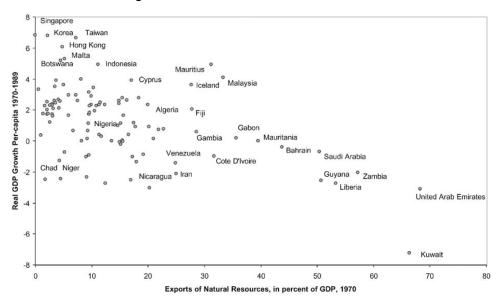


Figure 1 Correlation between natural resource exports and GDP

This outcome could seem counterintuitive, as one would expect natural resource wealth to spell economic prosperity: generating high-levels of income through export and creating rents in the form of exploration and production licensing, for example. What is more puzzling is when you compare growth with resource-poor countries. Studies (such as Kurečić and Seba, 2016; Sachs and Warner, 1995; Shaxson, 2007) have shown that the economies of resource-poor countries frequently out-perform those that are resource-rich, most notably in the case of the Asian Tigers of the 1990s whose economies



consistently grew at over 7 per cent per annum. In spite of a lack of natural resources, Taiwan and South Korea managed to rapidly industrialise.

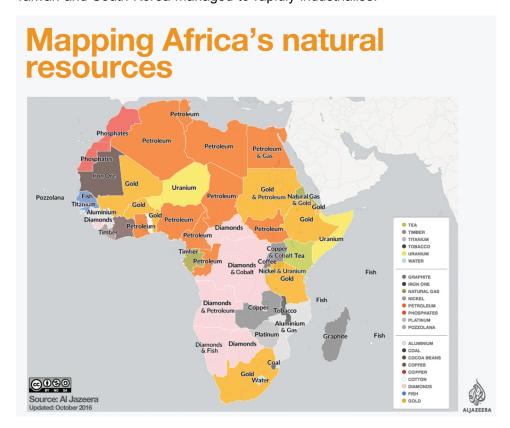


Figure 2 Map of natural resource wealth in Africa (Aljazeera, 2018)

African economies, in particular, have been plagued by this problem. In 2016, natural resources accounted for 59 per cent of DR Congo's GDP, Liberia 50 per cent and Sierra Leone 22 per cent (World Bank, 2016). Nigeria and Angola have relied on oil and gas rents for decades. In 1993, 63 per cent of Nigeria's GDP was from oil alone. The general trend is that the exploitation of resources not only produces low economic growth but that it is linked to underdevelopment more broadly – high unemployment, low income, poor health and education provision and rising poverty and inequality. The benefits of revenue and rents fail to trickle down to the majority of citizens.

Yet, the continent abounds with natural resources and more are being found all of the time, which is why nations like China are increasingly looking to Africa to secure new supplies. According to Vines (2014): 'Six of the top 10 global discoveries in the oil and gas sector in 2013 were made in Africa, with more than 500 companies currently exploring deposits there. There were nearly nine million barrels of crude oil produced daily in Africa last year, with more than 80% of it coming from established players such as Algeria, Angola and Nigeria'.

The negative link between resource abundance and poor growth is known as the 'resource curse'. It has been explained in many ways and you will now turn to explore its characteristics, using the example of Nigeria's oil sector, before going on to explore how the issue of politics, which is historically overlooked in resource curse analysis.



2 The resource curse thesis

While strong correlations have been drawn between natural resource wealth and poor economic growth the evidence is far from conclusive. Many scholars maintain that while developing nations with plentiful resources are more prone to disappointing economic development this is by no means an inevitable or universal outcome. Botswana is often cited as an example whereby sound economic policies and good governance of its diamond deposits have benefitted the economy (Sarraf and Jiwanji, 2001).

On the other hand, Nigeria is commonly held to epitomise the problem of the curse – despite decades of oil production and export, according to a World Poverty Clock Report (2018) Nigeria has now overtaken India as the world's poorest country with 86.9 million people classified as living in 'extreme poverty' – nearly 50 per cent of the total population. There are three main ways in which the curse can play out, which will now be explored.

2.1 Less economic growth

The resource curse is normally associated with poor economic growth. However, the effect of the curse is not only related to the amount of revenue generated by natural resources. Nigeria has over the past six decades accrued vast sums of wealth through crude oil exports and has consistently been Africa's primary producer – over the past decade total annual revenue is estimated as between \$20-40bn (OPEC, 2017). The key issue then is not just how much revenue is generated but, more importantly, how these rents are distributed – does the generated wealth disburse broadly across society and trickle down to the poorest? Two factors that can affect the pace of economic growth include:

- i. Price volatility and vulnerability natural resource markets are prone to widespread and rapid fluctuations. Governments at the mercy of this uncertainty can find it very difficult to plan the economy effectively and may have to borrow heavily when prices slump. The reliance of the Nigerian economy on oil has made it notoriously vulnerable to price shocks. Falling global oil prices plunged the economy into recession in 2016, from which it is still struggling to recover (CSEA, 2017).
- ii. Dutch disease this term was coined in 1977 by *The Economist* to describe the decline of the manufacturing sector in The Netherlands after the discovery of the Groningen natural gas field in 1959. Dutch disease occurs when the exportation of natural resources leads to a significant appreciation of the national currency. The currency appreciation has the effect of reducing the competitiveness of other export products by increasing the foreign currency prices of these products. At the same time, the currency appreciation may encourage massive importation of foreign products because they become cheaper in terms of the local currency and this also has negative effects on local industries. Otaha (2012) traces the decline of Nigeria's agricultural sector as a result of volatile oil pricing and a consequent risk aversion to investment, which has made the country reliant on importing vast amounts of food.



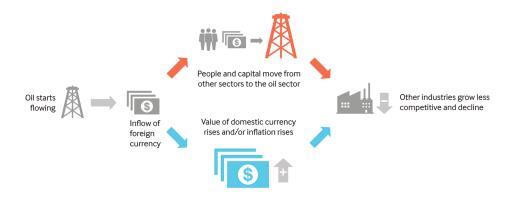


Figure 3 How the Dutch disease unfolds and impacts on an economy

2.2 Weaker democracy

Out of all the natural resources, an abundance of petroleum has been shown to accompany a deterioration of democratic values and processes, while increasing authoritarian rule (Wright, Frantz and Geddes, 2015). Two of the main causes for this are attributed to:

i. Weak and ineffective institutions – many scholars point to the quality and strength of institutional arrangements as a key determinant of the resource curse. Extractives can be relatively easily managed outside of formal budgeting processes, giving opportunities for exploitation by elites and companies (NRGI, 2015). If institutional capacity has been starved of investment then the ability to regulate, monitor and effectively draw benefit from rents is significantly reduced (Olagunla et al., 2014).



Figure 4 Nigeria's fourteenth president, Goodluck Jonathan, like many of the country's leaders has been accused of corruption and personal profiteering from oil deals (*Daily Post*, Nigeria)

ii. Corruption and rent seeking – these are frequently cited causes of the resource curse. 'Politicians or government officials can purposefully dismantle societal checks or create new regulations to get access to these resources or to provide access to friends or family, a process nicknamed rent-seizing' [italics in original] (NRGI, 2015). The issue of kickbacks on deals or developing patronage networks to maintain power through oil rents have been associated with successive regimes in Nigeria. Former President Goodluck Jonathan was embroiled in a scandal in 2017, accused of taking a \$200 million bribe for awarding a prospecting license to Malabu Oil. Likewise, the



Obasanjo administration (1999–2007) was hit with multiple allegations of corruption surrounding oil block allocation to IOCs.

2.3 Worse development indicators

There are strong links between the resource curse and poor development outcomes, which show through rising inequality and poverty levels. This is primarily due to the poor economic performance and political barriers noted above preventing the broad-based distribution of resource rents. But there are also wider social and environmental impacts of the curse that play out.

- i. Increased risk of violence an abundance of natural resources can destabilise the fabric of a society provoking or sustaining internal conflicts and violence. Oilproducing countries are twice as likely as non-oil producers to have civil wars. Elites or warlords can militarise groups as they seek to capture access to resource sites, and disgruntled communities can take up arms if they feel they are not receiving a fair share of rents or being adequately compensated. Nigeria's Delta region, the main onshore oil producing region, has seen ongoing violence for decades.
- ii. Environmental mismanagement the extractive nature of point-source resources means they can come with significant environmental impacts, which if not regulated and managed can be highly detrimental to the surrounding landscape and communities. A common criticism of Chinese resource extraction in Africa is that they care less about mitigating negative environmental impacts than Western companies (Marsh, 2015; Shinn, 2016). A cursory look at the history of Western oil companies such as Shell and Chevron in the Niger Delta, however, show a blatant disregard for safeguarding against environmental degradation as there are numerous instances of oil spills and gas flaring that have made some areas uninhabitable.



Figure 5 Gas flaring is the result of burning of gas produced as a by-product in the oil



extraction process. This practice is not only wasteful of a natural resource that could help fuel development, such as providing energy for lighting, but can have significant negative environmental and health impacts on surrounding communities

All of these factors work in different combinations. Obeng-Odoom (2013, p. 229) reminds us of the need to be aware of the nuances of this debate, that it is complex and so will be an interplay of different factors – no single one is exclusively attributable to the resource curse effect. Resource wealth as a blessing or curse is not monolithic 'but it is a contested arena where curses and blessings co-exist'.



3 The resource curse in Nigeria

You'll now look at an extract from a paper to explore the resource curse in Nigeria.

Activity 1 The complex nature of the curse

Read through the following extracts from Annegret Mähler's 2010 working paper 'Nigeria: a prime example of the resource curse? Revisiting the oil-violence link in the Niger Delta'. As you read, think about the interconnected nature of different dimensions of the curse:

- What do you see as the main contributors to Nigeria's oil curse? Can you rate them?
- Are there any factors that are a blessing?
- Do different factors also combine to compound the problem or do some help alleviate risk of the curse?

Provide your answer	Provide v	our a	nswer
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The historic response to overcoming the resource curse has centred on institutional and structural responses. The logic runs that by putting in place good fiscal policies, sound economic strategies, promoting good governance and improving accountability and transparency, that the resource wealth can be capitalised on more effectively. Such moves are often bolstered by international initiatives such as the Extractive Industries Transparency Initiative (EITI), which is a set of agreed targets aiming to set a global standard for good governance of oil and gas and mineral resources that has been signed up to by 52 countries. However, it is becoming increasingly recognised is that it takes more than just capacity-building of existing institutions or creating new ones – politics also matters.



4 More than an institutional fix: politics matter

The resource curse thesis focuses on both economic and political factors, but the prescribed solutions are generally political and institutional. Rooted in the logic of 'good governance' they are loosely fashioned around the experience of Norway, whose governance of its own oil is held up as a model of best practice. While such a model has been questioned, the more recent policies derived from it as part of a package to avoid the resource curse includes separation of the national oil company's operational role from the wider regulation of the sector, establishing transparent institutions for developing oil strategy, and setting up a sovereign wealth fund to accumulate oil rents for national programmes of investment.

For countries in the global South, like Nigeria, these institutional fixes are seen as a way of enhancing the transparency of the sector and, so the logic goes, if oil contracting and revenue spending are achieved in the public gaze then they are more likely to enhance national development. Such policy prescriptions have much appeal and should theoretically be encouraged, but it is virtually impossible to take one country's particular institutional history and transplant it into another country. Prescribing 'good' governance fails to account for the embedded politics in the producer country such that any suggested solution is negotiated, contested and reworked. Moreover, powerful vested interests who benefit from the resource curse can seemingly follow good governance procedures while all the time subverting such prescriptions. One example that will be discussed in this and next session is the issue of 'fronting', whereby the laws of Ghana and Nigeria state that indigenous firms should have a stake in a joint venture with an IOC, but in practice this is simply a paper exercise with silent partners acting as 'fronts' for what are essentially external investments.

In these cases, the governance arrangements on paper are perfectly good, but in practice they are subverted through informal institutional mechanisms, often linked to questions of political patronage. This section looks at how we understand these informal political institutions and how they shape oil governance.

4.1 African agency

Is the perception that China, as a global superpower, can leverage this power to manipulate deals in its favour correct? Here, Giles Mohan outlines the argument that African countries' politics is important for understanding how deals actually play out.

Video content is not available in this format.

Video 1





The rise of China, as you saw in the first session, has been impressive. However, China is a large and complex country with many different actors involved in Africa. As such it is unhelpful to talk in blanket terms about things like 'Chinese firms'. Likewise, Africa is a large continent of multiple states, each one with its own complex history. So, a discussion of China-Africa relations is a shorthand which we have to use with caution.

One of the upshots of thinking about 'China' and 'Africa' in homogenous ways is the tendency to assume that, given its 'rising power' status, China necessarily drives this engagement on its own terms. The corollary is that African actors are relatively, if not absolutely, powerless. Look at the cover image of a book on China-Africa published in 2006 around the time that China's presence in Africa became an international talking point.



Figure 6 Cover of Adama Gaye's book China-Africa: The Dragon and the Ostrich

This book's image of the fierce Chinese dragon bearing down on the African ostrich was typical of many representations of China's engagement with the continent. The well-fed Chinese businessman riding in the dragon's pouch brings lots of consumer goods 'Made

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in China' while the Africans are presented as ostriches, hiding from the onslaught. The result of such framings is that the agency of Africans was left out of the analysis.

In arguing for a greater consideration of African agency (see Mohan and Lampert, 2013) we need to avoid crudely reversing the analytical lens by suggesting African actors have limitless control over their destinies. Rather, African actors do exercise agency in multiple ways which is found in both formal, state-based politics as well as in wider social processes around trade, friendships, and many other relationships.

China's re-entry into spheres of influence which have been the purview of the former European powers for two centuries or more has been one of the forces which have impelled a rethinking of African agency, largely because African states are able to triangulate between external actors, thereby giving them some space to manoeuvre. These spaces for manoeuvre include growing demand for strategic minerals and energy resources, the global ramifications of the post-9/11 securitisation process, and the rise of various 'Southern' actors which (according to some accounts) pose a threat to Western interests and which African states can exploit.

Ideas of 'agency' are all well and good, but how do we focus on this practically? In the next section you will use ideas of 'political settlements' to unpack how resource governance plays out in Africa.



5 Political settlement theory

In the following video, Giles Mohan introduces the idea of 'elite bargaining' and 'political settlements' using the example of Ghana to show why 'good institutions' are not enough.

Video content is not available in this format.

Video 2



When studying China's engagement in Africa the analysis invariably focuses on political elites. Elite-based political coalitions are central to the political economy of oil and development, wherein the nature of the ruling coalition at the moment when natural resources are discovered has important implications for how and in whose interests those resources are governed. In analysing the role of elite coalitions in the political economy of resources, we use the concept of political settlements. For Mushtaq Khan, a 'political settlement emerges when the distribution of benefits supported by its institutions is consistent with the distribution of power in society, and the economic and political outcomes of these institutions are sustainable over time' (2010, p. 1). By focusing on the underlying power arrangements that underpin the emergence, stability and performance of institutions, political settlement theory pushes development thinking beyond an institutionalist approach to understanding the resource curse.

Political settlements theory focuses on how the balance of power in a polity between different groups shapes the types of institutions that emerge and how such institutions function in practice. An important contribution of this concept is the primacy it accords informal institutions for understanding governance and development outcomes in developing countries, where the clientelistic nature of politics is widely acknowledged. Khan (2010) sees clientelism as the most pervasive form of politics in developing countries because the formal productive economy is not developed enough to allow allocation of resources through more formal mechanisms. In turn, tax revenues are insufficient for redistribution, which means that political coalitions rely on selective and



informal political mechanisms to survive. Developing countries are therefore characterised by 'clientelist political settlements' (Khan, 2010). In this sense, clientelism is not a vestige of 'pre-modern' forms of politics, but is a rational mode of politics, given the need to ensure the stability and viability of the ruling coalition.

Khan further argues that the differing levels of capacity and commitment of ruling elites to delivering development are explained largely by the strength of excluded elite groups and of lower-level factions within ruling coalitions. In particular, where factions with significant holding power are excluded from the ruling coalition, then those *in* power are vulnerable to threats to their rule, which in turn reduces the likelihood that they will undertake institutional reforms and distribute resources in the national interest. In contrast, where excluded elite coalitions are weak, the ruling coalition will consider itself secure enough to develop a longer-term vision for the nation.

Drawing on this, Levy (2014) distinguished between two main types of political settlements: those where there is a 'dominant party' or 'dominant leader', which has very little chance of losing power, and those characterised by 'competitive clientelism', within which there is a high degree of competition and a strong likelihood of power changing hands through the electoral process. These different settings create differing pressures on elites, including the time scale over which they are incentivised to invest in building formal institutions that operate in the public interest. Under competitive clientelism, for example, the vulnerability of those in power means that 'the ruling coalition... has a short time horizon and weak implementation and enforcement capabilities' (Khan, 2010, p. 8) and so relies on informal deal-making to survive.

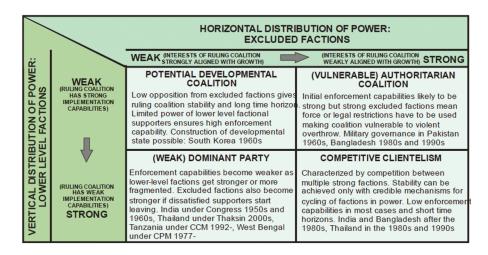


Figure 7 Khan's classification of political settlements (Source: Khan, 2010, p. 65)

Sam Hickey, Professor of Politics and Development at Manchester University, has been using political settlement theory within the ESID (

Effective States and Inclusive Development) programme of research, which is a global partnership investigating the kinds of politics that promote development. In this short video, taken from an online lecture – 'What do you get from a political settlement perspective?' – Hickey expands on some of the key points of this approach. While he explains the evolution of the thinking behind the theory – the rise in recognition that elite bargaining, the distribution of power and informal political arrangements, such as patronage, play critical roles in the governance and institutional effectiveness in many developing nations – what rationale does he give for why their programme of research chose the theory? In particular, towards the end of the video, Professor Hickey stresses that elite bargaining is not just a material and rationale decision-making process but that



political elites can be driven by ideational aspirations and values for a 'better', developmentally progressive society.

View at: youtube:pzRrglNxGGs

Video 3



6 China-Nigeria relations and oil

This section is about the impact of Nigeria's domestic politics on Chinese investment in the country, the subject of the following video featuring Janet Liao.

Video content is not available in this format. Video 4



China and Nigeria began formal diplomatic relations in 1971. This was at a time when Nigeria's military regimes were receiving heavy criticism from Western powers and Nigeria was looking to the East to form new strategic ties. Since then, bilateral relations have strengthened to the point where China is now one of Nigeria's most important trading partners. From around the early 2000s, Nigeria started to become a key source of oil for China's expanding economy - in 2006 oil exports to China amounted \$914m, but just two years later they had more than quadrupled to \$4.4 bn (Abutu, 2012). The main strategy for investment in Nigeria has followed much the same lines as other African countries where Nigeria has used her oil to secure loans for grand infrastructure projects the classic 'oil for infrastructure deal'. Areas of construction have ranged from transport, such as the Abuja-Kaduna railway and the still unfinished Lagos Rail Mass Transit System; energy in the form of the Mambilla hydropower station; and industrial modernisation through areas such as the Lekki Free Trade Zone (Kafilah et al., 2017). Despite these levels of investment, China has struggled to gain a foothold and secure stable, long lasting deals with Nigeria to leverage more direct investment in the oil and gas sector. The Chinese National Petroleum Corporation (CNPC) and Sinopec (China Petroleum and Chemical Corporation) have bought into several offshore oil blocks and over the past several decades attempts have been made to expand ownership, for example during the 2007 oil licensing rounds the Obasanjo government offered Asian oil companies a Right of First Refusal. However, success has been limited. The main barrier most often put forward is that Western oil companies enjoy a stranglehold on the oil

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sector, having over 40 years' more experience of operating in Nigeria than the Chinese, so they have a much greater competitive advantage. Figure 8 shows a timeline mapping government-to-government deals involving oil between China and Nigeria since 2005. As you read through the detail see if you notice any patterns or interesting findings

Despite almost 20 years of China trying to negotiate a deal with successive Nigerian governments to invest in the oil and gas sector, a common feature of all of these government-to-government agreements is that not one has come to fruition.

Activity 2 Analysing political agency in Nigeria

Considering the ideas of African agency and political settlement theory you have been introduced to in this session, spend 10–15 minutes thinking about the timeline of Chinese investment deals in Nigeria as outlined in Figure 8.

What reasons can you think of for why these deals were unsuccessful?

Supporting text

As has been argued throughout this section, politics is incredibly important in shaping if and how investments are made and whether they bring development for African countries. However, politics is also a very complex business, and the politics of oil governance in Nigeria is particularly shrouded in mystery, so there is a lot of speculation surrounding the outcome of these deals. Two factors in particular need to be kept in mind:

- Western oil companies have a stranglehold on the sector, enjoying over six decades of dominance, making it difficult for the Chinese to gain a foothold.
- Building from this point, the oil sector is well developed and explored in Nigeria leaving very little room for new large investments attractive to the Chinese.

Others, however, maintain that the main barrier to securing these deals was a failure by the Chinese to understand how the politics of Nigeria's oil governance works. Dynamics relating to both African Agency and Political Settlements (elite bargaining) can be seen playing out:

- Vines et al. (2009) analysed Chinese investment in the early 2000s. They attributed the breakdown of Chinese oil-for-infrastructure deals to the lack of Chinese understanding of the political machinations of the Obasanjo regime that was in power 'commitments to invest in the downstream and infrastructure projects failed to understand the political context of the time' (Vines et al., 2009, p. vii). The decision to offer Asian oil companies the right of first refusal on bidding on the oil blocks was a subject of controversy and subsequently Obasanjo and his top elite were accused of driving the deal for personal gain.
- Playing into ideas of African agency, there is an argument that the Nigerian government and elites have decades of experience negotiating deals with Western governments and oil companies. Unlike many African oil producers engaging with the Chinese, they are not new players and so have used this knowledge and experience to bargain harder. The failure of Yar'Adua to carry forward the oil-for-infrastructure deal struck under the Obasanjo regime has been attributed to falling global oil prices, for example. It meant that the number of barrels originally negotiated in return for investment were now worth significantly less. Yar'Adua was supposedly unwilling to compromise on the terms because he knew there were many other companies looking to invest.



- Umejei (2013) looked at the subsequent Yar'Adua negotiations and concluded that when the delegation arrived in Beijing they discovered that the previous administration had not concluded the deal as the Chinese had thought. Also, a lot of the figures were not adding up, which led Umejei to speculate that corrupt practices may have been a cause of the deal collapsing.
- Mthembu-Salter (2009) highlights how the electoral cycle trumps any business deal: '...the termination of the "oil for infrastructure" approach by the current Nigerian government demonstrates an incompatibility between this model and the Nigerian electoral cycle, which is designed to alternate rule every ten years between northern Muslim and southern Christian elites.'

Whatever the underlying reasons, based on observations from the timeline, it would be reasonable to infer that the politics and interests of different administrations has impacted, and negatively so, on the ability of the two countries to strike lasting investment deals.



7 Summary of Session 2

This session has delved into different dimensions of the political economy of oil by looking at how governance of the sector in Nigeria has, over the past 50 years, resulted in poor long-term growth for the country. Despite being Africa's largest economy, it has now overtaken India as the country with the most people living in absolute poverty. The session has explored the idea of the resource curse that has afflicted many African nations rich in natural resources, and you have seen that there are many different ways in which the curse can negatively impact on a country's growth. The personal interests of political elites and short-term nature of the electoral cycle have conspired in Nigeria to create a climate where, for example, bargaining and capture of state institutions and oil revenues to ensure political survival trump investment in policies aimed at bringing wider developmental outcomes. Finally, you have seen how the management of natural resource wealth is about more than putting the right institutions in place; politics plays a critical role as well. Political settlement theory and ideas of African agency were used to highlight and think critically about how political elites in Nigeria have engaged with China and shaped how investment deals have been negotiated, challenging the often-held assumption that China can flex its economic might and bend the terms of agreements to its will.

In the next session, you'll turn to the topic of local content, which involves building capacity in developing economies and is one strategy that can be used to try and overcome the resource curse.





Session 3: Local content and linkages

Introduction

In the previous two sessions you looked at the 'resource curse' and how politics affects the direction and depth of such a curse. One of the key issues for a capital intensive and internationalised sector like oil is how to create benefits for the domestic economy. For many countries the prime route is through 'rents', which is state income derived from granting companies access to your oil. The issue here is that these rents may not go directly to developmental investment. Other avenues for deriving benefits from oil investment are through generating linkages to other firms and thereby stimulating growth and employment. This is called 'localisation' and some African governments have legislated to facilitate this through 'local content' laws. In this session you'll explore the idea of linkages and see how far Ghana has managed to achieve beneficial localisation of its relatively new oil industry.

The learning aims of this session are to:

- appreciate the theories around linkages from resource extraction
- understand how localisation fits with African development agendas and the balance between state and private initiatives
- outline the debates around why China is assumed to be 'bad' at linkage development
- understand how linkages play out in concrete contexts, using Ghana as a case study.

The key question to reflect on during learning in this session is:

 To what extent can African countries leverage wider developmental benefits from oil investment and trade?

1 Oil sector localisation and African development

As outlined in the previous session, in many countries in Africa where resource extraction has taken place, development has remained a major challenge, and extreme poverty, civil unrest and conflicts are common in these countries. This negative relationship between resource extraction and development is referred to as the 'resource curse'.



One of the key approaches to addressing the resource curse is to ensure that natural resource-dependent countries build and deepen local linkages between natural resource extraction and other productive sectors within their economies. In other words, production in the natural resource sector should be organised in such a way that there are significant and positive spill-overs for other local economic actors, be it in the services, manufacturing or agricultural sectors. This will create and sustainably enhance employment opportunities for local people as well as help boost value addition within the local economy. When these are achieved, then, the tendency for Dutch disease and other negative implications arising from resource dependency will be significantly minimised.

As you saw in Session 1, many argue that the commodity boom linked to China's rise would deepen the risk of many African countries becoming overly reliant on the commodities sector, thereby hampering efforts at diversification and industrialisation. As China's engagement with Africa has grown, the concern is that Chinese-owned firms in Africa are somewhat different and so have distinct implications for linkage development and localisation. They tend to import more labour and capital equipment from China and are more horizontally integrated and so outsource less. They also have less shareholder or civil society pressure compared to Western firms and so undertake less corporate social responsibility (CSR) activities.

The next section sets out the basic model of linkages in order to explain what is meant by linkages and describes the various types of linkages that can be developed from the natural resource sector. You will then explore some of the key factors that may affect linkage development.



2 A 'model' of linkage development

In this session you'll look at a definition of linkage and explore different types of linkages.

2.1 What are linkages?

A linkage is an economic notion which relates to spill-overs between a specific sector (such as oil) and the wider economy. If we think of the economy as a system, then each activity area or sector within the economy could have a direct or indirect positive spill-over effect on other activity areas or sectors. Such spill-overs may be created because, for example, an investment in a given activity area, say sector A, may encourage investment in another activity area, say sector B, which provides inputs for sector A. Additionally, investment in sector A may likewise encourage investment in another sector, say sector C, which uses the final product from sector A as an input. The investment in sector A can therefore trigger a series of investments in other activity areas, leading to many tiers of linkages with sector A. In essence, the notion of linkages is that 'one thing can lead to the other' and this very feature of the economic system can be exploited to promote development.

Linkages as a concept was built on an early twentieth-century development theory, referred to as the Staples Theory. Proponents of this theory – in particular, William A. Mackintosh (1923) and Harold A. Innis (1957) – argued that Canada's manufacturing sector was developed largely as a result of linkages with the export-oriented primary resource sector, especially the production and export of 'staples' such as fish, fur, timber and mineral commodities. Mackintosh rationalised his argument using the successful experience of the United States where industrialisation had also emerged from spill-overs from the US staples sector. Similar claims have been made about Australia and Norway.

2.2 Types of linkages

In the aftermath of the Second World War, building on the work of the Staple theorists, Hirschman (1981) and other scholars proposed an analytical tool for applying the Staples theory as a development model. From Hirschman's work, we can identify three main types of linkages associated with resource extraction: fiscal linkages; consumption linkages; and production linkages. Richmond Atta-Ankomah explains in the following video.

Video content is not available in this format.

Video 1 Understanding different types of linkages





Now focus on linkages from investment in resource extraction, particularly oil resources.

Fiscal linkages

Fiscal linkages relate to the economic rents that accrue to governments from the resource sector. The rents are in the form of royalties and corporate taxes, as well as personal income taxes. Another source of rent could be dividends arising from the governments' equity participation in the resource extraction, which is quite common with oil extraction. Many governments in the developing world have tried to exert a bit more control over oil exploration and production and to appropriate more rent by establishing national oil companies which represent the governments' interest in petroleum agreements with foreign companies that lead the extraction business. In Ghana, for example, the Ghana National Petroleum Corporation (GNPC) is a 100 per cent state-owned company, which by law must have at least 15 per cent equity holdings in all exploration and production agreements in Ghana's oil sector.

Fiscal linkages actually arise when the rents accruing to government from the resource extraction are used for investment in other sectors of the economy such as agriculture, manufacturing, infrastructure and the provision of social services. Whether effective fiscal linkages will be derived from resource extraction depends on two critical factors. The first has to do with the capacity of public institutions to design, negotiate and implement rent appropriation mechanisms, which are usually built into petroleum agreements between the government and the foreign companies undertaking the extraction, and usually backed by explicit Exploration and Production laws, as in the case of Ghana. The second factor relates to how the derived rents are put to use. The rents can be invested productively, when the investments are in sectors that generate high returns, but they could go into unproductive investments, especially in systems where corruption is high and/or into financing the short-term electoral objectives of politicians. A major approach to addressing this problem has been the use of legislation to minimise the discretion exercised by politicians and state technocrats in spending oil revenues, a typical example being Ghana's Petroleum Revenue Management Act which came into force in 2011, a year after oil production began in Ghana.

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Consumption linkages

Consumption linkages arise when personal incomes derived from resource extraction lead to an increase in demand for products from other sectors in the local economy. However, consumption linkages can bear a negative impact if the earned income is spent on imported products or shifts demand away from domestic products to foreign substitutes, in which case, the domestic industries will suffer.

Production linkages

Production linkages involve two sub-categories, namely, forward linkages and backward linkages. Forward linkages occur when the output from resource extraction feeds into the production activities of other sectors as inputs. For example, in oil extraction, the crude oil extracted from the oil fields ends up in refineries for the production of refined petroleum products such as gasoline and diesel, with several by-products that also serve as inputs for the production of petrochemical products. It has been argued that a key reason why such forward linkages may not develop in the local economy is that the processing industries usually tend to be 'residentiary', i.e. they are usually located near the final consumption market. So, when local demand for the processed products is low or non-existent, the secondary value-added activities are likely to be located outside the local economy.

Backward linkages relate to the supply of inputs to the resource extraction. Hirschman (1981) and other scholars such as Watkins (1963) argued that when compared to forward linkages, backward linkages are more likely to develop in the domestic economy, particularly where the resource is located. A major reason for this is that a proximate supplier offers the opportunity for the contracting firms to cut down logistical inefficiencies in their supply chain. Moreover, the need to minimise production cost while adhering to high product quality and delivery standards in recent times has resulted in the adoption of production techniques that require firms to outsource activities outside their core competences to the lowest cost and closest suppliers.

In the next section, you'll look into some of the key factors that determines the extent to which linkages, in particular production linkages, can be developed locally from the resource extraction.

2.3 Determinants of linkage development

Many factors may affect linkage development from resource extraction in the local economy. Here you can explore some of the key factors that can either promote or inhibit linkage development from resource extraction in developing country contexts.

Geological location, technology and resource specificity

All extractive resources are unique to the location in which they are found. This means that the technology, skill and knowledge needed for efficient exploitation of the resource have to be locally applied on site and this provides an opportunity to draw on local



knowledge and skills. However, in developing economies where skills, knowledge and technical capacity may be undeveloped or non-existent, because the resource production activity is relatively new to the locality, indigenous businesses may not have the necessary capacity to take advantage of these outsourcing opportunities. This creates the entry space for foreign firms to bring in foreign capital, expertise and technology and also further outsource to other foreign suppliers.

Generally, therefore, whether local linkages will develop depends on whether the array of skills (both specialised and general) and capacity required for effective resource production and input supply is available locally. The level of education determines whether local people are employed over skilled expatriates. In most developing resource economies, there is not only a skills gap but, even where the skills exist, the quality of locally-available skills often does not meet international standards. For effective linkage development, skills have to be grown and harnessed effectively. Also, supporting frameworks and institutions have to be developed to enhance the technological development and innovation of local suppliers, especially as technological intensity of linkages increases.

The technology and capital requirement for the resource extraction is also intrinsically dependent on the geological location of the resource find and determines whether local linkages can be easily developed. For example, the technical expertise and capital required for offshore oil production is relatively high, compared to onshore oil production. The Chinese NOCs largely developed onshore capabilities, so, as they have entered offshore fields they have partnered with Western IOCs who have the deep-water expertise.

A closely related point is that the highly capital-intensive nature of resource extraction can also lead to scale and technological barriers. Hence, in cases where there is no developed industrial sector, local linkages will be limited. However, there would usually be some areas along the value chain that require relatively low levels of technological expertise and with low barriers to entry, which indigenous suppliers could always take advantage of. This might include, for example, security services for oil facilities or supplying accounting services.

Ownership

It is widely believed that locally-owned lead firms are more committed to local development and may organise their extraction activities in ways that promote linkage development more than foreign lead firms. There is also the general belief that the nationality of the foreign lead firm may also influence linkage development. For example, if the lead firm is from a country with highly developed equity markets where patient capital (i.e. long term) is available and government support is high, then such a lead firm may be predisposed to have more patience for developing the capacity of local suppliers. In another vein, it is argued that lead firms from the global north face a lot of pressures from civil society in their countries to adopt CSR that promotes backward linkage development by investing in intensive local supply chains to spread the benefits of resource production to communities in resource-producing areas. However, in areas where civil society pressures are not profound or do not exist, and where the host country does not have a robust policy or legal framework to promote linkage development, the lead firms may be less inclined to promote linkage development.



Infrastructure

Infrastructure here can take several forms and includes road and rail transport, utilities and telecommunication, as well as social forms which reflect the efficiency of the administrative and regulatory framework supporting the productive sector. For example, road and rail infrastructure have the potential to reduce logistics costs for processors and suppliers.

Policy

Policy has proven to be a critical factor in linkage development. A key policy instrument widely used in the resource sector is referred to as local content policy, which is usually backed by legislation and sets some specific targets for localising employment in the resource sector as well as widening and deepening local supply chains for the resource sector. For such policies to be effective, the targets and implementation strategies should be realistic and the policy also needs to align with other government policies. It should also be recognised that government is not the only actor in the policy environment, hence successful policy development and implementation requires an alignment of visions and capabilities between the state, the private sector and even civil society organisations. In particular, indigenous suppliers' perception of the opportunity cost of responding to the incentives created by local content policy is critical for effective localisation of the resource supply chains and linkage development.

Time

While all the above-mentioned factors are important for localisation and linkage development to happen, it is also important to understand that linkage development takes time. In general, a country that has exploited oil for longer would have achieved more localisation and linkage development than one whose oil industry is young.

Activity 1 Ghana's petroleum legislation

Allow around 1 hour

For the latter part of the twentieth century Ghana's oil industry was confined to small on-shore oil fields. It had long been suspected that there were sizeable oil reserves located off-shore.



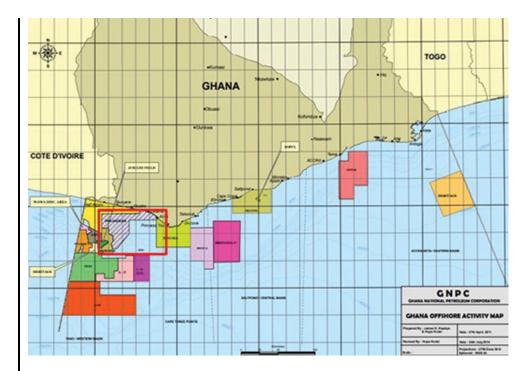


Figure 1 Ghana National Petroleum Company map of offshire oil blocks (2014).

In 2007 these suspicions were confirmed and with the expertise and capital from a number of IOCs Ghana started producing oil just three years later. The speed of production meant that the legislation and institutions needed to effectively govern oil for the country's development lagged behind, but from 2011 they began to be put in place (Mohan and Asante, 2015). The most important for this discussion of linkages and local content were the Petroleum Revenue Management Act (Act 815 of 2011) and the Local Content and Local Participation Bill (L.I 2204 of 2013). These and the other pieces of legislation are available at:

http://www.petrocom.gov.gh/laws-regulations/.

As these laws are quite long and in technical language, summaries have been provided below.

These pieces of legislation set out the Ghanaian state's vision for how to capitalise on the benefits from its oil. As you read the summary discussions make notes on the main ways that the oil economy might benefit Ghana's development.

Petroleum and revenue management act

Local content and local participation bill

Discussion

The following is a list of 11 potential developmental outcomes identified from the legislation. How does your list compare?

- At the most abstract level Ghana's Constitution vests the control of resources in the hands of the President who should then distribute them in a way that benefits the nation.
- A proportion of the revenue is allocated to the ABFA which is ring-fenced for investment in priority sectors that directly impact upon development like agriculture, housing and healthcare.
- The law prevents this revenue being spread too thinly and so undermining its impact



- In the last few cycles of ABFA spending the priorities have been roads and other transport infrastructure, agriculture, health, and oil and gas capacity building.
- The ABFA can also act as collateral for other loans, which could also go into
 productive investment. This happened with a loan from the Chinese that helped
 build gas processing infrastructure.
- The GHF builds up a long-term investment fund that can be used when the oil runs out.
- The GSF helps cushion the economy from shocks which helps bring muchneeded macro-economic stability.
- The Local Content Bill encourages employment for Ghanaians in the petroleum industry.
- Ghanaian firms have a minimum stake in joint ventures with international companies and so can benefit from profits that are generated.
- It encourages supply chains in Ghana so that more of the 'spend' stays in the country.
- The IOCs can transfer knowledge and skills to Ghanaians.



3 Linkage development: Ghana case study

In this section, you'll look into how Ghana's local content policy has fared, and, generally, the extent to which localisation has been achieved.

Ghana started commercial production of oil and gas resources in 2010, following the first discovery of oil in commercial quantities in 2007, with later discoveries of two additional oil fields. It took the involvement of foreign capital and expertise for Ghana to realise its dream of becoming an oil producing country. Thus, at the onset of oil production in Ghana the IOCs had to play the lead role in oil production, meaning that there was very limited opportunity for local ownership of the lead firm in Ghana's oil extraction. Moreover, Ghana's industrial development capacity was limited when oil exploitation started and remains so. This has also meant that there has been limited potential for localisation and linkage development to take place. Meanwhile, as Ghana's oil find has been entirely offshore, this places greater demands on technology, capital and skills, compared to the extraction of onshore resources.

Another obstacle has been the small size of Ghana's banking industry and financial market, which has meant that cheap and long-term capital is hard to find locally. Interestingly, estimates indicate that Ghana's three main oil fields — Jubilee, TEN and SGN fields — on average cost USD 6 billion per project to develop, a figure approximately equivalent to half the entire assets of Ghana's banking sector (*The Economist*, 2015). Thus, the potential for local equity participation in the supply chain of oil extraction in Ghana is limited.

It was on the back of these constraints that Ghana's Local Content law was enacted in 2013. Among many other requirements, the law says that:

- an indigenous Ghanaian company should have first preference in the granting of petroleum agreement
- at least 5 per cent equity participation of an indigenous Ghanaian company is required for any entity to qualify for a petroleum agreement
- a joint venture with at least 10 per cent equity participation for an indigenous
 Ghanaian company is required for a non-indigenous company that intends to be engaged as a supplier
- foreign companies must also have capacity development plans that need to be approved by the sector regulator.

Regarding direct employment and purchasing of goods and services, the following targets have been set:

Petroleum (local content and local participation) regulations, 2013

First schedule: minimum local content in goods and services (regulations 1(c), 10 and 18).

Part 1: local content levels to be attained from date of effectiveness of licence or petroleum agreement.

(Local content and local participation regulations L.I.2204)

Generally, the Local Content law appears to have been helpful. The lead IOCs' orientation towards local linkage development has been positive. In contrast to IOCs' historical



scepticism about local suppliers, the lead IOCs in Ghana provide some support to local companies to take advantage of opportunities in their supply chains. Evidence gathered as part of our research into Chinese oil companies in Africa indicated that the IOCs go 'the extra mile' in ensuring that local companies they contract themselves use local subcontractors in the discharge of their contractual obligations for some projects. Moreover, they also ensure that when a local company wins the bid for a contract which was previously placed with an international company, the particular service or contract remains reserved for the local company. In terms of employment, a lead operator in Ghana (Tullow) says it has achieved 73 per cent localisation, though localisation in management and technical roles may be significantly lower than non-technical and low-skill roles. The IOCs have also carried out capacity development initiatives, providing training and

support to local companies and individuals. Typical examples include establishment of the Enterprise Development Centre (EDC), a joint venture by Tullow Oil PLC and the Government of Ghana to provide training and support to local companies, and the Jubilee Technical Training Centre (JTTC), which offers technical training in oil and gas to individuals.



Figure 2 Capacity building training session held at the Jubilee Partner-funded Enterprise Development Centre in Takoradi

Some local companies have subsequently benefited from the supply chains of the lead IOCs in Ghana but several challenges still remain. For example, the depth of local content in the supplies of the local companies remain questionable. Given the country's low industrial base, a large proportion of the supplies of local companies to the lead firms may be imported. Moreover, indigenous equity participation in the petroleum agreements is virtually non-existent, because specialised and long-term capital is locally unavailable, leading to the situation where locals 'front' for foreigners. This also raises questions about whether there was some arbitrariness in the Local Content law's policy's targets or whether some of them were just unrealistic.



Activity 2 Ghana's experience of linkage development

While the previous section highlighted some of the successes of local content legislation, translation into tangible benefits has not been without its challenges. What follows is a short video and an excerpt from a report on local content implementation. As you watch and read, list what you see as the main barriers to the development of linkages.

Ben Boakye and Pauline Anaman from the project partner organisation Africa Centre for Energy Policy (ACEP), Richmond Atta-Ankomah from the University of Ghana and Kojo Asante from the Ghana Centre for Democratic Development (CDD-Ghana) summarise some of the issues Ghana has faced trying to develop better local linkages.

Video content is not available in this format.

Video 2 The challenges to local linkage in Ghana



Now read the following which is a section taken from a report written by the IMANI Centre for Policy and Education (2018) that looks at the successes and barriers to institutionalising local content in eight countries and across five sectors. It is an analysis of the oil and gas sector in Ghana.

Local content in Ghana's oil and gas sector

While statistics, such as those showing the rise in the number of indigenous companies operating in the sector since the introduction of local content legislation, are indicators of progress toward greater linkages in Ghana, it is clear many challenges remain. Some of the key issues with localisation identified in the video and passage include:

- Limited numbers of local suppliers preventing benefits from trickling down to the rest of society more broadly.
- The capital-intensive nature of the sector means few indigenous companies have the financial assets necessary to meet the 5% investment requirement.



- A lack of investment in value creation and skills specialisation mean that high
 levels of revenue have to be spent on outsourcing to foreign companies. Building
 on from this problem is an external constraint. Foreign companies need to prove
 they are meeting international sector standards and few local companies have
 the expertise or staff with the qualifications to meet these requirements.
- Growth in local employment and goods and services in the oil and gas sector are encouraging but there remain poor levels of linkages being made to other sectors of the economy.
- Local content policy may be at odds with foreign investor approaches wanting to bring in their own suppliers and contractors. The desire to attract this investment can override the political will to enforce local content legislation effectively.
- Practices such as 'fronting' for foreign companies hinders effective regulation, which is linked to the wider issue of opacity around oil sector operations. In addition, it was explained that a lack of capacity within government agencies prevents effective monitoring and evaluation to assess the impact of local content provisions.

Within the IMANI report, one interesting point was an apparent awareness within the Ghanaian government that the local content LI 2204 regulations may have, from the outset, been too ambitious in terms of timeframes and policy targets. Related to this observation, in the video, Dr Richmond Atta-Ankomah stressed that time was a key factor in explaining why Ghana was struggling to create linkage development. Compared to Nigeria and Sudan, localisation and linkage development may appear relatively low, but the oil sectors of these countries are decades old, so we would expect their linkages to be better. So, while Ghana may have significant progress to make in terms of localising development outcomes, time and lesson learning from other contexts may mean it enjoys greater benefits over the longer-term.



4 Linkage development: are the Chinese different?

Chinese owned firms are somewhat different and so have distinct implications for linkage development and localisation. The 'Angola model' of financing means other Chinese SOEs get construction contracts and then bring labour and inputs with them. This is highly internalised and so creates limited backward and forward linkages, and Chinese firms tend to provide little support to would-be suppliers. But there are important differences between Chinese SOEs and private Chinese TNCs with the latter much more willing to enter into market-based supply relations. In terms of mineral processing, Chinese firms tend to refine and process in China, which also limits backward and forward linkages, whereas with oil we have seen a willingness to invest in refinery capacity in Africa. However, there is a sense that Chinese firms' procedures reflect a lack of experience, so as they gain knowledge and confidence they will behave more like Western firms. Evidence from Ghana shows that Chinese state-owned companies have gradually localised their workforce in a manner quite similar to the behaviour of companies from the West. With rising labour costs in China, the costs of importing labour and goods will rise. Another case in point is that the Sudanese oil sector is largely dominated by one Chinese national oil company - China National Petroleum Corporation - but they seem to have been able to achieve relatively high levels of localisation and linkage development. This also definitely reflects the shift in the Chinese way of doing business abroad, but may also reflect a firmness of purpose in the Sudanese approach to promoting localisation, which may have been conditioned by Sudan's unique economic and political context.



5 Summary of Session 3

Local content and localisation are seen as important ways in which natural resource-producing countries can avoid the resource curse. The theory behind these policies and corporate initiatives is based around the experiences of some leading economies that kick-started their industrialisation on the back of natural resources; that is, they did not suffer the resource curse. The key was the development of linkages from the natural resources sectors so that 'one thing leads to another'. You looked at various ways that linkages can be created, but crucial among these is a favourable policy environment. Using Ghana as a case study you looked at linkage development and the moves the Ghanaian government have put in place to encourage benefits from oil revenue and local content. The laws are seen to be well-meaning and conform to international good practice, but the implementation and realisation of these laws has been patchy. This shows that no matter how 'good' the legislation is, politics and institutional capacity can undermine the aims of such legal frameworks. The politics of oil have been central to Sudan's recent development to which you'll now turn.





Session 4: Global oil markets, geopolitics and diversification

1 Risk perception and management

The reasons for investing in natural resources are persuasive and numerous, as you have explored in previous sessions, but it is also a risky business. Effective planning to mitigate and manage risk is, therefore, a crucial part of any investment strategy. Risk is particularly pertinent for the oil sector because the stakes are so high. As the entire oil value chain is capital intensive it can take decades to achieve profitability, meaning that companies have to carefully weigh up the longer-term benefits of investing overseas. Risks can be categorised into three broad areas:

Economic – susceptibility to volatile global markets, such as the price crash in 2015 that saw the price of a barrel dropping by half in just under a year; capital development costs can overrun; operational maintenance costs can be extremely high; supply and demand shocks.

Political – the hosting government may try to renegotiate or change the terms of a deal, something which successive governments attempted in Nigeria; changes in policy and regulation, such as an increase in royalty payments or taxes, can adversely affect the ability to repatriate revenue flows; the level of political stability in a country can be a determining factor as to whether an investment is worthwhile.

Environmental – infrastructure can be susceptible to extreme weather events and natural disasters such as offshore platforms being damaged by hurricanes, or onshore pipelines destroyed through mudslides and flash-flooding; operational hazards like pollution from oil spills; compliance with local environmental regulation and employee health and safety standards also factors into these assessments.

These are just some examples of potential risk, but what they highlight is that oil companies have to predict the likelihood, and plan to manage, many competing factors aside from the practical business of oil extraction. These risks are often not mutually exclusive but can overlap and combine to significantly increase the level of risk to an investment. As you will read in more detail shortly, in the case of Sudan, CNOCs were simultaneously having to contend with escalating civil conflict, international accusations of collusion in human rights violations and falling oil prices.



2 How the Chinese deal with risk

How the Chinese government and oil companies perceive and deal with risk is one way in which their investment approach is seen to differ from that of the more traditional — Western — oil companies. The common assessment put forward is that the Chinese approach is much less risk averse, which can have negative implications for African economies in a number of ways. They are seen by some to be more prepared to negotiate with unscrupulous political elites and authoritarian regimes, colluding in corruption and bribery to secure more favourable terms, and employ operational practices that place little importance on environmental protection, resulting in degradation. Can it be as simple as saying that the Chinese are willing to take more risks, and, if so, what is their underlying rationale?

Activity 1 Learning from failure: China's overseas oil investments

The following excerpts are taken from a paper by Susana Moreira (2013) examining the evolution of CNOC risk strategy in three key phases since 'going out' in 1993: Learning from failure: China's overseas oil investments.

As you read about the oil companies' approach to risk into foreign oil markets, complete the activity in the following way:

Write down the ways in which Moreira's analysis of China's risk strategy might challenge the common assumptions made about the way it invests in oil in Africa.

Discussion

What can be taken from Moreira's evaluation is that Chinese oil companies view of and approach to risk is more than just saying that the Chinese do things differently. The early investment strategy is the product of a nuanced blend of contending conditions. There was the imperative to secure new markets because of the dwindling reserves at home that could have forced risker decisions, but there were more subtle influences at play, such as a business culture based on cultivating strong personal relationships, which suggests a more nuanced reading of relations with African elites than just that they are willing to engage in corruption and bribery.

One of the most poignant features of Moreira's account points to the inexperience of the CNOCs in those early years, and she goes on to say that there are 'several instances in which the interests of Chinese NOCs have been undermined due to poor management of political risk' (p.131). Part of the problem can be attributed to a lack of understanding of the local context that comes from a 'one-size-fits-all' policy. What is important to understand is that China's approach to investment has not remained static since this time but has been evolving and adapting as they have expanded into new countries and learnt from greater exposure to international markets, entering into more Joint Ventures and Production Sharing Agreements (PSAs) with other oil companies. (Production Sharing Agreements are a common type of contract signed between a government and a resource extraction company (or group of companies) concerning how much of the resource (usually oil) extracted from the country each will receive.)

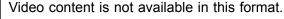


3 The history of Sudan and the role of CNOCs

Sudan is often seen as the testing ground for CNOCs in Africa. Luke Patey is a researcher who has written extensively on China's involvement in the Sudans. He says that: 'When they first entered the global scene in the 1990s, Chinese NOCs held few competitive advantages over international oil companies. They lacked the organizational capabilities and expertise to manage large projects overseas and had little experience with political and security risk' (2017, p.756). In his work, Patey shows how experience in Sudan and South Sudan 'were instrumental in leveraging the competitiveness of the China National Petroleum Corporation, China's largest oil company, particularly through developing its risk management capabilities, and steering its global strategy' (2017, p. 755).

While Patey focuses on domestic political conditions within the Sudans, in the remaining sections of this session, you are going to explore how significant international events interact with Sudanese factors to effect change in the way CNOCs are investing.

Sudan is a large country with a long-standing tension around a broad North-South divide which dates back to the colonial period. These tensions have been critical in terms of the country's more recent political history in which oil has played an important part, as it was the first country where China's oil industry made significant overseas investments from the mid-1990s onward. Sino-Sudanese relations stretch back much further, as Dr Janet Liao explains:



Video 1 A brief history of Chinese NOCs in Sudan



At the same time as China was starting to look outward, Sudan was facing international sanctions, so the interface between the international political and economic system and Sudan's domestic politics was complex.



Activity 2 Sudan's recent political history

Here, Professor el-Battahani, an authority on Sudan's political economy from the Political Science Department at Khartoum University, outlines the recent evolution of the country's politics. As you watch, consider:

- Who has benefited from oil exploitation in Sudan?
- What role did oil play in the consolidation of power in Sudan?

Video content is not available in this format.

Video 2 Politics of oil in Sudan: Part 1



Video content is not available in this format.

Video 3 Politics of oil in Sudan: Part 2







4 Oil, war and the economy

As Professor el-Battahani noted in the videos, the oil economy has been central to the consolidation of elite rule in Sudan. The history of oil exploration in Sudan has been a long one, but equally has been riven with tensions and conflicts. As you will see, a number of IOCs tried to develop oil fields in the 1970s and 80s, but it was not until the Chinese and other rising power firms came in the mid-1990s that development took off. Remember from Session 1 that it was in 1993 that China became a net oil importer so this search for new sources of oil was in part spurred by this need for energy security. What follows is an outline of the development of Sudan's oil sector and China's role in it.

Oil exploration began in Sudan in 1959 but it was not until 1979 that the first discovery was made in the South, west of Muglad. Then in the early 1980s other major fields such as Unity fields, Adar Yale and Heglig were discovered. Italy's Agip oil was the first Western company to start exploration in Sudan, which was initially restricted to the Red Sea Area. Several other companies such as Oceanic Oil Company, Texas Eastern Company, Union Texas and Chevron were also attracted to Sudan's potential oil wealth and engaged in exploration activities. However, it was Chevron that first discovered oil in commercial quantities in the South of Sudan in 1979, when the end of the first civil war allowed exploration activities to be undertaken in the southern provinces.

With Khartoum under economic and diplomatic sanctions from the UN, the US and its allies, as well as pressure from international human right campaigners, Western companies that took over from their predecessors, such as State Petroleum, Arakis and Talisman, faced major difficulties. As a result, Arakis left Sudan in 1996 because it was not able to raise capital to fulfil its exploration and production agreement with Khartoum. It should be noted that Chevron and its contemporaries in Sudan faced similar pressures, however, and it's been argued that Chevron's departure from Sudan in 1992 was not solely due to increased insecurity in the oilfields but also due to US influence. Patey (2006) has argued that what seemed to be a strategic decision on the part of Chevron and the other IOCs that left Sudan was hugely driven by political pressure from the governments of their countries of origin, particularly Washington. There is anecdotal evidence indicating that the US government encouraged Chevron to leave Sudan by offering the company a tax write-off of about US\$ 550 million for its operations in Sudan as a compensation for any losses (Zaida, 2007). This is believed to be part of the efforts by the US and its allies to isolate Al-Bashir's government which was viewed to be supportive of terrorist activity against the West and Islamic fundamentalism. The US-Sudanese relationship had been generally smooth until President Brigadier Omar al-Bashir came to power in 1989 and adopted an antagonistic posture towards the US, to which the US responded with hostile and aggressive policies in the 1990s in order to destabilise the Al-Bashir regime. This could be seen in the US economic sanctions on Sudan, its support of UN diplomatic sanctions on Sudan, its support to the SPLM/A (South Sudan Peoples Liberation Movement in Opposition) and the blacklisting of Sudan under the 1966 Antiterrorism Act, placing it alongside countries such as Iraq, Iran, North Korea and Libya.

4.1 Reaching out to new investors

Isolated by Western powers but in dire need of the oil money, Sudan began to lure major national oil companies from East Asia, particularly China, and India to a lesser extent. It



has been argued the move to the east seemed the only choice available to Khartoum given the reluctance of Western companies because of security concerns, the civil war and the increasing suspicion about the regime's Islamic tendencies and extremist practices (Sidahmed 2016). This move also aligned squarely with the resource need of these countries whose economies were growing by leaps and bounds. As Patey (2017) argues, 'Eastern parastatals, led by a surging China, eager to capture international energy resources to fuel their budding economies and supported by the plural relationships fostered between their respective governments and the ruling, riverine elite in Khartoum, tactfully established a dominating presence'. The role of the national oil companies from East Asia, especially CNPC of China, has therefore been central to Sudan's oil production. The importance of this can be seen in the fact that these companies, unlike their counterparts from the West, have ignored the US-led divestment campaign in Sudan's oil sector (Patey, 2009).

In 1983, the White Nile Petroleum Company (a consortium led by Chevron and including Royal Dutch Shell, the Sudanese government and the Arab Petroleum Investment Corporation) was formed to build a US\$1 billion dollar pipeline to connect the oil fields in the South to Port Sudan on the Red Sea (Zaida, 2007). With the start of the second civil war, this project was abandoned, leading Chevron to decommission its activities in 1984, selling its interests to the Sudanese company Concorp in 1992. Concorp subsequently sold these concessions to the Government of Sudan, which in turn sold their interest in 1994 to the Canada-based State Petroleum Company, which was acquired in that same year by Arakis Energy from Canada (Lado, 2002). Arakis sold 75 per cent of its shares in 1996 to the China National Petroleum Company (CNPC), Petronas (Malaysia) and Sudapet (Sudan's national oil company). These companies formed the joint venture known as the Greater Nile Petroleum Operating Company (GNPOC), which made considerable discoveries, increasing the amount of proven reserves in Sudan. Arakis subsequently sold its 25 per cent share in the GNPOC in 1998 to Talisman, another Canadian company. In addition to building the Khartoum oil refinery, the consortium constructed a pipeline from the Heglig and Unity fields to Port Sudan, with the pipeline becoming operational in 1999 and marking the start of Sudanese oil exports (Sidahmed, 2016). Talisman, however, sold its shares in GNPOC to the Indian Oil and Gas Corporation (ONGC) due to international pressure with regards to its continued operation in a country being accused of human right violations.

The three largest of the 15 oil companies currently operating in Sudan – CNPC, Petronas of Malaysia, and India's ONGC Videsh – are from Asia which together owns 95 per cent of GNPOC, a joint venture that accounts for 88 per cent of total oil production in Sudan (Helly, 2009).

Table 1 below shows you which oil companies were operating in Sudan before South Sudan's secession. You can also refer to Figure 1 to see the areas in the country that the Blocks refer to.

Table 1 Consortiums/oil companies in Sudan before South Sudan's secession

Consortium	Companies	Block
Advanced Petroleum Company (APCO)	Hegleig, Khartoum State, Sudapet, Hi Tech	С
Al Qahtani & Others	Qahtani, Ansan, AAIn, Hi Tech, Dindir Petroleum, Sudapet	12A
Ansan	Ansan, Sudapet	17



CNPC, Pertamina & Sudapet	CNPC, Pertamina, Sudapet	13
CNPCIS	CNPC, Sudapet	6
Greater Nile Petroleum Operating Company (GNPOC)	CNPC, Petronas, ONGC, Sudapet	1, 2, 4
H-Oil		Ea
Petro SA	PetroSA, Sudapet	14
Petrodar Operating Company Ltd (PDOC)	CNPC, Petronas, Sudapet, Sinopec, Al Thani	3, 7
Red Sea Petroleum Operating Company (RSPOC)	Petronas, CNPC, Sudapet, Hi Tech, Express Petroleum and Gas C Ltd	15
SudaPak I	Zafir, Sudapet	9, 11
SudaPak II	Zafir, Sudapet	Α
Total	Total, Kufpec, Nilepet, Sudapet	В
White Nile Petroleum Operating Company I (WINPOC 1)	Petronas, ONGC, Sudapet	5A
White Nile Petroleum Operating Company II (WINPOC 2)	Petronas, Lundin, ONGC, Sudapet	5B
White Nile Petroleum Operating Company III (WINPOC 3)	Petronas, Hi Tech, Sudapet	8

(Source: Fatal Transactions, 2008)

4.2 Chinese oil companies and Sudanese politics

China started oil exploration in Sudan in 1995, initiated by Khartoum's request the previous year for help in oil development, under isolation from the West and its own neighbours. China was also at the time under Western sanctions following the Tiananmen Square incident in 1989, where student led protests calling for more democracy and public accountability to the people were brutally put down by the ruling party. Thus, saw in Sudan an opportunity to establish energy-based cooperation with a country for which it faced little competition at a time when its domestic oil reserves were in decline (Large, 2008). A team from the Zhongyuan Oil Company (under Sinopec) was sent to Sudan in 1994 to inspect the potential of oil exploration, and it found high geological similarities between the Sudanese oil fields and that of China's own Daqing oil fields, providing an excellent opportunity for Chinese NOCs to get involved in Sudan's oil development (according to interviews with CNPC specialists in July 2018).



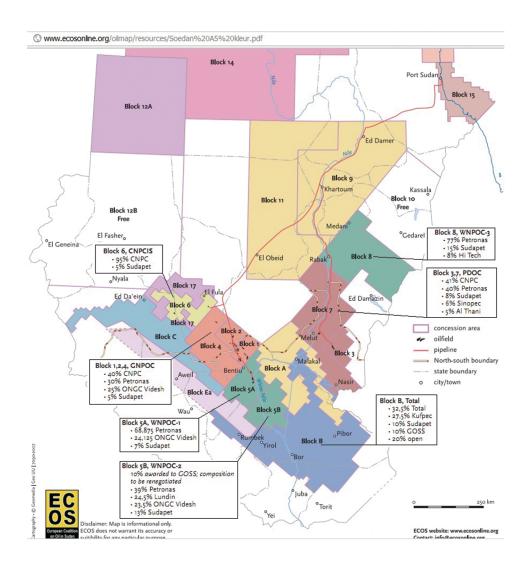


Figure 1 Map of oil concession areas in Sudan and South Sudan

Following a visit by Sudanese President Omar al-Bashir to Beijing in September 1995, CNPC signed a petroleum contract to develop Block 6 in Sudan's Heglig Oilfield. In order to spread the investment risk and to enable Sudan to avoid placing all of its eggs in one (Chinese) basket, the Greater Nile Petroleum Operating Company (GNPOC) was established in 1997 as a joint venture, involving CNPC (40 per cent of stake) Petronas (Malaysian, 30 per cent), Talisman (25 per cent) and the newly created Sudan Petroleum Company (Sudapet, 5 per cent).

Sudapet was established in 1997 as a national oil company, completely owned by the Ministry of Petroleum/Sudan Petroleum Corporation (SPC), to represent the Sudanese government in various consortia. Sudan's share (which could range from 5 to 33 per cent) in petroleum licenses are held by Sudapet and any transaction or joint venture with other companies is exercised through the Deputy Chair of SPC (Sidahmed, 2016). According to Sidahmed, however, Sudapet never publishes annual reports, or provides information regarding its financial position or data regarding its upstream and downstream operations.

The presidency of GNPOC has been held by a Chinese executive due to CNPC's dominant share within the consortium. When Talisman decided to withdraw in 2002, it sold its 25 per cent stake for US\$758 million to India's Oil and Natural Gas Corporation. In March 1997, the GNPOC consortium won the right to develop Blocks 1, 2 and 4 in Heglig, and in April 1999 a 1,506 km-long oil pipeline linking Heglig oilfield to Port Sudan was built, allowing Sudan to supply its crude to international markets. In August 1999, two

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decades after its oil discovery, Sudan was for the first time exporting its oil (Shinn, 2007). Thanks to the Chinese and other partners' investment, by 2010 Sudan was able to declared that it owned 6.7bn barrels of proven oil reserves, compared with 0.3bn barrels in 1990 (Li, 2011).

The bilateral trade relations between China and Sudan resulted in substantial development in the new century. Chinese NOCs, such as CNPC and Sinopec, became major players in Sudan's oil sector, both upstream and downstream; they also built a refinery and a tanker terminal in Khartoum (Large, 2009; Goodman 2003). By 2005, Sino-Sudanese trade reached US\$3.9bn and China became Sudan's top trade partner. However, such a relationship was quite imbalanced: while oil counted for 71 per cent of Sudan's exports to China, it counted for just 5.2 per cent of China's oil imports, and China's exports to Sudan (mainly mechanical and electronic goods) was only 0.2-0.3 per cent of China's total export trade (Tian, 2006, p. 4; Large 2008 pp. 6-7). Before the partition of the two Sudans in 2011, oil from Sudan accounted for 5.1 per cent of China's oil imports, ranking 7th after Saudi Arabia (19.8 per cent), Angola (12.3 per cent), Iran (10.9 per cent), Russia (7.8 per cent), Oman (7.2 per cent) and Iraq (5.4 cent) (Tian, 2006).

Over the past few years, because of the constant conflicts between the two Sudans and/ or within South Sudan, oil production in both countries has been severely affected, and the oil exports from Sudan in 2015 were less than 1.4 million mts and only 720 thousand mts in 2017; oil from South Sudan during the same period was only 6.6mts and 3.4mts respectively, accounting for less than 1 per cent of China's oil imports (Tian, 2018).



5 Understanding the history of Sudan's oil governance

The comings and goings of various oil companies, set against global geopolitical pressures and Sudan's domestic politics is complex and not a little confusing. In the following activity, you will be looking at the evolution of events to gain a better appreciation of how these complex dynamics are interconnected.

Activity 3 Mapping domestic and international dynamics of Sudan's oil governance

Below is a timeline of some of the key events over the years since Sudan gained independence in 1956, particularly as they relate to oil production. Arguably Sudan's North-South divide, a situation that precipitated the secession of South Sudan, has its roots further back in the colonial period but for the sake of the oil story you will start with independence.

Timeline: China and Sudan oil

As you read through the timeline try to categorise factors according to whether they are 'internal' and relate to Sudan's domestic politics, or are 'external' and are more rooted in international factors. Record your analysis in the save-able table below. When you have finished, use your findings to assess whether you think internal and external factors are equally important or whether one set of factors has been more determining of events. Is it easy to separate out 'internal' and 'external' factors? One example of each is given to help you get started.

Internal	External
Failed coup in 1971	British leave Sudan in 1956
Provide your answer	Provide your answer

Discussion

You may have come up with the following.

Internal	External
Failed coup in 1971	British leave Sudan in 1956
Late 1980s: turnover of Presidency	China begins diplomatic relations with Sudan: arms deals signed 1988
Mid-1990s: oil production steps up	Chevron resumes activities
2004: clampdown in Darfur	PSAs signed 1988
2006: Comprehensive Peace Agreement signed, supposedly ending the Sudanese civil war, but fighting continues	US government labels Sudan as sponsor of terrorism



2011: South Sudan secedes	Mid-1990s: China signs oil deals
2013: civil war in South Sudan	Negotiations by Sudan with other external players
2018: peace treat signed	US government and UN sanctions Sudan
	CNPC outbids other oil companies
	GNPOC formed by consortium of IOCs and NOCs
	Dam deals signed with China
	1999: oil exported in 1999 from Sudanese refinery
	2004-5: UN passes resolutions on Darfur
	2007: China tries to pressure Sudan and appoints special representative to help China negotiate over Darfur
	China sends peace keepers to South Sudan
	2017: sanctions end

In this attempt at the activity there are more factors in the 'external' column than the 'internal' one. This does not mean that internal factors are less important because different factors are, in reality, weighted differently. For example, the secession of South Sudan was listed as one internal factor but is clearly of historic importance. Also, it is hard to straightforwardly categorise certain particular events as 'internal' or 'external' since they are a blend of both. For instance, signing of a deal between the Sudanese government and an international oil company is a mixture of internal and external factors and relates to inward investment and trade which straddles the border. But the exercise shows that important internal and external factors were both in play in the complex unfolding of Sudan's oil politics.



6 Political risk and the 'Genocide Olympics'

Earlier in this session you were introduced to the idea of political risk, and a landmark event in the evolution of China's approach to international investment and its calculation of political risk came in the run up to the 2008 Beijing Olympics. As Moreira's overview of Chinese oil investment strategies noted, China often relied on inter-personal relations as its main way of managing risk. However, Sudan – and events in Darfur in particular - became a major test case for China regarding its engagement with 'pariah' political regimes. Some of this outcry against China was part of a wider 'China bashing' discourse (Ramirez and Rong 2012) that was keen to accuse China, as a communist country, of riding roughshod over human rights. The upshot of China's handling of the Darfur situation was a much more acute sense of political risk and how to manage it. In Video 4, Dr Liao reflects on this important period in the history of Chinese-Sudanese relations.

Video content is not available in this format.

Video 4 How geopolitical events impact on oil investment



The overview of Sudan's political history and the timeline given in this session show that the Darfur crisis was intensifying in 2007. This was a period when Chinese NOCs had become well-established in the country and the diplomatic and trade relations between China and Sudan were strong. With China's economic rise came a desire to be seen as global player, and hosting the Olympics is one way that countries can 'market' themselves as responsible actors on the world stage. The Tiananmen Square protests had previously sent a signal that China was closed and still highly authoritarian, but the Olympics were a platform to show the world how much China had changed, becoming more open and friendlier toward the international community. But with the spotlight intensifying in the run-



up to the Beijing games, China was accused of colluding with the Khartoum regime in supporting the suppression of Darfur by selling arms to Sudan. Figure 3 shows the importance of Chinese arm imports to Sudan, which were almost as much as the value of Sudan's own exports in the 2004–2006 period.

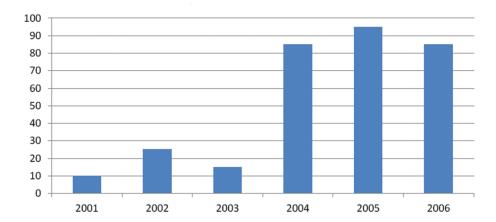


Figure 2 Sudan's arms imports from China as a percentage of its exports. Source: Manyok (2016).

Activity 4

Read this <u>New York Times news story</u> from early 2008, around 6 months before the Beijing Olympics. As you read it, consider the range of political actors involved. Having read it, go back to the timeline and find out what China's response was.

Discussion

The New York Times article reveals the vast array of political interests at play in Sudan during the period in the run-up to the Beijing Olympics. In Sudan there is the al-Bashir government in Khartoum, but also rebels in Darfur and the Janjaweed militias. The United Nations is also very active, notably through a security deployment in Darfur, but the Sudanese government had barred troops from Sweden, Norway, Nepal and Thailand. The US government is involved, as are Chinese officials. On top of this are international civil society organisations. Amnesty International was commenting on the crisis and the 'Genocide Olympics' campaign was an internationally networked effort of celebrities and civil society actors. The article also mentions how the Chinese seemed to prefer 'quiet diplomacy' and once pressure was placed on them they began to help find a solution. One such solution was, as the timeline showed, the appointment of Liu Guijin as the special representative to Darfur. Liu was an experienced diplomat and had been based in Africa for many years so was a very shrewd choice. His interventions helped smooth things over and the Olympics passed successfully. The longer-term implications were that China became much more aware of the risks associated with domestic political forces, as well as the power of international public opinion.





Figure 3 Satirical depiction of Sino-Sudanese relations in the person of Liu Guijin (Chinese Special Envoy to Darfur).



7 What is the future for Chinese oil investment in Sudan and South Sudan?

Given the political pressures that China has faced in Sudan, as well as the operational difficulties and the recent fall in oil prices, it is sometimes difficult to understand why China persists with its operations in the Sudans.

Activity 5 Continued Chinese interests

In Video 5, Professor el-Battahani reflects on how Chinese oil companies have tried to manage their relationship and operations through the succession process and reflects on why, despite a tumultuous environment, China continues to engage with the Sudans. As you watch the video make notes on the factors that seem to be keeping the Chinese in Sudan.

Video content is not available in this format.

Video 5 Navigating succession in Sudan





8 Summary of Session 4

The idea of political settlements that was introduced in Session 2 is useful for the reasons given there - it focuses attention on domestic politics, how institutions are formed and function, and how elite bargaining can affect the formal and informal politics of governing natural resources. But the potential weakness of political settlements is the focus on internal politics to the relative exclusion of external, international factors. This session has used the case of Sudan to show that it is the interplay of domestic and international, or internal and external, forces that shapes how actual oil politics is played out. You were introduced to the idea of political risk, which is a very real concern for oil companies making large and long-lasting investments, to explore how domestic politics interfaces with international forces. The session has also shown that the range of political actors is diverse and goes beyond those elites at the apex of the state. In addition to high-level political figures from Sudan, China and the USA you have seen that regional militias, secessionist politicians, British colonialists, United Nations bodies, international peacekeepers, Hollywood celebrities and international NGOs can all impact on events. Together this creates a complex and challenging environment for companies and governments to work in, but navigating it is essential if oil is to be produced. The Chinese NOCs are increasingly realising these complexities in their corporate strategies for Africa and elsewhere. This realisation that political reputation matters now shapes ongoing and future Chinese investments and could affect the impacts that China has on African and elsewhere. The final session now returns to the opening questions of the course around whether China's presence in Africa is beneficial for development or not.





Session 5: Leveraging better development from natural resources: beyond the resource curse

Introduction

This final session will take stock of the learning from the previous four sessions and seeks to answer the question posed at the start of the course – does China change the prospects for Africa's development? You will start by reviewing the key findings of what you have studied so far before hearing the opinions of oil experts about their analysis of oil and development. Finally, there is an interactive game in which you have the chance to make decisions around managing Africa's oil.

1 Taking stock of the evidence

You may recall that in the first session the following two questions were asked:

Does China's international engagement spell increased cooperation between developing countries for mutual benefit?

or

Are Chinese practices exploitative, signalling a new phase of neo-colonialism?

These questions are essentially two sides of the same coin and you were introduced to a range of evidence that could help you answer these questions.

Activity 1 Reflecting on China's impact in Africa

Spend 30 minutes thinking back over the previous four sessions of study and fill in the following table as a way of structuring your analysis. As you do so, consider whether both columns of the table have an approximately equivalent number of factors or whether one side is significantly more heavily populated that the other. And do you feel



all factors are of equal importance or are some more critical than others? An opening example has been included for you.

Factors where China has encouraged African development	Factors where China has impeded African development
Builds refineries	Imports labour
Provide your answer	Provide your answer

Discussion

Here is a suggested response to the activity.

Factors where China has encouraged African development	Factors where China has impeded African development
Builds refineries	Imports labour
Brought new investment in infrastructure through oil-backed loans	Largely enriched political elites in the countries where it invests
Created jobs in construction	Chinese firms still import the more skilled labour they need
Purchases many of the commodities that African countries produce and so boosted their income	Sometimes misunderstood the politics of a particular country
Takes African governments seriously and does not seek to interfere in their politics	On occasion contributed to domestic conflicts, as in Sudan
Created local linkages in some countries, e.g. Sudan	
Taking a more active role in development and diplomacy following the Darfur crisis	
Skills and technology transfer	

Now watch this video with Giles Mohan.

Video content is not available in this format.

Video 1: China's Contribution to African Development





To what extent do you agree with this assessment of China's role in Africa? If you differ, why do you think what you do?



2 Policy options

In Session 3 you looked at the issue of local content development and the extent to which African countries could leverage benefits from the oil sector. The focus was on the case of Ghana, where, experts have suggested, progress on localisation has been quite slow, but it has only been 10 years since oil was discovered and developing such linkages takes time. Ghana was contrasted with Sudan which was discussed in Session 4; the 'Sudanization' of the oil sector was seen as more developed, though the Chinese had been in Sudan for over 20 years. Assessing Ghana's progress also begs the question of what could be done to enhance the performance.

The following videos were filmed at the 4th Africa Oil Governance Summit that took place in Accra in October 2018, organised by the <u>African Centre for Energy Policy in Ghana</u>. Watch these two clips in which the interviewees reflect on what they think needs to be done, and make notes on what the interviewees see as the priorities for improving Ghana's record of local content.

Video content is not available in this format.

Video 2: China's Contribution to African Development



Video content is not available in this format.

Video 3: China's Contribution to African Development





The 4th Africa Oil Governance Summit brought together speakers from across Africa and beyond. One of the key outputs was a short communique about local content development. A <u>copy of the communique</u> is available.



3 Interactive game

Now it's your chance to have a go at managing African oil resources in this interactive game which lets you take on the role of the Minister of Finance of a small African country that has recently discovered oil. You have a number of priorities and a range of choices, but these are not easy and come with trade-offs and what we term 'opportunity costs'. Hopefully, by the end of this short game you will appreciate that the choices facing African governments are complex and constrained and that there are no easy answers about how to manage Africa's oil.

Minister for a day: can you spread African oil wealth fairly and effectively?



4 Test your learning

You'll finish your work on this course with a quiz. You can try the quiz as many times as you like.

End-of-course quiz

Open the quiz in a new tab or window and come back here when you're done.



5 Summary of Session 5

What the rise of China as a global economic superpower means for wider development across the globe has been an increasingly hot topic over the past few decades. This course has sought to explore this question by looking at the implications of China's pursuit of oil on the growth of Africa's oil producing countries. Session 1 set the scene for China's expansion into African economies. It detailed the history of the 'going out' policy in response to domestic demand outstripping China's natural resource capacity to ensure a stable supply, as well as the evolution of Chinese oil companies. The course drew attention to how China's activity in Africa is often popularly presented using simple narratives that focus on exploitation – that the Chinese are extractive, caring little about their impact; are more willing to deal with dubious regimes and; are less concerned with adhering to ethics and standards protecting human rights or environment safeguards.

What you have hopefully learned over the course of the five sessions is that the story of China's investment in oil, and how oil rents translate into development outcomes for Africa, are far more complex and can differ dependent on a range of factors specific to each African country.

Session 2 considered the importance of politics in deal brokering and showed how African governments, far from being powerless, can exercise agency to affect investment – illustrated using the string of failed deals with Nigeria.

Session 3 explored the issue of 'localisation', which looks to ensure oil rents go directly to developmental investment using local content legislation that requires oil companies to employ and build capacity in domestic firms. Ghana's emerging oil sector was a lesson illustrating that African countries can have progressive laws to promote development but that these can be meaningless without governmental will to implement and enforce.

In Session 4 you turned to Sudan where China began its journey on the continent in the oil sector and, so, has the longest history of engagement. Over the course of almost three decades, Chinese oil companies have had to navigate a sea of geopolitical and domestic political problems. A barrage of international condemnation at collusion with a genocidal regime, intertwined with a brutal civil war that ended in the secession of the south and required renegotiating oil operations in a volatile warzone. Over this time, you considered how China's oil companies have changed strategy as a result of these experiences, which are filtering out to their wider approach across Africa. You also saw how through partnerships, such as joint ventures, Chinese oil companies have been learning from western oil companies' practices and operations which calls into question whether China is indeed doing things differently. The interactive game in this week hopefully gave you more insight into the pressures and trade-offs facing African government in managing oil wealth. While new revenue is welcome it is far from easy deciding how to spend it in the national interest.



Where next?

If you've enjoyed this course, you can find more free resources and courses on OpenLearn.

If you have enjoyed this free course, the Deptartment of Development, Policy and Practice within The Open University has an exciting range of postgraduate courses exploring diverse dimensions of development management.

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Session 1

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Session 3

Activity 1: Petroleum Revenue Management Act, 2011, Government of Ghana.

Activity 1: Petroleum (Local Content and Local Participation) Regulations, 2013, Government of Ghana.



Figure 1: Ghana National Petroleum Corporation

Figure 2: https://www.tullowoil.com/

Session 4

Activity 1: Moreira, S. (2013) 'Learning from failure: China's overseas oil investments', Journal of Current Chinese Affairs, vol. 42, no. 1, pp. 131–65.

Figure 1: European Coalition on Oil in Sudan (ECOS);

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Images in Timeline for China and Sudan oil

Figure 1: Concorp Petroleum Limited

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Figure 3: Khartoum Refinery Limited

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