

## CHINESE INVESTMENTS IN AFRICAN OIL

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### ABSTRACT

Currently, China is perceived to be a new colonizer of Africa which just exploits the continent's natural resources in order to support its own economic growth. This paper presents a thorough analysis of trade and investment in African oil countries in order to prove whether the statements about the Chinese neo-mercantilism are tenable or not. China is the biggest or second biggest import partner in five of the ten African oil countries. It is not the main investor in any of them, but in Angola and Sudan it has a greater share. The oil sector of Africa was seized long time ago by Western companies. Western concerns about losing the economic power over Africa can be considered as the main reason for the criticism of the Chinese investments there.<sup>†</sup>

**Key words:** Chinese ODI, crude oil, Africa

**JEL code:** F14, F 21, F 54

### INTRODUCTION

Chinese investment in Africa is often viewed as neo-mercantilistic, because of its alleged orientation on Africa's natural resources. The aim of this article is to examine Chinese investment in African petroleum-rich countries and ascertain whether the Chinese exploitation of crude oil can be detected in Africa and whether China is inducing corruption in this sector.

The first step in fulfilling this aim is the identification of African petroleum exporter countries and their share on China's total outward direct investments (ODI) in Africa. The data about crude oil reserves stems from the British Petroleum statistical database on crude oil reserves. For tracking the Chinese ODI in Africa, the Ministry of Commerce of PRC's (MOFCOM) official database will be used. Since the latest officially published statistics by MOFCOM are for Chinese ODI in 2010, year 2010 will be the base year for other related statistical data as well.

The share of China's oil imports from certain African countries will be identified on the basis of UNCTAD statistics. After determining the main destinations of African oil exports, the biggest investors in its extraction will be identified. On the grounds of statistical data and published investments (it can be assumed that all major investment projects were published) the premise that China is exploiting African oil reserves will be examined. All information about certain investment projects is drawn from the website of the Center for Chinese Studies Weekly Briefing.

### 1. DEVELOPMENT OF CHINESE INVESTMENTS IN AFRICAN OIL RICH COUNTRIES

Africa's crude oil stands for 9.5 % of the world's proven oil reserves, whereas 9.3 % of the world's crude oil reserves is located in ten African countries: Libya (3.4 %), Nigeria (2.7 %), Angola (1 %), Algeria (0.9 %), Sudan (0.5 %), Egypt (0.3 %), Gabon (0.3 %), Congo (0.1 %), Equatorial Guinea (0.1%) and Chad (0.1 %) (British Petrol, wsiq, 2011). According to Index of Democracy created by the Economist Intelligence Unit, all

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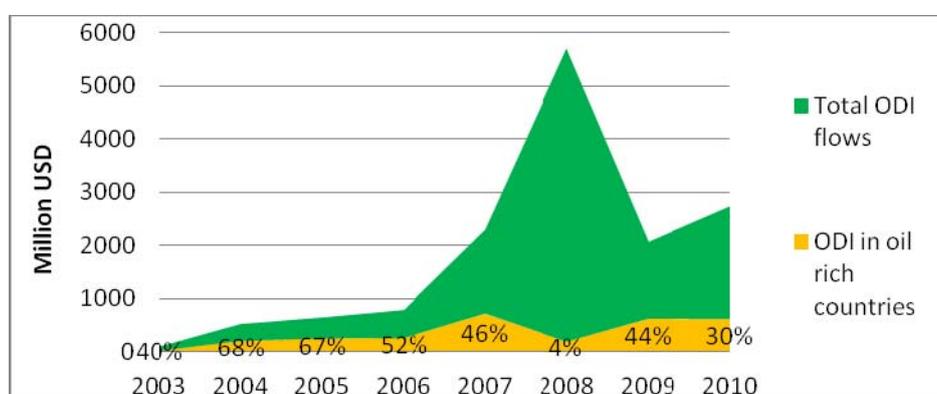
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Nóra SZIKOROVÁ

ten countries are governed by authoritarian regimes. Thus, investments flowing in any of these countries are investments into non-democratic regimes with high corruption levels. In 2010, the Chinese investment stock in these countries had a 30 % share of all Chinese investments in Africa (MOFCOM, 2011), which unambiguously proves the Chinese interest in oil rich countries. Until 2006, though, the share of Chinese investment flows into these ten countries was more than half of China's total investment flows to Africa (figure 1). In 2007 the direction of these flows changed and investments in other African countries have prevailed. The reason for this change can be found in the FOCAC (Forum on China-Africa Cooperation) summit in 2006 in Beijing, as well as in international criticism of China's neo-mercantilism.

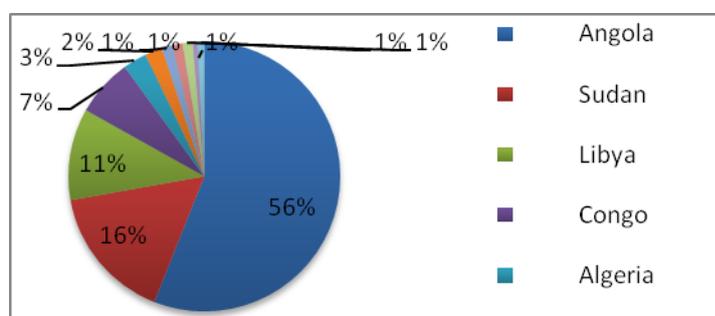
**Figure 1. Development of Chinese FDI flows into Africa and the share of oil-rich countries (2003-2010)**



Source: Author's calculations based on MOFCOM, *wsiq*, 2011.

The overall inflow of Chinese investments in Africa is steadily growing. After 2006, the ODI recorded a massive inflow, which culminated in 2008, when the Chinese bank ICBC has bought a 20-per-cent share on South African Standard Bank, worth 5.5 billion USD. This investment project was the biggest in the history of Chinese investments in Africa and as it can be seen in Figure 1, it accounted for almost all Chinese investments that year. Comparing the share of authoritarian and non-authoritarian regimes, the second group prevails evidently since 2006. The reason is mainly China's investment activity in South Africa, a non-authoritarian state.

**Figure 2. Chinese imports of crude oil from Africa in 2010**



Source: Author's calculations based on UNCTAD, *wsiq*, 2012.

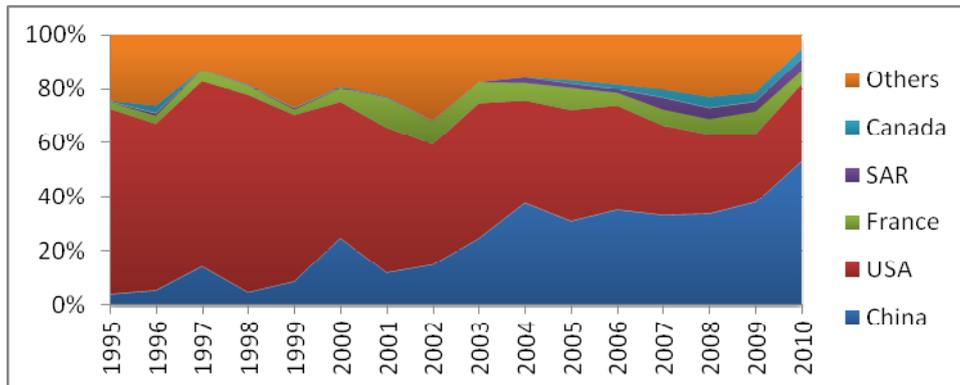
More than half of China's oil imports from Africa originate from Angola. Together with Sudan, Libya and Congo it represents 90 % of its total petroleum imports (Figure 2). Despite their abundance in oil, these four countries received only 8.3 % of total investment flows from China into Africa in 2010 and their share is gradually decreasing (MOFCOM, 2011). In 2004, Sudan was the main recipient of Chinese investments and its share on the investment flows was 46 %, whereas the remaining three countries received only 0.2 % of them (MOFCOM, 2011). This documents the overall increase of Chinese investments in the continent as well.

## 2. AFRICA'S OIL EXPORT DESTINATIONS AND INVESTMENT IN AFRICAN OIL

### 2.1. ANGOLA

Angola is the biggest African oil exporter to China (figure 2), although it owns only 1 % of the world's total crude oil reserves, which means much less than Libya or Nigeria. Oil is the key export commodity of the Angolan economy. Without its extraction Angola would lose 98 % of its export revenues and without Chinese purchase of it, it would lose 52 % of its export revenues (UNCTAD, wsiq, 2012). The Chinese share on Angolan oil exports is continuously growing (figure 3).

**Figure 3. Oil exports of Angola in 1995-2010**



Source: Author's calculations based on UNCTAD, wsiq, 2012.

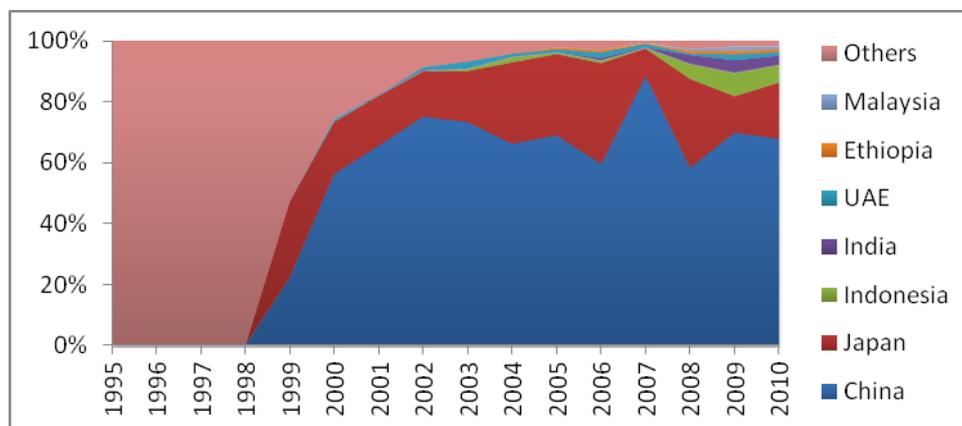
According to WIR 2011 Angola is the most attractive investment destination in Africa (UNCTAD, 2011: 188). The Chinese FDI in Angola were negligible until 2006. Currently, they flow mainly into the oil industry. The Chinese Eximbank has provided \$ 2 billion in credit for reconstruction of Angola after the civil war ended in 2004. In 2007 it offered another \$ 2.5 billion in credit. The credits were provided with a preferential interest rate compared to the credits from international organizations. They include a commitment, that the Angolan government will prefer Chinese investors at construction works by offering 70 % of its public tenders to Chinese companies, whereas the credit disbursement will be in oil – 10 000 bbl oil daily during the first two years and 15 000 bbl daily until maturity date (Ministerio das Financas Republica de Angola, wsiq, 2008). In 2008, 2009 and 2010, further credits from China were approved for building infrastructure in exchange for Angolan oil. (Alves, 2010: 13) Most of these finances were used for building power

plants, supporting education, health care and infrastructure (re)construction. The money from China came in the right time; when the international financial institutions were unwilling to provide Angola with credits unless the country fulfills the Washington consensus criteria.

## 2.2. SUDAN

Sudan is the second biggest African oil exporter to China (figure 2), whereas it owns only 0.5 % of the world's oil reserves. Its economy is based on the oil industry. Without exports of oil, the country would lose 86 % of its export revenues (UNCTAD, wsiq, 2012). China is the biggest importer of its oil (68 %) (UNCTAD, wsiq, 2012).

**Figure 4. Oil exports of Sudan in 1995-2010**



Source: Author's calculations based on UNCTAD, wsiq, 2012.

Sudan was searching for investors for its oil sector for a long time. The American company Chevron started the first oil exploration drills in the 60s and 70s, but the civil war discouraged it and Chevron left the oil fields. When the USA imposed sanctions on the country in 1996 after the end of the first civil war in Sudan, the Chinese investments into internationally marginalized Sudan became the first Chinese step to African oil. It was a unique opportunity for the PRC to gain access to African oil, because in Sudan it had no competition and the country desperately needed investments. In years 2004-2006, the Chinese FDI stocks in Sudan were the highest in whole Africa. They had approximately a 20 % share on Chinese total investments in Africa (MOFCOM, 2011).

The Chinese strategy has brought benefits for Sudan in the following years as well, because it persuaded other countries that cooperation with Omar al-Bashir is possible. Chinese investments in Sudan are a good example of how the PRC has developed strategic partnerships in internationally marginalized countries.

Credits, which China provided to Sudan, were oriented to infrastructure development, similarly to the Angolan ones. Most of them were implemented by Chinese companies and served for satisfying the Chinese demand for oil. Later, when the interest of other countries was excited as well, the criticism of Chinese investment in Sudan started developing and China diversified its investment activities both territorially and sectorially. Between 2003 and 2008, the Chinese FDI flows to Sudan decreased annually, whereas at

the same they increased in other countries of the continent. The reason for this might be the growing political instability and disputes about the division of Sudan – this resulted in displacement of several thousand people from the region. One of the causes of this conflict, besides the religion, is the division of oil profits between the Christian and Animistic southern part and the Muslim northern part of the country. Most of the oil deposits are in South Sudan, but the government responsible for profit sharing was in Khartoum, in northern Sudan. In 2005, after the end of the civil war, a peace agreement was signed. The agreement promised a fair division of oil profits between northern and southern part of the country and a referendum about the separation of these parts in 2011. In 2007, the USA imposed sanctions on Sudan due to violation of human rights and support of terrorism. President Omar al-Bashir, who governs the country since 1989, was accused of genocide, crimes against humanity and war crimes by the International Criminal Court. Thus, the PRC became the sole investor in the country and the CNPC (China National Petroleum Corporation) became the biggest foreign company.<sup>1</sup> Both CNPC and the Ministry of Finance of Sudan have published statistics about the extracted volume of oil in Sudan, from which the profit was meant to be equally shared between the northern and southern parts of the country. Arguments escalated when the statistics of CNPC and the ministry differed. The ministry published lower volumes of extracted crude oil, which added another argument in favour of the division of Sudan. Thus, the Chinese role in the country has helped the division of Sudan and Omar al-Bashir to strengthen his rule.

Currently, the investment flows are directed mainly into the oil and energy sector and infrastructure. China has constructed a 1000-km-long pipeline, 3 refineries, a port on the Red Sea in Port Sudan, roads, hospitals, schools, 2 bridges on Atbara river, a \$3,5 billion dollar hydroelectric power plant in Merowe and another \$705 million dollar one in Kajbar. The majority of these projects as well as the zero interest rate credits and humanitarian aid are located in northern Sudan. The government's efforts for improving the business climate of the country and attracting non-oil sector investments can be noticed in creation of the Ministry of Investment in 2002. After its establishment, the Chinese investment emerged in plastic, furniture and paper production as well (CCS, wsiq, 2013).

Since the division of the country, the relations between the northern and southern part have deteriorated. South Sudan owns 75% of the oil fields, the only existing pipeline though, leads through Sudan, which takes commission for oil transfer to Port Sudan, from where 230 000 bbl oil is transported further to China each day (Reuters, wsiq, 2012). The problems escalated again due to transportation fees. South Sudan refused the payment, as a reaction to this; Sudan has confiscated part of the oil, which was originally aimed for export. South Sudan expelled the leader of Petrodar due to collaboration with the government in Khartoum in purloin of South Sudanese oil. The government in Juba has also ousted other Chinese investors and created opportunities for investments and development aid from the USA. The US government has provided South Sudan with development aid worth 300 million USD a year since the country got independent (Paterno, wsiq, 2012). The South Sudanese government gave an ultimatum to companies investing in both Sudans to decide in which one they prefer to continue their investment activities. The Sudanese government proceeds with notification to stop all oil exports from the South. An alternative way of exporting the oil from South Sudan could be via Kenya, but it is much more likely that the USA will take control over South Sudanese oil fields and the Sudanese ones will be left for the PRC.

Nóra SZIKOROVÁ

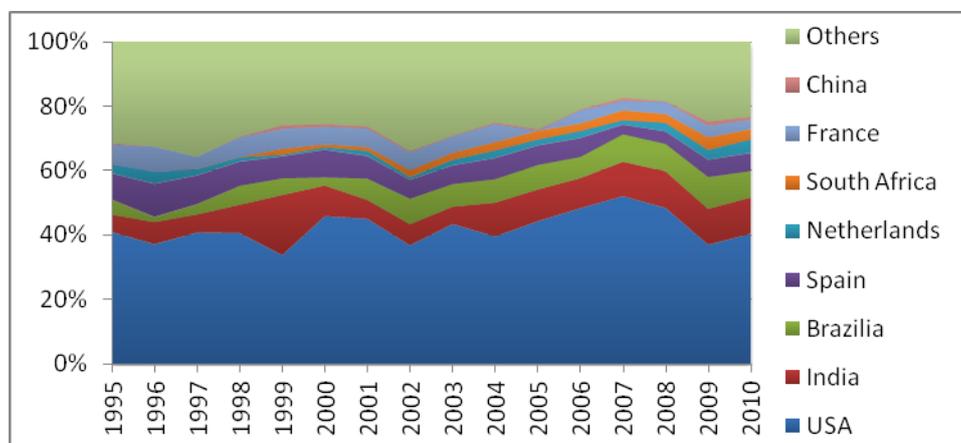
### 2.3. NIGERIA

The most populous country in Africa, Nigeria has been the second biggest recipient of Chinese FDI in Africa since 2007. In 2010 it was the biggest oil producer in Africa with 2.4 million bbl a day, which is more than the Angolan and Sudanese production combined. (British Petrol, wsiq, 2011) Besides that, Nigeria is the second biggest owner of African crude oil reserves. Its oil imports to China are relatively small compared to other countries. Only 2 % of the Chinese oil imports from Africa come from here (UNCTAD, wsiq, 2012).

The biggest investors in this authoritarian country are: Royal Dutch Shell (British-Dutch), ChevronTexaco (USA), Exxon Mobil (USA), Agip (Italian), Total (French company). The biggest importers of Nigerian oil are the USA, whereas the PRC is only 14th according to NNPC (NNPC, wsiq, 2011) and 19th according to UNCTAD (figure 5). Although Nigeria has an authoritarian regime, the elections in April 2011 were declared successful by the US Department of State, despite the manipulations in counting the ballots. This demonstrates US preference of good economic relations to democracy.

Oil creates 86 % of Nigeria's export revenues (UNCTAD, wsiq, 2012). If Nigeria lost China as an oil export destination, it would lose only 0.8 % of its oil revenues. Although oil has been extracted in Nigeria since 1958, the oil profits have been lost on the way between the oil companies and the Nigerian government. That induced several conflicts in Niger Delta and resulted also in creation of the Movement for the Emancipation of the Niger Delta. Good infrastructure, regular power supplies, higher quality education and health care system were all missing despite the oil revenues. These are the areas which foreign investors do not find attractive for FDI in any country.

**Figure 5. Oil exports of Nigeria in 1995-2010**



Source: Author's calculations based on UNCTAD, wsiq, 2012.

Development of investment and business relations with China presents a good opportunity for Nigeria to diversify its strategic partners and to lessen its dependence on the West. In 2006, China has provided Nigeria with \$4 billion dollars in credit for oil and infrastructure projects, such as the construction of hydropower plant in Mambila. It was provided in exchange for exploration and drilling licences in four Nigerian oil blocs and export of 50 000 bbl oil a day to China. It also decided to reconstruct the shabby oil refinery in Kaduna, which the Nigerian government always wanted to accomplish, but

because of the unprofitability of the project no one had wanted to do so, except for the Chinese.

Chinese labourers in the Niger Delta became hostages of the MEND several times. It warned China to stay away from the region and to cease negotiating with the Nigerian government until it changes approach to the oil profit division in the country (Ori, wsiq, 2009).

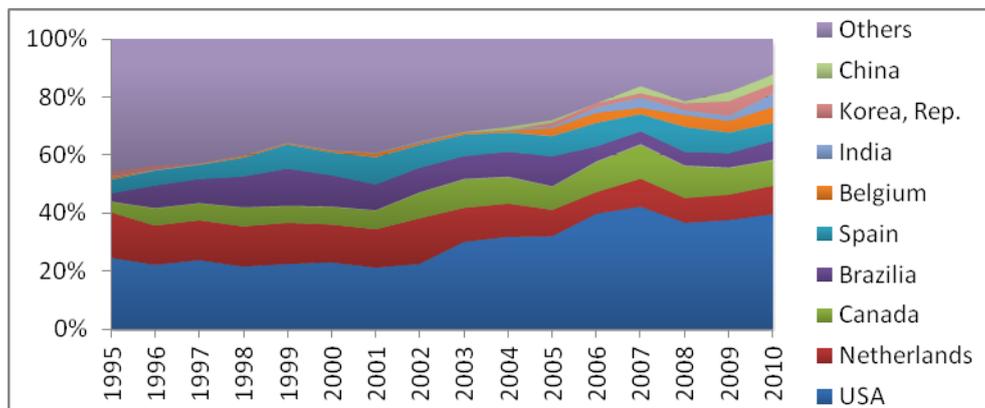
In 2010, the PRC invested further 6.4 billion USD in construction of refineries and infrastructure. The Nigerian arable land area represents a great potential for agricultural development of the country. In 2011, the Nigerian company Global Biofuels established cooperation with Chinese and Hong Kongese companies, which plan to give 130 million USD for establishing refinery for the production of bio-ethanol from sweet sorghum. China Gezhouba Group Corporation wants to build a railway between Abuja and Kaduna, financed by a credit from China Eximbank. It is obvious, that China shows interest in the Nigerian market. It provides trainings for Nigerian nurses and doctors in malaria prevention and has also provided the country with antimalarial medication. In 2009 it invested 1.1 million USD in construction of primary schools and further 16 million in construction of automotive factory. The Chinese telecommunication companies Huawei and ZTE are active in Nigerian telecommunication sector (CCS, wsiq, 2013). Banking sector represents a great investment opportunity for China as well.

#### 2.4. ALGERIA

Algeria and Egypt are the only two oil countries in Africa, where the Chinese FDI flows between 2003 and 2010 exceeded the value of their oil exported to China<sup>ii</sup>. Algeria also belongs to those oil countries which are dependent on this commodity. Oil has been extracted here since 1956 and it creates approximately 59 % of export revenues. In 2010, it produced 1.8 million barrels of oil daily, which is a comparable amount to Libya. (British Petrol, wsiq, 2011) Aggregate oil revenues continually grow thanks to growing prices of this commodity. The only exception was year 2009, due to the global financial crisis accompanied by the fall of world demand and decline of the oil prices.

The biggest importers of Algerian oil are the USA and the EU countries. China imports only 3 % of its oil (figure 6).

**Figure 6. Oil exports of Algeria in 1995-2010**



Source: Author's calculations based on UNCTAD, wsiq, 2012.

China has entered the Algerian oil sector in 2002, when the Chinese Sinopec invested 394 million USD in extraction of oil in the Saharan oil field of Zarzaitine together with the Algerian state oil company Sonatrach. It was followed by two contracts: one about construction of an oil refinery in Adrar by China National Oil and Gas Exploration and Development Co. and the other one about import of Chinese oil. After FOCAC summits the investments began to increase and diversify. Chinese companies started building dwellings, educational, cultural buildings, infrastructure, telecommunications and power plants. China has constructed also hospitals, more than 60 000 houses, an opera house, 10 university campuses, the biggest prison in the country, the first shopping mall and the longest continuous highway in Africa (*Trans Saharan Highway - TAH2, Maghreb Highway TAH 1*).

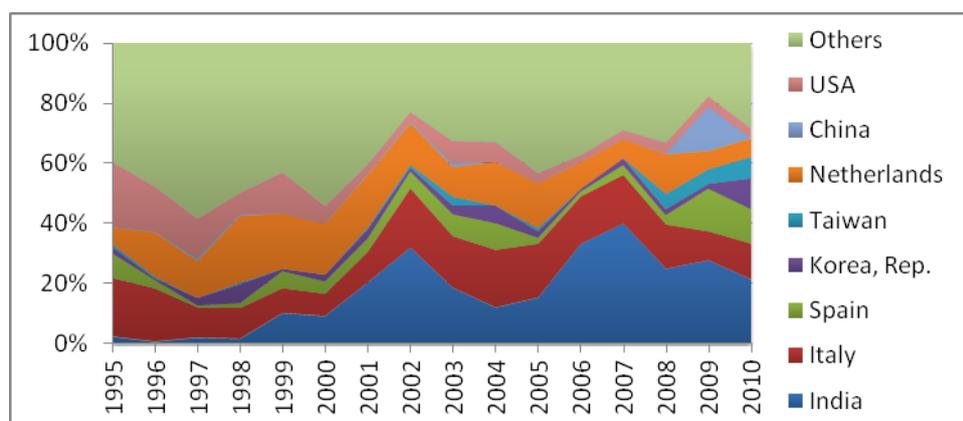
The China State Construction Engineering Corporation (CSCEC) has built the 5 biggest hotels in Algeria and in February 2012 it won the tender for building the third biggest mosque in the world (after Mecca and Medina) in Algiers. (CCS, wsiq, 2013) China is by far not the biggest investor neither the biggest trade partner of the country. Its investment position grows simultaneously with other developing countries, such as India or Malaysia. The oil sector is thus not the most important determinant of Chinese investments in Algeria.

## 2.5. EGYPT

Although Egypt is an oil country with 0.3 % of the world oil reserves, oil is not the key commodity for the Egyptian economy. It's the fifth biggest African oil producer after Nigeria, Angola, Algeria and Libya (British Petrol, wsiq, 2011). In general, natural resources create 39 % of export revenues, whereas oil generates 19 % of its total export revenues and its export to China even less, 0.03 % (UNCTAD, wsiq, 2012). In the last decade, the flows of Chinese FDI to Egypt exceeded the value of its oil exports to China several times, which proves that oil is not the main reason for Chinese investments there. That might rather be the strategic location of the country between three continents and its good relations with all countries in the region, even with Israel.

Between the years 1995 and 2010, the territorial orientation of Egyptian oil exports has considerably changed, mainly towards India and Taiwan (figure 7).

**Figure 7. Oil exports of Egypt in 1995-2010**



Source: Author's calculations based on UNCTAD, wsiq, 2012.

Egypt was the second most attractive FDI destination after Angola in 2010 (UNCTAD, 2011: 188). The main investors are the developed countries, but the share of the developing ones has been steadily growing. After the global financial crisis, investors from India, China and the Arabic countries are more and more present. Although the FDI flows from China grow, compared to the USA and the EU they are still negligible (0.24 %) (Ministry of Investment of Egypt, wsiq, 2010)<sup>iii</sup>. The most FDI go to the oil sector.

China has been present in the Egyptian oil sector since 2005, when Sinopec created a joint venture with the Egyptian Tharwa, called SinoTharwa Drilling. In 2010, both countries signed an agreement about building a refinery for 2 billion USD, which will be the biggest one in Africa with a capacity of 15 million tonnes of oil a year. In 2004, they agreed on building a fertilizer factory. In 2005, the Chinese Eximbank provided Egypt with a credit for modernization of polyester production. The biggest investment is the construction of the China-Egypt Suez Economic and Trade Cooperation Zone. In 2009, the construction of container port in Port Said started, where China Ocean Shipping Company (COSCO) has preferential conditions. China also invested in establishment of textile, footwear and marble factories. The newest FDI recipient is the telecommunication sector, where Huawei is engaged.

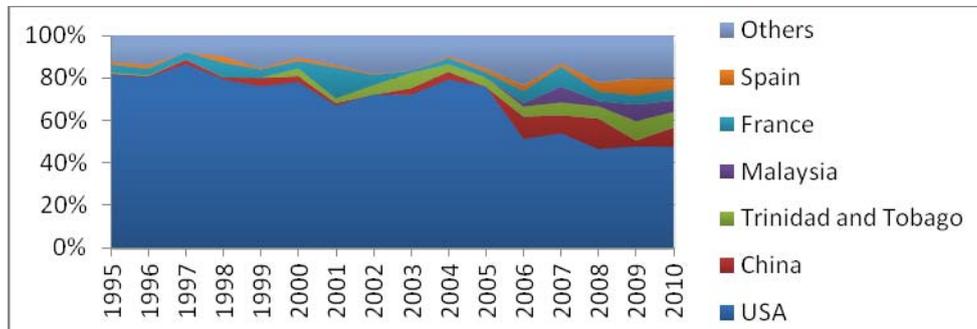
Egypt was the first African state where Chinese tourists started traveling. Although Africa is not a popular Chinese tourism destination, the number of Chinese visitors in Egypt is the greatest and it is growing (out of 730 000 visitors in 2010, 28 % have chosen Egypt). (UNWTO, 2010) Except for the oil sector, the Chinese presence is also noticeable in industry development and services. But in spite of these investments, the overall stock of Chinese FDI in Egypt is still incomparable to the EU and the USA.

## **2.6. GABON**

The economy of previous OPEC member, Gabon, is to a great extent dependent on natural resources. They create 85 % of the Gabonese export revenues, whereas oil creates 76 % of them (UNCTAD, wsiq, 2012). Gabon owns approximately the same amount of the proven world oil reserves as Egypt (0.3 %), but in 2010 it extracted only one third of the amount Egypt did – 245 thousand bbl/day (British Petrol, wsiq, 2011).

China belongs to the three biggest oil importers from Gabon. It imported 9 % of it in 2010 (figure 8). The biggest importer is still the USA, although its share is gradually decreasing. Gabon has diversified its oil export destinations and China, Trinidad and Tobago and Malaysia became part of the front row destinations.

Chinese investment projects started with the construction of the National Assembly building (2003) and the Senate building (2005). Construction of Chinese Hospitals in Libreville and Franceville was financed from a Chinese grant. China provided a credit also for the construction of the biggest Gabonese soccer stadium in Libreville, where the African Cup of Nations was co-hosted with Equatorial Guinea in 2012. Other projects such as primary schools, clinics, roads or Chinese medical teams can be noticed throughout the country.

**Figure 8. Oil exports of Gabon in 1995-2010**

Source: Author's calculations based on UNCTAD, *wsiq*, 2012.

The key sectors, where China is engaged in Gabon, are natural resources and wood. In 2004, China signed several agreements with Gabon about investments in the oil sector in exchange for 20 000 bbl of oil a day. Shell and Total were the biggest and most important actors until the Addax acquisition by Sinopec took place in 2009.

In mining sector, the Chinese state-owned companies are involved in the extraction of manganese in M'bembéle and of iron ore in Belinga. Chinese investments significantly increased in 2008 when Gabon got a 3 billion USD credit from the Chinese Eximbank for construction of 560 km of railways, port and hydroelectric power plant in Grand Poubara, necessary for the extraction of the iron ore in Belinga. The friendly relations were not interrupted even by the death of El Hadj Omar Bongo Ondimba in 2009, who ruled the country for 42 years, because his son Ali-Ben Bongo Ondimba took power.

Timber wood extraction was stopped in May 2010 in the whole country, because the new leader decided to create an African economic tiger from the rentier state. The first step to it was stopping the export of unprocessed timber wood and passing a law according to which at least 75 % of the timber wood in each logging company has to be processed in Gabon before it is exported. Countries desiring Gabonese timber wood are therefore forced to invest in wood processing industry in Gabon. Most of the foreign companies are discouraged by this law, except for the Chinese companies, which have long-term plans with the Gabonese timber wood. (CCS, *wsiq*, 2013)

In the long term, the biggest investor in all three sectors is France. Chinese investments are clearly determined by the resources the country offers. Its economic interests focus predominantly on establishing influence in mining sector of Gabon.

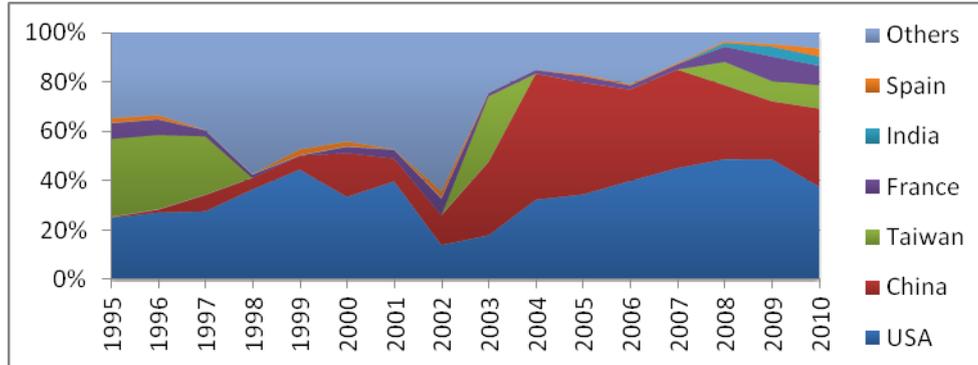
## 2.7. CONGO

A peace treaty signed in 2003 ended the five-year-long civil war in Congo. Congo also belongs to those countries, where the government faced transparency issues related to redistribution of oil profits. The issue improved in 2004 after the increased pressure from the International Monetary Fund. In 2006, the Congolese debts were relieved under HIPC initiative, and also by the London and Paris Club.

Since most of the Congolese oil is located off-shore, foreign technologies are necessary for extraction. The oil extraction grows continuously, despite the global financial

crisis. 90 % of the country's exports consist of natural resources. Without oil, Congo would lose 80 % of its export revenues (UNCTAD, wsiq, 2012).

**Figure 9. Oil exports of Congo in 1995-2010**



Source: Author's calculations based on UNCTAD, wsiq, 2012.

Although China is not the biggest purchaser of Congolese oil, it is an important trade partner. It has replaced Taiwan on the second rank and currently imports 32 % of Congolese oil (figure 9). Congo is dependent on oil exports into 6 countries: USA, China, Taiwan, France, India and Spain. In total, they import 94 % of its oil (figure 9).

The biggest oil company in Congo is the French Total and its daughter company Elf Congo. The business climate is extremely poor in the country. According to the Doing Business 2011 ranking of the World Bank, Congo was 181<sup>st</sup> from 183 countries.

Chinese investments are mostly oriented on oil and wood processing. It also builds infrastructure, airport and hospitals. The Chinese Eximbank provided Congo with a 377 million USD credit for hydroelectric power station. Constructed by the China National Machinery and Equipment Import and Export Corp., the Imboulou hydroelectric power station was opened in May 2011. It is the largest of its kind and helped Congo become energetically independent from the Democratic republic of Congo. In 2011 the Chinese Development Bank provided Congo with finances for creating four special economic zones, which the government wanted to establish in order to reduce the oil dependency of the economy. The motivation behind the Chinese interest to invest in Congo is not only oil, but also Congolese good relations with Taiwan, which China was eager to replace as its main partner.

Congo has an authoritarian regime too. Despite of that, the US government considers the relations with Denis Sassou-Nguesson, who is ruling the country for more than 24 years (1979-1992 and 2002-incumbent) as highly positive and friendly (US Department of State, wsiq, 2012). Neither the controversy of the president, nor the high corruption rate represent any obstacle in developing their trade and investment relations.

## 2.8. EQUATORIAL GUINEA

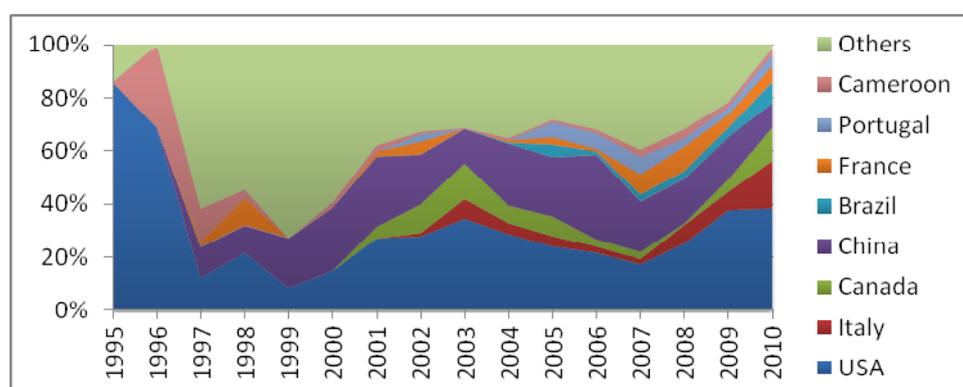
The economy of Equatorial Guinea is dependent on oil, thanks to which it has the highest GDP p.c. in Africa. The FDI into the oil is gradually increasing, as well as the oil revenues. The government is trying to create a better business climate for foreigners by tax

Nóra SZIKOROVÁ

reductions, tax holidays and by allowing profit repatriation. The corruption perception index is the third worst in Africa, right after Sudan and Chad (Transparency International, wsiq, 2011). The insufficient infrastructure and common power blackouts are reducing the investment attractiveness of the country.

Natural resources create 96 % of the country's exports, whereas oil only makes 83 % of it. (UNCTAD, wsiq, 2012) In 2010, China imported only 9 % of the Equatorial Guinean oil and its imports are slowly decreasing. USA, Canada and the Western European countries are the main import destinations of the country. They import 80 % of its oil. (figure 10).

**Figure 10. Oil exports of Equatorial Guinea in 1995-2010**



Source: Author's calculations based on UNCTAD, wsiq, 2012.

The USA is also the biggest investor in Equatorial Guinea. The government wants to attract more US investment, therefore the citizens of USA are the only ones in the world provided with a visa-free entry to the country. President Teodoro Obiang Nguema Mbasogo regularly visits the USA too. He is one of the longest-ruling presidents in Africa. He overthrew his uncle Francisco Macías Nguema in a military coup in 1979, and got him executed for genocide of Bubi ethnic minority. Since then, he was re-elected president several times. In some counties he even received 103 % of the votes (Smolczyk, wsiq, 2006), which testifies about the level of democracy in the country. In spite of all this, the former Secretary of State Condoleezza Rice addressed him as "good friend" of the USA (Smolczyk, wsiq, 2006).

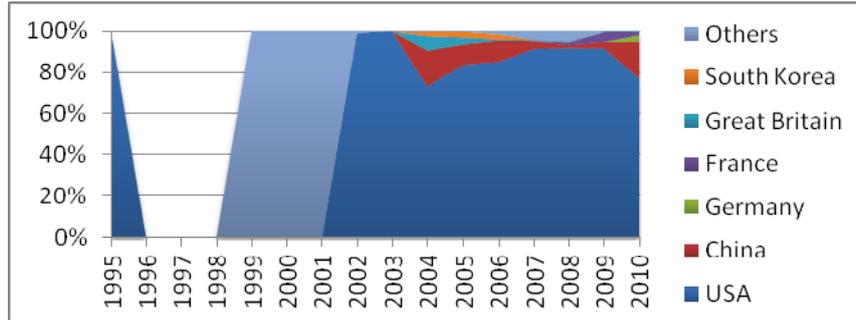
China has invested here into construction of hospitals, sport stadiums for the African Cup of Nations 2012, highways, ports, hydropower plant Bicom. The Chinese Eximbank provided the country with a credit for the construction of Djibloho power plant, built by the Chinese Sinohydro in 2011. (CCS, wsiq, 2013) In case of Equatorial Guinea, oil is evidently not the focal point of Chinese engagement unlike for the USA. Chinese investments are present here; most of them are financed by credits from the Chinese Eximbank. They are undersized compared to American, Italian and French FDI.

## 2.9. POTENTIAL CHINESE OIL INVESTMENT DESTINATIONS

Chad and Libya received the smallest amount of Chinese investments of all African oil exporting countries. That might change in the near future. The trade volume between China and Chad so as the investment flows started increasing in 2009, after Chad

has diplomatically recognized the PRC in 2006 instead of Taiwan. After several governmental meetings further increase can be expected. Before the petroleum extraction started in 2003, cotton was the main export commodity of the Chadian economy. Oil has overcome this traditional commodity exports and now it stands for 91 % of its total export (UNCTAD, wsiq, 2012). That is not heading towards China thought, but towards the USA (Figure 11).

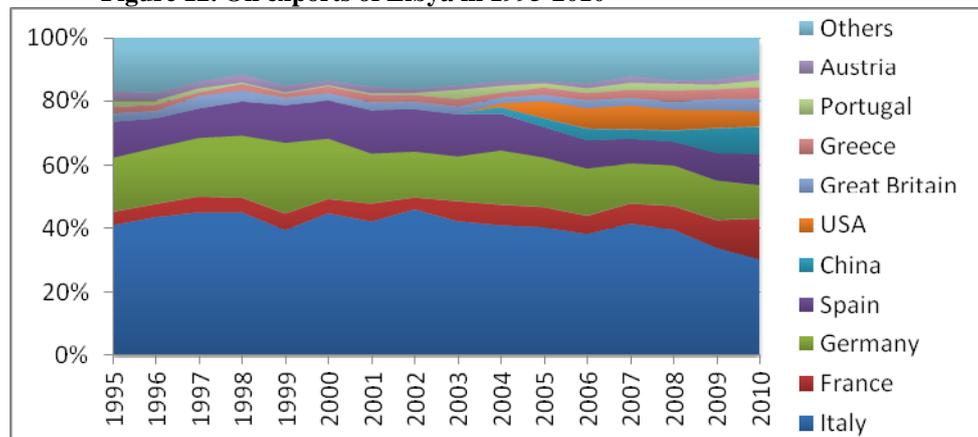
**Figure 11. Oil exports of Chad in 1995-2010**



Source: Author's calculations based on UNCTAD, wsiq, 2012.

In 2010 China has imported only 18 % of the oil extracted in Chad (figure 11). This share has not changed since the beginning of the Chadian oil era, which proves that China has not taken control over its oil sector. The main importer of its oil is the USA. Exxon-Mobil started its first exploration and extraction wells in 2000 in Doba basin located in the southern parts of the country. China has financially supported construction of an oil refinery and pipelines in Djarmaya in 2009 (CCS, wsiq, 2013). Besides the refinery China is building and financing a \$150 million industrial park with plastic, LPG, polypropylene and pressure vessels processing factories. In Baoaré, in the southeastern parts of the country China has built the first cement factory of Chadian republic worth \$81.3 million USD. In 2011 construction of a 1344 km long railway linking Chad with Sudan and Cameroon began. All these investment activities are unambiguously beneficial for Chad. The friendship between Chad and China was indubitably strengthened also by construction of governmental buildings and car donations.

Currently, about 88 % of Libyan export revenues consist of oil revenues. China buys only 8 % of Libyan oil though and its share is gradually growing (figure 12). Libya might be a potential new destination for Chinese oil investments in Africa.

**Figure 12. Oil exports of Libya in 1995-2010**

Source: Author's calculations based on UNCTAD, *wsiq*, 2012.

Chinese attempts to infiltrate the Libyan oil sector were thwarted by the Libyan National Oil Company, which hindered the sale of the Canadian subsidiary of Venerex to Chinese CNPC in 2009, after the oil field in Ghadames was discovered in western Libya. The China State Construction Engineering Corp. Ltd., China's leading off-shore construction outsourcing company, suspended its projects in March 2011 due to political unrest. Other Chinese companies took the same measures. One of them was China Gezhouba Group, which won the tender for constructing dwelling houses in Libya. After the conflict is over and the political situation in the country calms down, the restoration and expansion of Chinese FDI's can be expected.

## CONCLUSION

After a thorough analysis of Chinese engagement in African oil countries it can be concluded that oil is not a key determinant of Chinese ODI in Africa. This result is drawn from the diversity of Chinese investments in these countries as well from the volume of oil imports from them. China is the biggest importer of the Angolan and Sudanese oil only. In Chad, Gabon and Congo China is the second biggest importer after the USA. In all other African oil countries the Chinese oil imports are negligible, compared to the West or India.

Since 2007, China diversified its investment destinations in Africa and its ODI flows into African oil countries have considerably decreased. Besides that, oil is not the only sector where China invests in the oil countries. Therefore, concerns about plundering the African oil can be regarded as unsubstantiated.

All African oil-rich countries are authoritarian. The oil sector in these countries has three characteristics: Dutch disease, corruption and rentier state. Chinese ODI in these countries started appearing after the Western companies divided the market and marginalized two countries which were not cooperative anymore – Angola and Sudan. The Chinese investors found themselves already in a non-transparent and exploitative industry, where democracy never played any role. The approximately half-century-long political economy of oil is based on cooperation with any head of state that can ensure reliable and regular oil deliveries. The more the historical personalities – who rule in certain countries almost since they were founded – can ensure this condition, the smaller problem they

represent for the West. The Chinese engagement is not altruistic either, but that is given by the character of the oil sector anywhere in the world.

Natural resources are definitely one of the determinants of Chinese investments in Africa, but obviously not the only one. China is interested in natural resources, because it needs them for its economic growth. The Chinese ODI flows into Africa are constantly growing and their conditions are more attractive and fair in the eyes of African countries. Western concerns about losing the economic power over Africa can be considered as the main reason for the criticism of the Chinese investments there.

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*Nóra SZIKOROVÁ*

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<sup>i</sup> Currently it is Petrodar, which was created by CNPC, Sinopec and Malay Petronas

<sup>ii</sup> Author's calculations based on (MOFCOM, 2011) and (UNCTAD, wsiq, 2012) data.

<sup>iii</sup> Author's calculations based on (Ministry of Investment of Egypt, wsiq, 2010).