

China and the Sudan-South Sudan Oil Fee Impasse

Implications of Chinese Foreign Aid, Diplomacy, and Military
Relations

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EXECUTIVE SUMMARY

The shutdown of South Sudanese oil production in December 2011 has resulted in an oil fee impasse affecting Sudan, South Sudan, and China. A majority of the oil lies within South Sudanese territory and the Government of South Sudan (GoSS) receives 98% of its revenue from oil. Sudan, on the other hand, owns the entire pipeline infrastructure required to transport the oil out of Sudan so it can be exported. Oil also provides over half of the Government of Sudan's (GoS) revenues. The impasse is currently over the fee the GoS wants to collect for transporting the oil. The GoS is asking for more than \$30 per barrel, a fee the GoSS claims is exorbitant compared to standard world market rates of around \$3 per barrel. China imports a majority of Sudanese oil, has an interest in getting this oil flowing again, and is a major influence in the region due to its policy of engagement.

Chinese involvement in the oil fee impasse revolves around its aid and investment in both Sudans, its diplomacy and interaction with international organizations, and its military relations with both countries. Each of these facets is heavily influenced by historic Chinese support for the GoS, specifically during the civil war. Chinese aid and investment are intertwined making it difficult to quantify dollar amounts for either but it is clear that Sudan has been a large recipient of both, with South Sudan starting to receive some also. The evolution of Chinese diplomatic policies over the last decade will figure heavily into resolving the oil fee impasse. Primary in this is China's changing perspective on their principle of non-interference, which has established a precedence of engagement that may lead China to propose solutions and fulfill a role as moderator. In the military realm China must tread carefully, balancing any developing defense relations with the GoSS with its traditional support of the GoS. The other major factor China has in military policies is military material and arms which to date have been exceedingly benefiting Khartoum.

Due to its stake in the impasse and its engagement in the region, China's role will be critical to resolving the impasse. The main strengths of Chinese policies in helping to resolve the impasse are their approach to and giving of development monies, their experience of direct diplomacy from the Darfur crisis, and the stabilizing effects of their investment in oil and other industries. Chinese development money usually does not come with as many strings attached as Western aid and also can be seen as coming from a peer state, giving China some credibility in Sudan and South Sudan. China was instrumental in diplomatic negotiations for the Darfur crisis which may help them bring parties together for the oil fee impasse. Finally, Chinese investments in infrastructure and other projects provide many within China with a positive view of Chinese desires for the future of both Sudan and South Sudan.

China also faces two major challenges in its bid to help ameliorate the impasse. First will be addressing general South Sudanese distrust of China; claims of non-interference will have to be followed by more even handed dealings between north and south. Second will be the risk of a renewal of full-fledged war between the two sides. China can help prevent this by reducing its arms shipments to the area but if the situation does deteriorate the Chinese may not have enough strategic interest to remain involved.

BACKGROUND

When South Sudan seceded from Sudan in 2011, it gained control over the majority of the former nation's oil reserves. However, South Sudan lacks infrastructure to refine or move the oil, and can only export it through pipelines in the north. Khartoum and Juba¹ are currently locked in a dispute over transit fees that the latter must pay the former to move oil through its pipelines, as well as several related questions that were not resolved at the time of partition. While both governments depend heavily on oil revenues and therefore have large incentives to resolve their differences, their long history of conflict complicates resolution of the oil fee impasse. China has myriad ties in the region and heavy interests in Sudanese oil, and could therefore be a candidate to help mediate the dispute. However, China's close relationship with the North—combined with the South's mistrust of the North and its allies—may make it difficult for both sides to see China as a neutral third party.

Oil Fee Impasse and Related Conflicts

South Sudan's establishment as an independent nation in July 2011 followed decades of civil war and conflict with the North, during which natural resources played a key role. Ongoing land and oil disputes between the two nations may lead to further conflict.ⁱ The region's major oil fields are located along the North-South border, and the two governments did not resolve certain disputes over borders and resources—for example, border demarcation and control of the oil-producing Abyei region, which lies in the North but identifies with the South—at the time of partition.ⁱⁱ In addition, Khartoum and Juba are in conflict over the transit fees the South should pay for moving its oil through the North's pipeline, the release of/compensation for southern oil diverted by Sudan in December 2011 and Khartoum's desire that Juba share part of its external debt.ⁱⁱⁱ Ethno-sectarian tension also overlays resource disputes, particularly in light of the fact that numerous southerners live in the North and northerners in the South.^{iv} At the time of independence, Juba gained control over most of the former nation's oil reserves, discussed in greater detail in the next section.^v Approximately 75 percent of oil production originates in the South.^{vi} However, the South lacks refining and export infrastructure, and it must export oil through pipelines in the North.^{vii} The CPA did not specify a post-independence revenue-sharing mechanism or transit fees. Khartoum asked for more than \$30 per barrel following secession, more than 10 times standard rates.^{viii} After Juba refused to pay, offering a rate closer to \$1 per barrel, Khartoum began diverting South Sudanese crude oil to its refineries in December 2011.^{ix} Juba accused Khartoum of stealing oil and shut down its oil production in retaliation, reducing global oil production by 135,000 barrels per day and wiping out its nearly sole source of government revenue.^x African Union attempts to settle the dispute—the initial proposal required the South to make a \$2 to \$5 billion cash transfer and oil loans of

¹ In this report, we use “Khartoum” interchangeably with “the Government of Sudan” (GoS), signifying the government of the country now known as Sudan, located in Khartoum. We use “Juba” interchangeably with “the Government of South Sudan” (GoSS). Unless otherwise specified or used in conjunction with “South Sudan,” we use “Sudan” or “the Sudan region” to refer to the region that includes both nations (Sudan and South Sudan). When specifically discussing one country or the other, we usually use “the North” and “the South,” or “Sudan” and “South Sudan” when referring to them together.

approximately 25% of daily production to the north; the most recent, payment of transit fees worth \$1.1 billion covering the period through 2014—have failed thus far.^{xi}

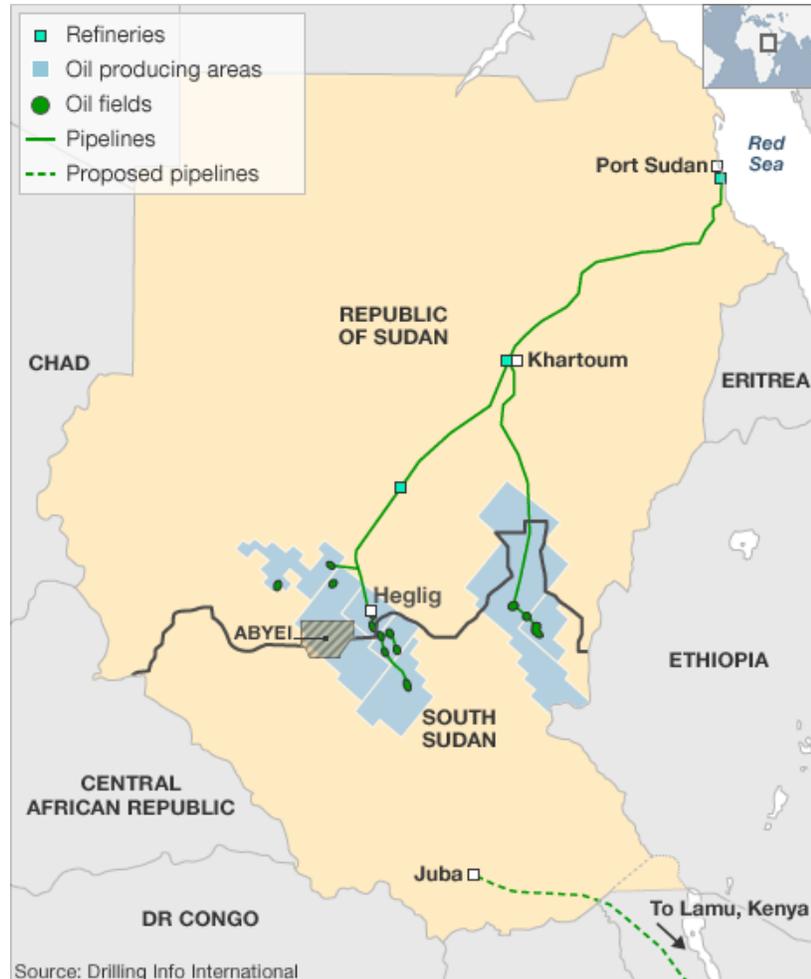
In recent weeks, armed conflict has broken out in disputed oil-producing areas around the border, with the South Sudanese military occupying towns on both sides.^{xii} South Sudan’s seizure of Heglig-Panthou, a major oil field on the north side of the border, on April 11 compelled Sudanese President Omar al-Bashir to threaten war on April 20, “vow[ing] to teach South Sudan ‘a final lesson by force.’”^{xiii} While South Sudan announced the withdrawal of its troops later the same day, both nations continue to claim the territory is rightfully theirs, and reports indicate that fighting in Heglig and other border locations has continued.^{xiv}

Economic Importance of Oil

The governments of both Sudan and South Sudan rely heavily on oil revenues. South Sudan is one of the world’s least developed nations, and Juba depends on oil transfers for 98 percent of its revenue (about 2 billion dollars), which means that it is the most oil-dependent economy in the world.^{xv} Even with 50 percent cuts to non-salary spending and a reduction in monthly grants to states, Khartoum estimates that the country has sufficient foreign exchange reserves to sustain the economy for no more than a year.^{xvi} Oil comprises more than half of Khartoum’s revenue and over 90 percent of its export earnings.^{xvii}

As of 2011, Sudan and South Sudan combined produced 486,000 barrels of oil per day (bpd), or 0.6 percent of world oil production, and had proven oil reserves² of 6.9 billion barrels, or 0.5

Map: Oil Production in Sudan & South Sudan



² BP defines proven reserves as the quantity of oil that “that geological and engineering information indicates with reasonable certainty can be recovered in the future from known reservoirs under existing economic and operating

percent of the world's total. If production continued at that rate, Sudan's oil would last approximately 38 years, a reserve-to-production ratio on par with other African countries.^{xviii}

History: South-North Relations and South Sudan Secession

While the Government of Sudan (GoS) and Government of South Sudan (GoSS) both have significant incentives to resolve the oil fee impasse, their long history of conflict and South Sudan's lack of self-determination when the nation was unified make resolution more difficult. Prior to Egyptian and British occupation in the 19th and 20th centuries, they consisted of smaller kingdoms and tribal communities, and the British administered North and South Sudan separately for the first half of the 20th century, believing the non-Muslim "African" south to be different from the Muslim and Arab north.^{xix} After the Second World War, fearing that the north would unify with Egypt, the British gave Northern politicians control of South Sudan.^{xx} While southerners received some "half-hearted promises" from the North about retaining some autonomy, these did not come to fruition.^{xxi}

Conflict began almost immediately after Sudanese independence in 1956.^{xxii} Though President Jaafar al-Nimeiry helped negotiate a peace agreement—which yielded semi-autonomy for the South—in 1972, his own government's attempts to divert water from the swamps formed by the White Nile in the South, as well as annex oil wells Chevron discovered in the South, led to a second period of civil war, from 1983 to 2005.^{xxiii} Again, conflict grew more heated in the 1990s due to Bashir's moves to control Sudan's oil fields.^{xxiv} Other issues at stake included the concentration of jobs, wealth, and public services in the North and the North-led government's "brutal" attempts to impose Arab culture and Islam on the south.^{xxv} During both conflicts, the CIA estimates that 2.5 million people, the majority of whom were civilians, died from starvation and drought.^{xxvi} The GoS and GoSS—represented by the Sudan People's Liberation Movement (SPLM), which now runs the South Sudan government in Juba—signed the Comprehensive Peace Agreement (CPA) in January 2005, which provided the South with a six-year period of autonomy to be followed by a referendum on its final status. In January 2011, South Sudan voted by overwhelming majority to secede, and the newly independent nation was established on July 9, 2011.^{xxvii}

China's Relationship with Sudan

China established relations with Sudan in 1959, and the two countries developed deep economic ties in the 1990s, when China helped develop Sudan's oil sector. When Sudan's current governing party (the National Party Congress, or NCP, then known as the National Islamic Front) seized power in 1989, the country soon found itself cut off from the West due to the party's ideology and ties to terrorism. Sudan needed to find a non-Western partner to develop its oil sector, and the opportunity to enter a relatively untapped oil market piqued China's interest.^{xxviii}

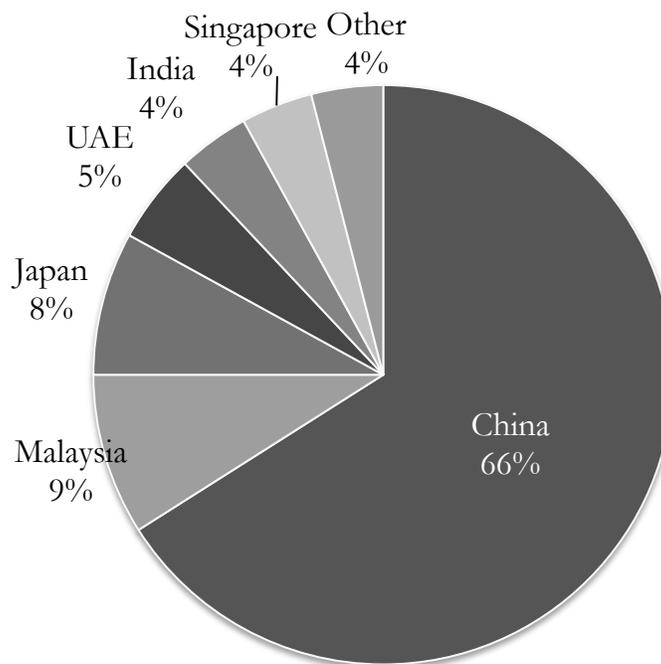
conditions." Proven reserves may be taken as a conservative estimate of future cumulative oil production and are often determined using a 90% probability threshold.

Oil

In 2005, more than 60 percent of Sudan's oil output went to China, supplying 5 percent of China's oil needs.^{xxxix} While China imports significantly more oil from Angola, China sees Sudanese oil as more reliable because of the state-owned China National Petroleum Company's (CNPC) involvement in Sudan.^{xxx} CNPC is the biggest foreign player in the Sudanese oil industry. It owns a 40% stake (the largest) in Sudan's Greater Nile Petroleum Operating Company (GNPOC), and has an operative stake in six of eight Sudanese oil fields currently online, as well as majority interests in two other blocks under exploration. CNPC plays an active role in oil field services and construction, and has built two pipelines in Sudan.^{xxxix}

Sudan & South Sudan Crude Oil Exports by Destination, 2011

Source: U.S. EIA



China's Role in the Sudanese Civil War

In the 1990s, Sudan's oil wealth helped fuel the GoS's war economy and facilitate its arms purchases.³ China also shielded Khartoum at the UN Security Council, and, citing its "non-interference" policy, dealt almost exclusively with the central Sudanese government, and not with the Southern rebels.^{xxxiii} However, China also has politically and materially supported UN peacekeeping missions in Sudan since the early 2000s.^{xxxiii} In 2007, during now-President Salva Kiir's second visit to Beijing, China and the GoSS began to develop relations.^{xxxiv}

China's Relationship with South Sudan

China opened a consulate in Juba in September 2008 and prepared quietly for Southern secession as the CPA period drew to a close.^{xxxv} However, due to China's longstanding relationship with the North and tacit involvement in the second civil war—military aspects of which are discussed in greater detail later in this report—Southerners associate China with "forced displacement, social devastation, gross human rights violations and unchecked environmental

³ China also supplied arms to Sudan, but the volume it supplied appears to have been most significant after CPA was signed (see: <http://www.country-data.com/cgi-bin/query/r-13451.html>, <http://www.humanrightsfirst.org/our-work/crimes-against-humanity/stop-arms-to-sudan/the-facts-chinas-arms-sales-to-sudan/>)

damage.^{xxxvi} South Sudan expelled Liu Yingcai, head of the CNPC-headed Petrodar oil consortium, in February and launched an investigation of Petrodar's role in the December 2011 oil diversion. Juba is also investigating GNPOC's role in the diversion and has threatened to terminate the contracts of consortia it finds guilty.^{xxxvii} In January, rebels linked to South Sudan kidnapped 29 Chinese workers in Sudan, and released them in February.

SOUTH-SOUTH COOPERATION AND CHINESE FOREIGN AID AND INVESTMENT

The foreign aid arena has recently seen the emergence of Global South donors, with China being one of the most important. Though Chinese foreign aid is difficult to classify and measure, there is consensus among China observers that Chinese aid has increased significantly since the 1950s, and that it is now on par with contributions from some major Western donors. The problem of classification stems from the dual roles of Chinese overseas transfers, which often have both aid and commercial components. A robust analysis, therefore, must consider Chinese foreign aid and investment jointly. Like other areas of Chinese foreign policy, the Chinese government claims that its aid strictly adheres to the country's non-interference policy. However, this claim does not withstand careful evaluation, especially in the context of Chinese aid to Africa. While China states that the objectives of its foreign aid center on promoting economic and social development in recipient countries, its true goals seem to be promoting its own economic growth and security. This appears to be true in Sudan. However, China's stated and true objectives for aiding and investing in the Sudan region may both prove influential in China's efforts to ameliorate the impasse.

Emergence of Global South Countries as Aid Donors

The term "foreign aid" usually refers to Official Development Assistance (ODA), a measure created in the 1960s by the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC), a consortium of major aid donors currently made up of 24 member countries with the World Bank, International Monetary Fund (IMF), and United Nations Development Program (UNDP) acting as observers. ODA flows consist of official transactions aimed at the economic and social development of developing countries with terms that donors intend to be concessional in character.

Aid has traditionally flowed from the Global North to the Global South. According to the commonly accepted development discourse, the developed North possesses capital resources and technical skills that the poor South lacks—and this capital and technical gap explains the South's underdevelopment. Therefore, development theorists argue, the North can and must promote international development by providing economic, financial, and technical assistance to the South.^{xxxviii}

Lately, however, several Global South nations have emerged as aid *donors*, and their participation has increased steadily in recent years. A number of middle-income countries from the South, including China, have recently moved from being net aid recipients to being net donors, even

as the vast majority of the world's impoverished populations are still found in these countries.^{xxxix} At \$9.5 to \$12.1 billion in 2006, bilateral South-South aid flows accounted for 7.8% to 9.8% of total ODA flows in that year, up from around 5% during the 1990s.^{xl} These figures would have been more impressive still had they included Southern contributions to multilateral agencies.

Quantifying Chinese Foreign Aid

A major obstacle to understanding Chinese aid is the problem of how to classify it. Though China's overseas transfers, collectively dubbed "economic assistance," have an aid component—they promote development and provide economic benefits to recipient countries—they do not qualify as ODA. These transfers also cannot be classified as Foreign Direct Investment (FDI) since they do not seek ownership of productive assets abroad. China is a minor actor in the aid arena if one considers development grants alone. However, when including commercial and concessional loans, technical assistance, and state-sponsored or subsidized investments, China becomes a major source of economic assistance, especially to Africa, Latin America, and Southeast Asia.^{xli}

It is also difficult to measure the size of China's foreign aid program. First, China does not report its aid spending according to the most commonly used measure of foreign aid, i.e., ODA. Second, China does not disclose its aid figures because it fears domestic backlash. Many Chinese are still poor and they believe that foreign aid money should be used at home instead.^{xlii} Finally, the Chinese aid system is fractious, with money coming from multiple sources and little evidence that any one government ministry manages the overall aid agenda. For example, while the Ministry of Commerce (MOFCOM) largely controls aid, funds also come from the budgets of other ministries, including the Ministry of Health and the Ministry of Education. To complicate things further, state-owned enterprises (SOEs) also provide aid-like disbursements to foreign countries.^{xliii}

According to data from the *China Statistical Yearbook 2003-2006*, Chinese worldwide aid was \$970 million in 2005, up from \$650 million in 2002.^{xliv} Other sources have assigned higher figures to Chinese foreign aid: one World Bank official suggested Chinese aid to Africa might amount to \$2 billion, implying that overall Chinese aid was probably well beyond that.^{xlv} Carol Lancaster of the Center for Global Development, a Washington-based think tank, estimates that the overall size of the Chinese foreign aid was somewhere between \$1.5 and \$2 billion in 2007, again larger than the figures provided by the *China Statistical Yearbook*.^{xlvii} The rationale for these alternative estimates is that the *Yearbook* reports only data from MOFCOM and therefore is likely to underreport the scale of the overall aid program.

The Objectives of Chinese Foreign Aid: Stated vs. Revealed Preferences

In analyzing China's objectives with respect to foreign aid, it is helpful to borrow the concepts of stated and revealed preferences from economics. Economists notice that the amount people *say* they are willing to pay for something (stated preference) usually differs from what they *do* pay (revealed preference). In the same vein, observers must distinguish between China's stated objectives in foreign aid and its revealed objectives. In 2001, China released its first white paper on foreign aid. The paper's preface states that China's objectives are to do "its best to provide foreign aid, to help recipient countries to strengthen their self-development capacity, enrich and improve their peoples' livelihood, and promote their economic growth and social progress"^{xlviii} as well as to

consolidate “friendly relations and economic and trade cooperation with other developing countries,” promoting South-South cooperation and contributing to the common development of mankind.^{xlviii} In addition, China claims that it integrates the “Five Principles of Peaceful Coexistence” (mutual respect for each other’s territorial integrity and sovereignty, mutual non-aggression, mutual non-interference in each other’s internal affairs, equality and mutual benefit, and peaceful co-existence) into its foreign aid policy.^{xlix}

Research, however, does not confirm that these stated objectives are the *raison d’être* of Chinese aid. International relations scholar Ngaire Woods argues that the main objectives of China’s foreign aid program are the “quest for energy security, enlarged trading opportunities and new economic partnership, coupled with rapidly growing strength and size in the global economy.” A recent International Crisis Group report on the China-South Sudan relationship argues that “China’s primary interest in South Sudan is, without question, oil and other commercial investments.”^l The report concludes that Chinese aid is “employed as an instrument of foreign policy, designed to benefit China, in economic and political terms, as much as its recipient.”^{li}

Foreign aid is an integral element of Chinese foreign policy. While one cannot completely discount the Chinese government’s claims that it wishes to improve the livelihoods of people in recipient countries, observers must recognize that Chinese national interests, particularly its economic and energy interests, play large roles in determining the direction of Chinese aid policy.

Chinese Foreign Aid in Africa

China first sent aid to Africa in the 1950s.^{lii} Some components of China’s official financial relationship with Africa would qualify as ODA. These include grants, zero-interest loans, debt relief, and concessional loans. Others components of Chinese aid, such as preferential export credits, market-rate export buyers’ credits, and commercial loans from Chinese banks, would not. Yet a third group of financing programs has a more commercial angle. For example, the China-Africa Development Fund (CADF) provides equity funds that assist Chinese companies investing in Africa. China has also set up \$1 billion fund to lend to African small and medium enterprises (SMEs) through local banks.^{liii}

Sudan has been a major recipient of Chinese foreign aid, due to the good political relations between the two governments and close commercial ties between the two countries, particularly with respect to oil. As a region, Africa is also a major beneficiary of Chinese aid. Some of this aid comes in the form of debt relief. In 2000, Beijing launched an initiative to forgive overdue zero-interest loans. Since then, it has cancelled a total of \$3.76 billion of debt, \$2.79 billion of which was owed by African countries.^{liv} In 2009, the Chinese government pledged to provide \$10 billion in concessional loans to Africa between 2009 and 2012.^{lv} China also provides purely commercial loans through the China Development Bank (CDB). CDB’s lending in Africa grew more than five times from \$1 billion in 2007 to \$5.6 billion a mere three a half years later in 2010.^{lvi}

Two-Way Commercial Relations between China and Africa

China’s commercial relationship with Sudan is not limited to importing Sudanese oil; indeed, China’s commercial interests in Sudan are only one case in a larger narrative of Chinese commercial involvement in Africa. While China needs resource inflows in order to maintain the pace of its

economic expansion, it must also identify new markets to which it can export finished goods.^{lvii} Accordingly, the International Crisis Group argues, Chinese foreign aid “is complemented by a policy framework that encourages Chinese companies to ‘go out’ (or ‘go global’), offering subsidies and other incentives for outward investments and the export of Chinese goods, technology and equipment.”^{lviii}

Africa contains many potentially lucrative markets for Chinese imports, China-Africa specialist He Wenping notes, because numerous goods produced in China for which domestic demand is limited, such as low-cost electrical appliances, are in high demand in Africa.^{lix} China was Africa’s third largest trading partner in 2008 (after the U.S. and France), the outcome of dramatic growth in Sino-African trade in the 1990s—during which it grew 700 percent—and the 2000s—during which it grew another 600 percent by 2006.^{lx} In 2004, Chinese investment accounted for \$900 million of the \$15 billion total FDI in Africa.^{lxi}

In Sudan, Chinese companies have invested significantly in sectors as diverse as agriculture, financial services, infrastructure, and telecommunications, in addition to CNPC’s stakes in Sudanese oil.^{lxii} After South Sudan’s secession, many of these companies began to arrive in Juba and elsewhere in the South.^{lxiii}

DIPLOMACY AND CHINA’S ROLE IN INTERGOVERNMENTAL ORGANIZATIONS

China’s diplomatic strategies in Sudan have evolved over the last decade, as China’s economic growth has propelled it to prominence as a world power and its foreign policy strategies have matured and evolved. Of particular note is China’s principle of non-interference and respect for state sovereignty, which has substantially informed Chinese foreign policy—in terms of official discourse, if not always action—for the last half-century.^{lxiv} China has historically depended on bilateral state-to-state engagements in its relations with African nations, and has used the Forum on China-Africa Cooperation (FOCAC) to provide a mechanism for multilateral engagement.^{lxv} In the last 10 years, China has also begun to use the United Nations Security Council (UNSC) to focus the international community’s attention on conflicts in Africa. The oil fee impasse presents another opportunity for China’s diplomatic policies to evolve, and will test the principle of non-interference.

Non-interference

The principles of non-interference and Global South-South cooperation are central to Chinese relations with Sudan and other African nations. The concept of non-interference—the idea that one government should never intrude in the internal affairs of another sovereign nation—dates back to Beijing’s 1955 Bandung Principles.^{lxvi} At the time of their adoption, the Bandung Principles symbolized South-South cooperation and referred to developing countries’ shared experiences of colonization.^{lxvii} As a result, they are particularly important in Sino-African relations.^{lxviii} The shared experiences of developing countries, Chinese officials and scholars argue, imply that they “have shared interests and can pursue these interests as political equals” toward “mutual benefit in the form of ‘win-win’ economic relations.”^{lxix}

Non-interference can be difficult for Westerners to understand. For example, as part of its principle of non-interference, China believes that military intervention is only acceptable after the approval of the UNSC and the host country.^{lxx} The application of this principle to nations experiencing humanitarian crises due to internal power struggles—such as Sudan during its civil war—has led to misunderstandings with and frustration by Western powers, who argue that China’s reluctance to interfere has led to more suffering.^{lxxi}

Referring back to the concept of revealed preference mentioned in the section on aid, China’s stated and revealed principles of diplomatic engagement do not always align. Saferworld notes that China “clearly disregarded non-interference principles” during the Cold War, when it supported fighting in African civil wars.^{lxxii} One could argue that by providing arms to the GoS, as discussed in the next section, China intervened in the Sudanese civil war and Darfur conflict. China’s growing economic interests in Sudan and elsewhere may compel greater engagement in other countries’ internal affairs than stated Chinese desires. Scholar Daniel Large argues that “today the Chinese government faces the challenge of reconciling its formal, established policy of noninterference with the more substantive Chinese economic involvement in Sudan that has grown over the past decade, as well as changes in Sudanese Politics after the CPA.”^{lxxiii}

China’s Involvement in the Darfur Crisis

The way China engaged with the Darfur crisis provides a case study of how China’s foreign policy has differed from that of Western nations, and how it has evolved over time. As a result, Darfur provides some insights into how China may respond to Sudan’s oil fee impasse. In the early years of the Darfur crisis, China, true to its stated policy of non-interference, treated the Darfur situation as an internal conflict. However, over time, China changed its stance—first shifting to passive support of the GoS without opposing international efforts to intervene in Darfur, and eventually beginning to play an aggressive diplomatic role in bringing the UN peacekeeping force into Sudan. China was the only country to engage in direct diplomacy and negotiated directly with Bashir, and successfully pressured Khartoum to cooperate with the UN and other IGOs. It is noteworthy that China used direct bilateral diplomacy instead of sanctions, which China believes are tools of coercion.^{lxxiv} As a result, Chinese leaders developed direct contacts with GoS leaders, which could bolster its ability to help resolve the oil fee impasse.

Until 2004, China maintained that Darfur was an internal conflict that needed to be resolved by an African Union (AU) peacekeeping force instead of a UN peacekeeping force.^{lxxv} During this period, China opposed international efforts to intervene in Darfur by using its position on the UNSC.^{lxxvi} While this position was consistent with China’s stated policy of non-interference, the international community heavily criticized China for what it saw as an irresponsible stance. As China’s foreign policy engagements became more sophisticated and international pressure grew, China shifted its position. By mid-2004, China had stopped offering unconditional support to Sudan—a change first evinced by China’s abstention from the vote for UN Security Council Resolution 1556, which required the GoS to disarm militias on July 30, 2004.^{lxxvii}

Also in 2004, China began an aggressive, bilateral diplomatic campaign to end the crisis by sending special envoys to Sudan. China also sent Assistant Minister of Foreign Affairs Zhai Jun to Sudan four times during this period. China’s perspective differed from that of Western nations in

that China believed a lasting solution would require addressing GoS's interest in development.^{lxxxviii} Chinese Ambassador Liu Guijin declared that, "China will continue to support the development projects in the region; such as clean water supply and building agricultural technical centers, on the basis that the absence of socio-economic development is a part of the cause of the conflict."^{lxxxix}

In 2007, China began direct negotiations with Bashir to permit a UN peacekeeping force to enter Darfur, and under Chinese pressure, he eventually agreed.^{lxxx} China sent high-level officials: President Hu Jintao arrived in February 2007 to offer additional aid and encourage the GoS to accept UN Peacekeepers.^{lxxxii} In April 2007, China's Assistant Foreign Minister arrived, a visit seen as instrumental in obtaining Sudanese consent for the UN mission to enter Darfur.^{lxxxiii}

The evolution of Chinese diplomatic strategies toward the Darfur crisis—from passive support based on the principle of non-intervention to active involvement that helped resolve the crisis—empowered the Chinese to proactively propose solutions and bring parties to the negotiating table. This new capacity could help China play a role in resolving the current oil fee impasse.

Contributions to UN Peacekeeping Missions

China's support for UN missions in Sudan and its other actions relating to UN peacekeeping there could have a stabilizing effect on the oil fee impasse, as well as help China gain South Sudan's trust. China was the first country, and only permanent member of the UNSC (except for three personnel from France and the UK) to supply troops to the UN Mission in Darfur (UNAMID).^{lxxxiii} Over a quarter of China's 1,600 peacekeeping personnel in Africa are supporting UNAMID and the UN Mission in South Sudan, implying the Chinese see Sudan as an important and significant mission.^{lxxxiv} While many saw Chinese support for UN peacekeeping in Darfur as an attempt to bolster the country's image in advance of 2008 Beijing Olympic Games, regardless of the rationale, these policies could provide a precedent for future stabilizing actions via UN operations in Sudan.^{lxxxv}

China's willingness to supply aid and personnel to peacekeeping missions has also established the precedent that such actions can be congruent with its policy of non-interference. The presence of Chinese soldiers in UN missions in South Sudan could also provide the people of South Sudan with a positive example of Chinese involvement in their region, which could help China gain trust in the South.

Sudan/South Sudan Oil Fee Impasse

China has so far addressed the issue of the oil fee impasse between North and South Sudan primarily through diplomacy. Similarly to its 2004 response to the Darfur Crisis, China sent a special envoy to Sudan to propose undisclosed solutions to the impasse and bring both parties to the negotiating table.^{lxxxvi} Even though China's relationships tilt heavily toward Khartoum, China has steadily built up its diplomatic presence in Juba since the implementation of the CPA. In addition, China was early to recognize the GoSS, consistent with its principle of respecting sovereignty. Despite its diplomatic presence in the South, though, it may be difficult for China to pressure Juba to agree to any solution, given the South's deep distrust of China and the fact that CNPC could benefit financially from the restoration of oil flows from the South to the North.

CHINESE MILITARY POLICY IN SUDAN AND SOUTH SUDAN

The effects Chinese military policies will have on the oil fee impasse are based on Chinese military support of the GoS, the perceptions of this support in the South, the development of military engagement between China and the GoSS, and how those developments effect the future of Sino-GoS military relations. Historically Sino-GoS military-to-military relations have been strong and there are no indications this will change. Though this relationship will be affected by the future of Sino/GoSS defense cooperation, which currently is minimal but there have been signals from Chinese officials that this could grow in the future.^{lxxxvii}

China's military policy regarding Sudan is more or less congruent with Chinese military policy throughout Africa. While most experts agree that Khartoum is one of the African governments that has closer military ties with China, it is not clear that it has a unique or special relationship.^{lxxxviii} Depending on one's perspective, a glaring exception to this statement could be the arms and oil relationship discussed later. Noting this exception, while the Chinese have specific economic and resource interests in Sudan, these do not necessarily result in preferential military aid or involvement when compared to other countries with similarly close military ties. Keeping this fact in mind may help to shed light on the future of Chinese military policy toward Sudan, and may provide direction to the yet-to-be-determined military relationship between China and South Sudan.

Chinese military cooperation in Africa supports diplomatic and economic policies toward other countries. This means Chinese leadership sets foreign military policies, and all military actions must be coordinated with the objectives of the overarching strategies of diplomacy and economics.^{lxxxix} The Chinese maintain that their military policy, along with all other Chinese foreign policies, is anchored in the philosophy of non-intervention, whose primary concern is state sovereignty. Within these aims, Chinese foreign military cooperation in Africa occurs via high-level political delegations, military exchanges, and defense attaches.^{xc} Actual military aid includes financial support for infrastructure and other priorities, de-mining support, and training.^{xcii} The final, critical part of Chinese military engagement in Africa is arms sales and transfers. Observers may find it difficult to resolve the different facets of Chinese military policy with China's stated ideal of non-intervention, but it is this interplay that will most probably drive Chinese foreign military engagement with Sudan and South Sudan.

Sino/GoS Military-to-Military Relations

Due to the secretive nature of Chinese-GoS military relations, it is difficult to determine the extent and many of the specifics in the two countries' military-to-military interaction. However, it is clear the Chinese have provided significant military support to the GoS. The more covert aspects of military cooperation have occurred in areas such as high-level political support, personnel and strategy exchanges, and defense attaché interactions.^{xciii} It is more difficult to determine if and what type of direct training China has given GoS military forces; this lack of clarity may be a result of such training being in contravention of international arms embargos. According to unverified reports, China may have trained Sudanese military pilots and provided Sudanese armed forces with training on Chinese-supplied weapons and military equipment.^{xciii}

This last aspect of military equipment, which includes arms, is arguably the most important aspect of Sino-Sudanese military interaction. China was the largest supplier of arms, including tanks, planes, helicopters, machine guns, and rocket propelled grenades, to Khartoum during the North/South Civil War.^{xciv} From 2001 to 2008, the Chinese provided 72 percent of the GoS's small arms and light weapons.^{xcv} Some evidence indicates that the GoS used these weapons during the civil war and in Darfur "to commit violations of human rights and international humanitarian law."^{xcvi} In addition, China provided vital support to Sudan as it established Africa's third largest weapons manufacturing capacity, allowing it to produce many of its own arms.^{xcvii} The result of all these arms transfers and developments has been a consistent supply of weapons for the GoS throughout its conflicts with South Sudan, in spite of international arms restrictions.

There is evidence that Chinese arms programs benefiting the GoS are related to oil access, but this is not the only rationale for such support. A Human Rights First Fact Sheet establishes a link between GoS military expenditures and oil revenues, reporting that GoS military spending rose sharply in 1997, the first year Sudan exported oil, due to GoS revenues from oil exports to China. These funds then went straight back to China for arms and equipment.^{xcviii} But as a Saferworld report argues, Chinese arms may not be a quid pro quo for oil, but may also serve China's interests by allowing the GoS to provide security. Chinese oil, infrastructure, and other commercial interests within Sudan benefit from stability and security, and therefore, the Chinese support GoS forces by supplying weapons in order to create these conditions.^{xcix}

The View from the South

China's historic support for the GoS, and South Sudan's resulting distrust of China, will significantly affect the development of a military relationship between China and South Sudan. While there are indications that the GoSS and China are working to improve military relations, the issue is complicated for both sides. China must balance its traditional support for the GoS with its desire to engage the GoSS. The GoSS remains skeptical of Chinese "non-interference" policies because China supported Khartoum while claiming a non-interventionist stance toward the civil war. The South Sudanese people also see China's support of the GoS as the root of much of their suffering during that time. The threat of armed rebel groups, South Sudan's evolving defense relationship with the United States, and the normal secrecy of Chinese military policies also complicate Sino-GoSS military relations.^c

While China is pursuing relations with the GoSS, this pursuit does not currently include official military cooperation—a fact due in part to the existing U.S.-GoSS defense relationship. However, hesitation by U.S. defense officials to provide hardware to the GoSS could lead the South Sudanese military to buy elsewhere, making China a likely seller.^{ci} Some observers have tracked small shipments of Chinese arms to South Sudan. Recent reports of Chinese military trucks consigned to the GoSS are a sign that China is not entirely ignoring defense cooperation with the South.^{cii} In 2008, Chinese military equipment, including main battle tanks, weapons, and ammunition, was also tracked to bases in South Sudan.^{ciii} In both instances, neither the Chinese nor the GoSS would confirm the transfer of the weapons, as both countries would have to explain this situation to their allies. However, these small shipments appear to be more the exception than the rule for Sino-South Sudan military interactions.

While they need a source of arms, GoSS officials are concerned about continued Chinese support of the GoS, including China's November 2011 pledge to expand defense cooperation with the GoS in the face of major North-South tensions.^{civ} GoSS officials believe that Chinese military support and weapons are creating the conditions for continued instability and conflict between north and south.^{cv} South Sudanese officials also know that their population negatively views Chinese interactions with the North, making military cooperation difficult to justify. Many South Sudanese are still angry about what appeared to be China's blind support of Khartoum during the civil war.^{cvi} South Sudanese citizens also largely blame Chinese oil funds for supporting the GoS's military actions against them.^{cvi}

The already-precarious situation of armed rebel groups in South Sudan further complicates any military interaction with China. Many of these groups remain significant threats to peace and stability in South Sudan. These groups share the concerns of their fellow citizens when it comes to Chinese involvement during the civil war. In order to keep the peace, the GoSS may be very hesitant to ally with China, which could give armed rebel groups a reason to cause trouble.

Finally, the Southern view of Chinese non-interference policies provides an important perspective on future developments. While the Chinese want to claim the consistency of their non-interference policies, South Sudanese citizens point to the list of complaints above and reject Chinese claims of non-intervention during their war with the North.^{cviir} They believe Chinese military supplies and oil money directly affected their ability to fight Sudan and blocked South Sudanese autonomy. The deep-seated nature of these suspicions implies continued skepticism on the part of South Sudanese citizens, armed groups, and the GoSS toward Chinese advances and claims of supporting sovereignty.

ANALYSIS

No external power has as much at stake in the oil fee impasse, nor has any other country been as deeply engaged in the region over the past decade as China. Hence, China's involvement will be critical to helping the GoS and GoSS resolve the impasse. China has deep economic ties with Sudan, having significantly invested in the oil sector as well as in other industries such as agriculture, telecom and infrastructure. China also has significant on the ground diplomatic experience working with Sudanese governments. During the Darfur crisis, China used direct diplomacy to negotiate the deployment of a joint UN-AU peacekeeping force with Khartoum's consent. China can bring that experience to bear in the oil fee impasse. Sudan and South Sudan have few options but to resolve their differences, as both countries depend heavily on oil for their revenues. China has already begun to establish its role as a potential mediator by sending a special envoy to the region.

China's Interests

Given the benefits CNPC and Chinese energy consumers stand to gain from the restoration of oil flows from South Sudan's fields—and the benefits of a stable Sudanese region to Chinese companies that operate there in other sectors—we believe China will work to encourage the GoS and GoSS to resolve the impasse. However, China will face significant challenges in trying to resolve the issue, the most important of which is South Sudan's mistrust of China. On the other hand, the

possibility of a full-fledged war between Sudan and South Sudan might discourage China from becoming too involved.⁶¹ While China is the largest consumer of the region's oil, Sudanese oil only meets about 5% of China's needs—not an insignificant amount, but not a large one—implying that the GoS and GoSS may need China more than China needs them.

Assets

Three aspects of China's policies in the Sudan region could help resolve the oil fee impasse:

- China's experience using direct diplomacy during the Darfur conflict and its diplomatic presence in both Sudan and South Sudan
- China's investments in oil and other industries
- China's approach to development—specifically, its emphasis on South-South cooperation—and its established presence in both Khartoum and Juba

Direct Diplomacy Experience

China's experience using direct bilateral diplomacy in Africa and specifically, in the Sudan region, can be an asset in resolving the oil fee impasse. As mentioned above, Sudan was the only country to engage in direct diplomacy with the GoS during the Darfur crisis, and successfully negotiated with Bashir to bring UN Peacekeepers into Darfur. China's use of direct diplomacy rather than sanctions helped Chinese leaders and diplomatic officials develop direct contacts with GoS leaders. Though its relationship with the GoSS is more tenuous, China has steadily built up its diplomatic presence in Juba since the implementation of CPA, and was among the first countries to recognize South Sudan after its independence. In addition, China's support and contributions of military and police personnel to UN peacekeeping missions in UNAMID and the UN Mission in South Sudan provide opportunities for the South Sudanese people to build more positive views of China.

Due the lessons it learned as its diplomatic strategy evolved over the past decade from a passive one to one of active involvement, China's diplomacy is better geared now to proactively propose solutions and bring parties to the negotiation table. As discussed above, China has already taken a proactive role in solving the impasse sending a special envoy to the region. China's experience working with the leaders from both countries puts it in the best position to negotiate a deal.

South-South Cooperation

The frame of mutual respect between equals and South-South cooperation through which China offers aid and conducts diplomacy could strengthen China's position as a mediator in the conflict. As detailed above, China has provided Sudan with significant aid and foreign direct investment, and played a significant diplomatic role in negotiating with the GoS to allow UN Peacekeepers to enter Darfur in 2007. Mutual respect and South-South cooperation have been common stated priorities throughout these interactions—even if China has had ulterior motives (such as the desire to secure oil) for its actions. The fact that China has approached the Sudan region as an equal—rather than an outside power looking for control—may make it easier for China to act as a mediator in the oil fee impasse. However, the strength of China's close ties to the GoS, and

South Sudan's concern that it lacked self-determination under GoS rule, may reduce the usefulness of the South-South cooperation frame.

Investments

China's investments in both Sudan and South Sudan clearly predispose it to favor a swift and peaceful resolution to the North-South dispute. The oil pipelines in the North were constructed and are operated and owned by a Chinese-led consortium whose upfront costs of construction have yet to be recovered.^{cx} The longer the impasse lasts, the more the consortium stands to lose as its pipelines sit idle. Because many of the majority stakeholders of the consortium are SOEs, such as CNPC, China would benefit financially from a resolution of the stalemate.

In addition to oil, firms in diverse sectors such as infrastructure, agriculture, and telecommunications have already arrived in Juba and beyond to set up offices and start operations in the south. Any escalation of hostilities between the GoS and GoSS due to the current impasse affects not just the oil firms but also these other companies—because they provide goods and services to the oil sector and because their success depends heavily on a stable business environment.

Chinese aid and investment activities in Sudan and South Sudan could serve as tools to help China negotiate with the GoS and GoSS. While in the past, China has opposed “coercive” diplomatic measures such as sanctions, China could perhaps devise measures that are not sanctions per se, but provide incentives for the governments to resolve their differences. For example, China could tie continuing aid—as well as investment by SOEs—to requirements that the two governments resolve the oil fee impasses and/or avoid violent conflict. China could also offer additional aid in exchange for a peaceful resolution of the impasse.

Furthermore, in the face of the self-imposed austerity measures, it is conceivable that the GoSS could approach China for a budget support package pledged on South Sudan's future oil revenue. China offered a similar financing structure to South Sudan when the senior CCP official Li Yuanchao visited the country earlier in 2012.^{cxii} Because the repayment of the loan is likely to be tied directly to revenues generated from oil export, China will insist that Juba in return agree to negotiate in good faith with Khartoum to resolve the impasse.

Challenges

China will face two main challenges in attempting to bring a positive conclusion to the impasse:

- South Sudanese distrust
- The risk involved that the situation could develop into full-fledged war

Distrust

As discussed previously, South Sudan is deeply suspicious of China due to the aid, arms, and diplomatic support China provided Khartoum during the civil war. The view by many in the south that it was Chinese interest in oil that led them to support the GoS will make the South Sudanese very leery of Chinese involvement in the oil fee impasse. China's ideal of non-intervention is also viewed with a lot of well-deserved skepticism in the South.^{cxiii} If China attempts to emphasize this as their strategy, while continuing to support the GoS, they will alienate the Southern Sudanese military,

government, and population. With that said, China's expanding definition of non-interference, that now includes UN Peacekeeping missions, could provide a Chinese face on programs working to bring peace and cooperation between north and south.

Chinese ability to overcome the trust deficit hinges on their bringing economic benefits and survival to the GoSS via its oil revenues. With the GoSS so dependent on oil revenue for its budget it is unlikely they will be able to operate beyond the next year without oil.^{cxiii} The financial needs of GoSS could trump ideological differences and China could get the GoSS to agree to a solution if they can show that they are playing the role of fair negotiator.

Bridging the gap with the general public could be a much harder task and would require a longer time frame. Besides the distrust over its conflict with the north, there is also tension between Chinese workers in South Sudan and the people. When Chinese companies work on infrastructure projects, they also bring a lot of Chinese workers with them. This lack of local labor and transfer of knowledge to build capacities of individuals and communities in the region is a cause of tension among the public and they view these infrastructure projects as only helping elites in the country.^{cxiv} This is a common complaint against western aid agencies as well and not unique to China. Given its heavy involvement in the nation, China would benefit by focusing on socio-economic development as well to earn the trust of the South Sudanese. China's involvement in UN peacekeeping missions has been positive and over time China can convince the population that they are not taking sides between the North and South.

Risk of War

Finally, there are limits to how far China will get involved in the crisis. China imports 5% of its oil from Sudan which is significant but not insurmountable; meaning Sudan is still only of limited strategic importance to China. If the conflict between the North and South spirals into a full-fledged war, China may take a step back and get involved only through UN missions.

Militarily Chinese policy can have a great effect on the outbreak or continuation of violence, ramifications of which will continue the oil fee impasse. In order to bring some balance in terms of military to military cooperation China will need to find a way to further defense cooperation with the GoSS without alienating the GoS. This will be a delicate balancing act as any perception of a lessening of support to the GoS and its military could be problematic for China. As the two Sudans continue to come into conflict over the borders and oil fields, this balancing act becomes more precarious. Chinese supplies of military equipment and arms also play a large role. As discussed previously both countries would welcome Chinese arms; however, more arms could destabilize the situation creating more conflict. China also has an interest in reducing or controlling arms as Chinese arms in Sudan have become a direct threat to Chinese companies and workers.^{cxv} This implies that it may be best for China to curtail arms supplies to both countries in an attempt to reduce conflict. Again, this will require a diplomatic effort in Khartoum as reducing arms for the north might be viewed as reneging on previous promises of military support.^{cxvi}

CONCLUSION

Chinese influence and policies are critical to resolving the oil fee impasse, and the effects of their policies will have major ramifications for Sudan and South Sudan. The three most important tools in China's policy arsenal to address this issue are:

- The projection of its foreign policy through direct diplomacy and membership in key IGOs
- Foreign aid and investment
- Its long-standing military relationships with Khartoum and budding military relationship with Juba

While these tools were developed for different purposes during a different time, China has proven to be adept at reshaping existing policy tools to address new challenges. One example is China's position on Darfur, which has evolved from strict non-interference to a more active role in which China contributes troops to the Darfur UN peacekeeping mission.

With respect to the current oil dispute between Sudan and South Sudan, China will likely seek a deal that is aligned with its economic and energy interests, while at the same time tackling the need to balance its relationships between the North and the South. Three things will help China in this respect:

- First, as mentioned, China's diplomatic strategy in Darfur has undergone a recognizable shift during the last decade from non-interference to a more active role of bringing all parties to the negotiation table. This experience will come in handy in the oil impasse case, too, because China's interests are inherently dependent on a quick restart of oil flow.
- Second, relative to other powers, China is perceived as more "friendly" by African nations and developing countries in general because it usually does not impose conditions on its aid or investment, and because it refrains from using its membership of the UNSC and other IGOs to criticize or force a change in the internal affairs of other nations. This means that China enjoys significant latitude as a mediator of the unfolding crisis.
- Third, China—through its SOEs and other purely commercial firms—has already heavily invested in the two Sudans. The oil dispute could have disastrous consequences for these firms if it is not properly dealt with and is allowed to cause a return to hostilities or war between Khartoum and Juba.

On the other hand, China's deep involvement in the two Sudans has also resulted in some challenges. China's support of Khartoum during the civil war caused many in the South to question its principle of non-interference. More recently, the South Sudanese are wary of the influx of Chinese workers into South Sudan to work in oil fields and other sectors of the economy. They fear that their jobs are being displaced as jobs in other African countries have been by Chinese investment and labor migration. In addition, the temperature has risen markedly in the region in recent days, with threats of war following clashes along the borders and around oil fields. China could reevaluate its position and decide that its best option is to gradually disengage from the region.

This scenario cannot be ruled out completely: even though China is a major buyer of oil from Sudan and South Sudan, it imports just 5% of all its oil consumption from these two countries.

Taking all of these factors into account, it appears likely that China will move toward a more active role in attempting to help resolve the impasse. With its long history of engagement—both government-to-government and through a plethora of state-linked and commercial economic actors—in Africa in general and in the two Sudans particularly, China is uniquely positioned to facilitate a deal that is acceptable to both sides. China's stake in the outcome is further increased by the fact that its handling of the situation will shape the scope and character of future relationships with Khartoum and Juba. If China's track record of engagement in Africa over the last half century is any guide, China—and Sudan and South Sudan—would prefer these relationships to be based on stronger political and economic ties, an outcome only possible with a swift and peaceful resolution of the oil fee impasse.

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