China’s Quest for Energy Security: 
Redefining and Driving Foreign Aid
An Analysis of China’s Involvement in Central Asia and Africa
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INTRODUCTION

China’s pace of development and rapid depletion of its own natural resources have been a driving force in its international diplomatic relations. Accounting for the largest population in the world and 5.26 percent GDP growth in 2011, China’s hunger for energy resources, particularly fossil fuels, is prevailing in the international market as they demand 17 percent of the world’s global consumption. With its demand expected to expand by 75 percent by 2035 (Figure 1), China is positioning itself to compete aggressively and diplomatically for energy security.

Figure 1: Primary Energy Demand until 2035

SOURCE: IEA, World Energy Outlook, New Policies Scenario

Although China is facing increasing domestic needs for fossil fuels, coal is the only abundant fossil fuel resource in the country. China’s current recoverable domestic reserves represent 19 percent of the world’s coal reserves, behind the United States’ 23 percent, but more than Russia’s 16 percent. In 2009, China consumed more coal than the next 16 biggest consumers combined and in 2010, coal supplied nearly 67.1 percent of China’s total primary energy supply. Coal is expected to remain the dominant fuel source in the next several decades, driven largely by the demand in the power sector as China continues to grow and its priority to develop a domestic energy source. China’s energy security concerns have also accelerated coal power plant expansion, with large investments in more efficient and more centralized new-generation coal power plants.

In addition to investments in domestic coal resources in order for China to enhance its energy security, the country is allocating significant funding resources toward alternative energy sources. In 2005, China attracted less than $3 billion worth of private investments in alternate sources such as wind, solar, and biofuels. By 2010, however, China had become the leader in clean energy sector, investing more than $54 billion (Figure 2). China now accounts for almost 50 percent of all manufacturing of solar modules and wind turbines in the world.
These investments to strengthen China’s domestic coal production as well as the increasing use of alternative energy sources are ways China is attempting to address rising energy demand while enhancing the country’s energy security. However, additional energy resources are necessary for China to sustain its economic growth.

Given the terrain and layout of the land, China is at a disadvantage in terms of geographic access to natural resources. Most of China’s oil is located in the northeast regions, where it is mostly inaccessible. In the east, where much of the country’s population is concentrated, oil fields have surpassed their highest point of production. China is the world’s fifth largest oil producer, producing 4.073 million barrels per day (bpd), while it is the third largest consumer, consuming 9.4 bpd. The quest for oil has turned China’s attention outward to oil producers and regions more capable than itself to fulfill its need.

The close of 2011 saw oil prices at $100 USD per barrel, a 19.6 percent increase in price on average. The overall international demand grew by 1.04 percent, with emerging economies, primarily China, as a guiding force. 2012 projections place China at an expected 0.042 million bpd increase, which contributes forty percent of the total growth in demand for the 2012 year. This, together with China’s inflation rates and austerity measures in the Eurozone, is calling attention to policy makers to dedicate further attention to its shift in energy security policies.
While Beijing denies that foreign aid provided to Asian and African nations is motivated by the energy security interests, the forms of aid and trade-offs that are being employed suggest otherwise. In 2011, China published its first ever foreign aid policy. The report reveals that Africa and Asia were the main beneficiaries of this aid in 2009, receiving 45.7 percent and 32.8 percent of the aggregate foreign aid respectively. Aid is taking form in three main ways: grants, interest-free loans, and concessional loans.

**Figure 3: Number of aid projects completed (Percent of China’s total aid, 1996-2005)**

China uses a unique mechanism for strategic development aid, generally as large infrastructure projects for developing countries. The government’s Export – Import (EXIM) Bank and China Development Bank grant the recipient country a concessional loan securitized by a natural resource, which it uses to pay China to carry out the project. The country also gives grants for hospitals, schools, and human capital development, and interest free loans for small to medium sized projects.

China is employing its human and monetary resources in the form of foreign aid to developing regions with the implicit objective of advancing its energy security interests. This policy analysis will explore China’s growing infrastructure aid to countries in Central Asia, also known as China’s periphery, and Africa as a means of procuring energy resources. This policy analysis will also discuss the inner workings of China’s Foreign Aid Policy, its challenges and benefits, and how diplomatic relations and resource exchanges have shaped China’s image and upheld its growing demand for natural resources, particularly fossil fuels.

**CHINA’S APPROACH TO FOREIGN AID**

China also defines aid differently than the OECD. In 1960 the OECD defined Official Development Assistance (ODA) as resource transfers from one government to another or from a government to an international body like the United Nations. The OECD provides a concrete definition of ODA:

i) provided by official agencies, including state and local governments, or by their executive agencies; and
ii) each transaction of which:
   a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
   b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).  

As a non-OECD member, China defines its aid through the Eight Principles. Following a series of visits to the African continent, Premier Zhou Enlai proposed what is called the “Eight Principles Governing China’s Aid to other countries”. These principles were:

1. Aid from China to foreign states is for mutual gain rather than based on one-sided grants.
2. A “no-strings attached” relationship that respects the sovereignty of the aid recipients.
3. China will provide interest free or low interest loans as economic aid with the option of delaying payment if necessary.
4. Aid is a means of assistance to assist countries develop independently rather than become reliant on China.
5. Projects are to provide quick results through small investments in order to give nations the ability to grow revenue.
6. China will provide Chinese manufactured goods at a competitive market price.
7. The Chinese will provide technical assistance and training.
8. Chinese citizens sent to work in various nations receiving aid will be paid at the level of their host country nationals working in the same field.

While the Eight Principles definition largely aligns with the OECD ODA definition, China disburses aid for political reasons as well, and considers charitable donations and export credits aid.

According to a Chinese white paper on its foreign aid policy published in 2011, the Ministry of Finance and Chinese Information Office offers the following boundaries for aid classification:

- Grants – hospital, school, and low-cost housing construction projects; water supply projects; “other medium and small projects for social welfare;” human resources development cooperation; technical cooperation; and assistance-in-kind and emergency aid.
- Interest-free Loans – public facilities; “projects to improve people’s livelihoods;” focused on developing countries with good economic conditions.
- Preferred or Concessional Loans – large- and medium-sized infrastructure projects with “economic and social benefits.”

Given that access to concrete data of China’s foreign aid policy is limited, the international community’s demand for more tangible information is rising. To date, the most reliable information comes from witnessing the results of projects launched by the Beijing in regions like Africa and Asia, who currently receive the vast majority of redefined aid.
CHINA’S INVOLVEMENT IN CENTRAL ASIA

HISTORICAL CONTEXT

Beijing’s interest in opening trade routes westward, a relatively weak ability to guarantee control of the seas between the Middle East and China’s eastern coast, continuing unrest/instability in Xinjiang, and an abundance of energy sources in Central Asia forced Beijing to court the Central Asian republics immediately following the breakup of the Soviet Union. During the last two decades, relationships with Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan have evolved as potential means to guarantee China’s near and medium term energy requirements, especially in western China. Establishing favorable relations with these energy source rich states via “pipeline diplomacy” would provide China with direct access to the energy sources into its territory, reducing the risks and costs associated with shipping, developing alternative energy sources, or other means.

Beijing was quick to recognize and establish formal relationships with the central Asian states after the breakup of the Soviet Union in 1990. Many experts argue that China’s intentions at the time were security focused: it sought to counterbalance unrest along the troubled western border with the Uyghurs in Xinjiang province, a protracted domestic security challenge for Beijing. As Chinese energy demands grew however Beijing began to look increasingly to the newly formed republics to augment China’s energy needs. Another set of drivers for Beijing’s swift engagement with the new republics was to ensure a peaceful transition from Russian rule along China’s border, initiate a diplomatic dialogue on the border disputes in the region, and counter Uyghur engagement with groups sympathetic to its cause. These drivers precipitated creation of the Shanghai Cooperation Organisation, a security and development focused international organization comprising China, Russia, and all but one of the Central Asian states, (Turkmenistan) said to be a modern-day Far Eastern counterbalance to NATO.14

STRATEGIC VALUE OF CENTRAL ASIA

The Central Asian republics provide Beijing with both an important energy source and potential strategic overland hub to facilitate intercontinental transportation and trade to complement or augment sea lanes. A body of reporting suggests China is increasingly concerned about a scenario where relations with Washington deteriorate, and the U.S. blocks vital shipping lanes to China. Such a move would limit Beijing’s oil and gas imports, which could in turn cripple parts of the Chinese economy. The Central Asian republics provide an opportunity for Beijing to diversify its energy sources and transportation portfolio via pipelines, roads, and rail, thereby mitigating slightly the consequences to China if it faces a standoff with the U.S. The Central Asian republics also offer Beijing a strategic buffer from the instability and regional security challenges present in southwest Asia, specifically Afghanistan. Shared ethnicities, cultures, and traditions with western Chinese – despite Beijing’s domestic political challenges – likely contribute to the strategic value Beijing sees in the republics.

Lastly, the concentrations of oil, gas, and energy reserves present in the five republics are among the highest in the world, a detail almost certainly not overlooked by the Chinese. The Central Asian states, especially Kazakhstan, share a strategic geographical location that enables control
over a large percentage of the world’s oil and natural gas supply. According to Chinese press, Astana signed a contract with Beijing worth “several billion dollars” for long-term supply of Uranium to China, which would have implications for peaceful nuclear uses while also perhaps supporting nuclear weapons stewardship programs.

**RISKS AND CHALLENGES**

Despite the significant strategic, geo-political, and economic benefits the region affords Beijing, investment in Central Asia does not come without significant risk. Although the region provides a buffer from the southwest Asian sources of conflict and instability, peace in that region is far from a near-term reality and unrest could quickly reverberate across borders into Tajikistan, Kyrgyzstan, Uzbekistan, or others given ethnic ties between the Central and Southwestern Asian states. Central Asia attracts significant attention due to its strategic location – the world’s major power brokers view the region as highly-desirable and invest heavily in it, consequently raising barriers for entry. Furthermore, despite being on China’s periphery, getting “product” to China’s eastern coast, where the vast majority of its population resides, is a major challenge and may likely be cost prohibitive.

**SINO INFRASTRUCTURE AID TO CENTRAL ASIA**

China’s foreign aid support to central Asia ostensibly began with formal recognition of the republics. While it is unclear how or if Beijing may have supported the Kazakhs, Tajiks, Turkmen, Krygyz, and Uzbek people under Soviet rule, following this brutal experience, the newly formed Central Asian governments in 1991 likely welcomed a counterbalance to Moscow. Beijing accepted this role. Driven by Premier Zhou’s principles of aid to developing countries, much of Beijing’s support has focused on enabling and empowering the newly formed states while opening trade and energy corridors from China into the region, the Middle East and Europe. As a result, much of Beijing’s aid in the region has been focused on developing the Central Asian infrastructure to facilitate development of transportation corridors.

All of the Central Asian republics receive various levels of infrastructure development aid from China with the lion’s share of funding provided through one of three mechanisms: grants, interest-free loans, and preferred or concessional loans.

Based on a sampling of Chinese infrastructure aid projects since 2004, most of Beijing’s support to Central Asia appears to fall into the category of concessional loans. By China’s State Information Office definition, this is no surprise – most of the work China undertakes in the region tends to be larger scale infrastructure projects: natural gas pipeline construction, high-speed rail development, and creation of an oil refinery are a few recent, ongoing examples. In most of the examples, Beijing employed its Export – Import Bank (EXIM) to finance the loans, guaranteed in all likelihood by the aid recipient’s energy reserves.

- China used its EXIM Bank to finance a high-speed rail project between Astana and Almaty in a deal valued at unspecified “billions of dollars,” according to the Chinese press. The two countries agreed to the deal in 2011 and completion of the rail line is
expected in 2015. This example is illustrative of most of the larger projects between China and the Central Asian states.

- One of the larger joint projects currently underway between China and three of the Central Asian states is construction of a natural gas pipeline that would originate in Turkmenistan, transit Uzbekistan to Kazakhstan, and terminate in Xinjiang. The estimated value of the deal is $7.3 billion, with the EXIM Bank financing up to 60 percent.19

- Another aid strategy Beijing has employed is its Loan-for-Oil initiatives aimed at securing oil reserves when world oil prices are trading unusually low. For example, in April 2009, as global oil prices fell to around 40 percent of the value from the comparable 2008 levels, the Wall Street Journal reported that the China National Petroleum Corporation and Kazakhstan’s national energy company had jointly purchased an Indonesian-owned oil and gas producer, with CNP lending capital to the Kazakhs to finance the deal. EXIM provided $5 billion to the Kazakhstan Development Bank, ostensibly to fund oil infrastructure development projects. This was reportedly the fourth such deal during Jan-Apr 2009.20

**KAZAKHSTAN CASE STUDY**

**CHINA-KAZAKHSTAN RELATIONSHIP**

Driven primarily by economic, energy, and security interests, Kazakhstan’s relationship with China has steadily developed since Kazakhstan gained independence from Russia in 1991. Under the leadership of President Nursultan Nazarbayev, Kazakhstan has committed to a “multi-vector” approach to foreign policy that aims to maintain good relations with all countries of economic and political importance. China has assumed an increasingly significant role in this framework as a balance to Russia and the West as well as partner in promoting Kazakhstan’s economic development.21 With the exception of Russia, Kazakhstan has now become China’s most important strategic and economic partner in Central Asia.22 Chinese goals regarding Kazakhstan have included securing support in suppressing anti-Beijing Uyghur nationalists and reducing this perceived internal terrorist threat, granting Chinese firms access to Kazakhstan’s energy resources, and increasing opportunities to trade with and invest in Kazakhstan.

One unique factor which differentiates China’s relations with Kazakhstan from other Central Asian countries is their overlapping ethnic groups. Approximately 180,000 Uyghurs live in eastern Kazakhstan and an additional one million ethnic Kazakhs live in China. The Chinese government has expressed concerns over ethnic Muslim separatism in the Xinjiang Uyghur Autonomous Region, which encompasses about one-sixth of the land area of China. The region is home to about 20 million residents, and approximately half of the population is non-Han Chinese Muslims with ethnic and religious ties to neighboring Central Asian countries such as Kazakhstan. Ethnic unrest in Xinjiang could have repercussions in Kazakhstan where the local population largely sympathizes with the Uyghur community. However, Kazakhstan’s official response is to express solidarity with Beijing’s policy of countering the terrorist threat, centered on the Uyghur-based East Turkestan Islamic Movement. Kazakh authorities, while allowing
Uyghurs to practice limited degrees of political activity, do not permit Uyghurs to engage in unauthorized activities in China and have deported Uyghurs accused of terrorism by the Chinese. To keep Central Asian states like Kazakhstan from supporting movements in Xinjiang, China has cultivated close diplomatic ties with its neighbors, most notably through the Shanghai Cooperation Organization (SCO). Although the SCO has evolved since its creation in early 1990s, the primary focus of the SCO now covers security, economic, cultural, and humanitarian collaboration between its members. The principal purpose of the SCO for China is to skew the political preferences of Central Asian governments towards friendship with China by means of economic development and security cooperation and stability in the region. Kazakhstan also expects to derive economic benefits from its relations with China and the SCO as well as security and protection against potential separatism and fundamentalism.

**CHINA’S ENERGY SECURITY INTERESTS IN KAZAKHSTAN**

China has sought to obtain a leading role in developing and promoting energy industries in Kazakhstan in order to maintain the rapidly expanding domestic needs within China. Kazakhstan is the main oil producing country in the region, with estimated oil reserves at close to 40 billion barrels. The discovery of Kazakhstan’s Kashagan oil field, considered one of the five largest in world, convinced Chinese leadership to start discussions with Kazakhstan on a potential pipeline connecting the two countries. The Kazakh-China Oil Pipeline (KCOP) was first proposed in 1997, but negotiations were suspended until more oil reserves were found to make the project economically viable. Construction officially started in 2004 when the two countries built a section from Atasu, Kazakhstan to the border town of Alashankou in China’s Xinjiang Uyghur Autonomous Region. The KCOP, a joint venture between the China National Petroleum Cooperation (CNPC) and Kazakhstan’s KazTransOil, is China’s first transnational pipeline and Kazakhstan’s third, having already constructed pipelines to Russia and Iran. In 2011, construction finished on the final phase of the pipeline connecting the oil fields in western Kazakhstan to a refinery located in Xinjiang. The 2,798-kilometer pipeline (Figure 4) cost an estimated $3 billion, but provides approximately 10 million tons of crude oil to China per year.

![Figure 4: Kazakh-China Oil Pipeline (KCOP)](source: International Energy Agency 2000)
The completion of the pipeline also secured, for the first time, an energy resource that is beyond the striking capabilities of U.S. aircraft carrier battle groups, which have the ability to target Chinese supplies in the Middle East and Sudan.\textsuperscript{26}

In addition to the KCOP, China acquired PetroKazakhstan (PetroKaz) in 2005, an international petroleum company registered in Canada but with all of its assets in Kazakhstan. Shortly after acquiring PetroKaz, which includes China’s largest refinery, CNPC transferred 33 percent of its shares to KazMunaiGas (KMG), the Kazakh national oil and gas company. As part of the deal, China obtained full ownership of the oilfield Kumkol South and a joint ownership of Kumkol North with Russia’s LUkoil.\textsuperscript{27} The Kumkol oil fields are located at the mid-point of the KCOP so obtaining PetroKaz’ assets over these oilfields has not only enhanced CNPC’s oil reserves in Kazakhstan, but also helped improve efficiency of the pipeline. By providing shares in both PetroKaz as well as the KCOP, China has diversified Kazakhstan’s export markets and China’s import sources, which enhances the energy security of both countries.

The Chinese government hoped that the pipeline would also foster political stability along the Central Asian border by creating jobs for Xinjiang’s Uyghur population.\textsuperscript{28} However, Uyghurs in Xinjiang have argued that Xinjiang receives little benefit from its own energy reserves because “energy production is controlled by state-owned companies who are usually hiring Han Chinese rather than Uyghurs, consumed mostly by Beijing and coastal cities and taxed in a way that the central government gets most of the revenues.”\textsuperscript{29}

**CHINA’S INVESTMENTS IN KAZAKHSTAN**

China’s investment in Kazakhstan has increased substantially in the last ten years. According to the National Bank of Kazakhstan, Chinese Foreign Direct Investment (FDI) through 2000 totaled less than $500 million. However, in 2008 alone, Chinese investment included nearly $700 million.\textsuperscript{30} China has been Kazakhstan’s second-largest trade partner since 2009 and its biggest export destination since 2010. In 2009, China’s provided $10 billion in loans to Kazakhstan in return for access to the Central Asian state’s oil and gas sector. $5 billion was provided by the CNPC to KazMunaiGas to support investments in Kazakhstan’s energy sector including the purchase of additional oil companies as well as the construction of the Beineu-Bozoi-Akbulak gas pipeline, which will serve southern Kazakhstan. An additional $5 billion was also provided by China’s EXIM bank to the Development Bank of Kazakhstan to stimulate the diversification of Kazakhstan’s economy.\textsuperscript{31} This agreement means that Chinese energy companies will control around 15 percent of Kazakhstan’s 2009 total oil output. China’s investments in Kazakhstan focus primarily on a “loan-for-oil-assets” model. This type of transaction, which is in line with the Chinese government’s preference for financing acquisitions, gives Chinese companies direct ownership of resources.\textsuperscript{32}
CHINA’S INVOLVEMENT IN AFRICA

HISTORICAL CONTEXT

Spurred by Mao Zedong’s ideology, China’s involvement in Africa began in 1956 and was driven by what China claimed as a shared history of grievances as victims of Western imperialism and colonization and strong will to cultivate and protect national sovereignty. Mao believed that developing nations could and should band together to develop themselves in a common struggle against the developed world. In doing this, the developing world could weaken the imperialist powers of the Global North and ultimately bring down those responsible for the developing world’s grievances.

One of the most notable projects China undertook in the early stages of developing its foreign aid in Africa was the TaZara Railway, also known as the Freedom Railway. From 1970 to 1976, Chinese workers labored alongside Tanzanians and Zambians to construct a 1860 kilometer long railway that cost $455 million USD. China’s move to assist in building this railway was a means of severing South Africa’s grip on transportation in the region, and later assisted Africans in overthrowing the apartheid regime in South Africa. China continues to fund maintenance and innovation for the TaZara railway; in September 2011, it granted a $40 million in soft loans to fund rehabilitation and new technology. Beijing has also waived large portions of the construction debt the Tanzanian and Zambian governments owe on the project.

China’s involvement in Africa has grown, and continues to grow substantially, as Beijing vows to continue cultivating strong relations with the continent. As China’s policies have shifted away from Maoist ideology towards economic growth and development, it consequently is thirstier for energy resources. Today, it is less relevant to justify China’s aid policy by invoking its original claim to interests couched in African national sovereignty.

![Figure 5: Oil in Africa](source: Statsis Incite 2011)

Between 1995 and 2006, Chinese national oil companies invested $7.989 billion in Africa alone, which includes crude and refined oil ventures. This accounts for 27 percent of the overseas investments by Chinese oil companies. Sudan, Angola, Algeria and Nigeria are where investments and projects are focused. China’s willingness to invest in ventures where American and European countries will not has earned it the title of Africa’s largest single beneficiary of oil exports.
In 2010, the Sudan People’s Liberation Movement vowed to protect Chinese oil investments and workers, ensuring the Chinese Communist Party (CCP) that the pipeline running through the country was secure. Since its split in July 2011, border disputes have erupted between South Sudan and Sudan over oil, as South Sudan claims an estimated 75 percent of oil reserves while the pipelines and refineries are in Sudan. As the largest investor in the Sudanese oil industry, China’s involvement remains strong, while it continues to supply arms to the country as talks of friendship with South Sudan progress. China is urging restraint with the desire to continue business and protecting its oil investments, but expresses no interest in acting as a diplomatic mediator in the conflict.

Producing 1.34 million bpd, Angola ranks as the second largest exporter of oil in Africa behind Nigeria. In 2007, China pledged $20 billion over three years in investments, spending, and oil-backed loans. China’s oil imports from Angola have surpassed Saudi Arabia’s at times, importing 750,000 bpd. With investments surpassing those of the World Bank by an estimated $12 billion, China’s ventures in Angola are distinguished from other nations as it has no stipulations to improve transparency, corruption, human rights, or democratization in exchange.

With social turmoil and upheaval pervasive, Algeria, among the least diverse exporters in the world, is urged by the IMF to diversify its economy and move away from its heavy reliance on oil and natural gas exports. However, the continued government contracts signed with Chinese oil companies suggests that export diversification is not a priority at the moment for Algeria. China has been the driving force behind Algeria’s construction boom, accountable for projects ranging from hotels, mosques and malls to highways, an airport and prisons. Chinese firms “have been awarded $20 billion in government construction contracts… promised by President Abdelaziz Bouteflika for a nation where jobs and housing are scarce and al Qaeda has struck roots.” Producing 2.078 million bpd and exporting 1.694 million bpd, Algeria saw 97 percent of its total export earnings come from the hydrocarbon market. As an OPEC country, and one that sees most of its oil exports going to Europe and North America, China is looking to secure its future in Algeria’s oil market as a share in its energy security quest.

As the largest exporter of oil in Africa, international powers often have their sights set on Nigeria. While China was blocked from entering the Nigerian market for quite some time, they continued to invest in infrastructure development projects and advancements in technology and telecommunications. Their investments ultimately paid off and Chinese companies gained access to Nigeria’s resources in 2004, and signed an agreement in July 2005 for $800 million to guarantee China 30,000 bpd for one year. Currently China accounts for about twenty five percent of Nigeria’s Foreign Direct Investment (FDI), which is approximately $6.1 billion. With construction contracts in place for refineries, further infrastructure and power plants, China, one of Nigeria’s largest oil consumers, is likely to continue increasing its presence in the country.

With less focus from Western governments and institutions on transparency, governance, and environmental and labor standards, China carries out a large share of infrastructure projects in countries considered basket cases like Angola, the Democratic Republic of Congo, Sudan, and Zimbabwe. At the same time attractive loan terms entice better governed countries like Ghana and Mauritius. This counters criticism that China only invests in countries considered poorly governed or unstable by the West. A more nuanced analysis shows that China cares ultimately
about the resources it will receive and the opportunities for Chinese businesses to take hold and sell Chinese goods in the recipient country. This occurs more frequently in countries spurned by the West simply because a lack of competition from Western donors makes success more likely, not because China specifically targets “bad” countries. A Princeton econometric analysis found that “China’s allocation of aid seems to be widely independent of democracy and governance in recipient countries.”

FINANCING MECHANISMS IN AFRICA

After China’s first foray into major infrastructure development in Africa with the TaZara Railway, it continued to provide small amounts of aid to the continent. Due to domestic economic priorities, China did not start to invest significantly in Africa until 1996 after Jiang Zemin’s visit. This followed on the heels of China’s switch in 1993 from net oil exporter to importer. Jiang’s Africa visit ushered in the era of strategic Chinese aid, with the broad goals of securing energy and raw inputs for its booming economy and markets for its exports.

African governments consider China an attractive partner because it will build large-scale infrastructure projects without requirements like transparency or improved governance imposed by the Paris Club and Bretton Woods institutions. China typically includes more traditional aid projects through grants, which build schools or provide medical care. These projects fill gaps in developing countries and quell opposition from civil society. China also provides military aid to unstable countries like Sudan and Zimbabwe, but not to others, notably Angola. OECD donors, however, provide much more military assistance on the whole.

Governments propose a project to China EXIM Bank, whether a hydroelectric dam, railway, or telecommunications infrastructure, and China will build the project provided the recipient can pay for it with a resource. The loan does however come with stipulations. The recipient must use Chinese contractors, and 50 percent or more of the contract’s sourcing much come from China, depending on the recipient. China EXIM Bank gives low interest loans for up to 20 years, though it sometimes grants a grace period. From 2001 to 2010 China EXIM Bank lent $12.5 billion more to sub-Saharan Africa than the World Bank, a total of $67.2 billion.

Some common themes run through China’s development projects with China EXIM Bank: China focuses on infrastructure like railroads or telecommunications which will bring the recipient country and China closer. A modernized railroad will ensure China extracts the resource backing the loan and gives Chinese companies a supply chain for exporting to the recipient country and region. Complex telecommunications infrastructure ensures the recipient’s dependence on China for the short and mid-terms. Stipulations requiring Chinese contractors and materials in a project allow Chinese construction firms to form a monopoly in the recipient country due to the sheer size of the project. Contractors and subcontractors, encouraged by the Chinese government, branch out to related industries and businesses in the recipient country.

ANGOLA CASE STUDY

CHINA-ANGOLA RELATIONSHIP AND HISTORICAL CONTEXT
Angola’s brutal civil war lasted 27 years, from 1975 to 2002, which followed on the heels of the independence war against Portugal from 1961 to 1975. Over four decades of war left the country in shambles, and required immediate and massive investment in all areas of infrastructure and development. The victorious party, the MPLA led by José Eduardo dos Santos started cultivating investment partners before the civil war ended in the defeat of UNITA.

China first established ties with Angola during its war for independence from Portugal’s Salazarist dictatorship. China provided arms and training to the MPLA, UNITA, and a third independence movement, the FNLA. Mao enthusiastically supported the anticolonial movements for political and ideological reasons, though China supported the FNLA while the Soviet Union and Cuba supported the MPLA. The United States, the Democratic Republic of Congo, and South Africa supported the FNLA and UNITA. The MPLA took power in 1975 when Portugal’s military, exhausted by three concurrent colonial wars, overthrew the dictatorship in the Carnation Revolution.

China did not recognize the dos Santos government until 1983, though it started an unofficial economic partnership in 1979. From 1984 the two countries established economic relations though they did not meet officially until 1999. China reportedly supplied UNITA arms during the civil war, but it maintained relations with the MPLA. President dos Santos visited China as early as 1988, and again in 1998. Beijing invited dos Santos to the inauguration of the Olympics as a guest of honor in 2008.

With the civil war finally over in 2002, the world grew more open to investing in potentially rich Angola. Before the wars the country exported food crops, and possessed a rich endowment of diamonds, copper, and oil. Minerals and fossil fuels helped pay for the war. The war displaced a large portion of Angolans, with the capital Luanda holding approximately half the population, far more than its capacity. The Angolan government looked to the United Nations and other international aid organizations for support after signing the peace accords, but they did not accept its Poverty Relief Strategy Paper (ECP in Portuguese) because of a lack of non-MPLA stakeholder involvement. While Beijing’s initial involvement with the civil war in Angola may have been ideological, China’s relationship with opposing sides was strategic in maintaining its end goal of reaching energy security via Angolan natural resources.

**CHINA’S ENERGY SECURITY INTERESTS IN ANGOLA**

Angola possesses proved reserves of oil ranging from 9.5 billion barrels to 13.5 billion barrels, depending on the source. Most of its reserves lie offshore divided into blocks. The civil war essentially prevented exploration on Angolan soil, so proved reserves may increase. OPEC limits the amount of oil Angola can export by approximately 0.2 million bbl/day. The country plans to construct another refinery, which would increase its refining capabilities by 6 times to 200,000 bbl/day sometime after 2015. Angola also possesses 10.9 trillion cubic feet of natural gas, second only to Nigeria in Africa.

**CHINA’S INVESTMENT IN ANGOLA**

Without a major donor conference, Angola looked for other partnerships. In 2004 it signed an agreement with China EXIM Bank for $2 billion to rebuild what remained of its infrastructure.
The interest rate undercut European lenders by 0.75 percent to 1.25 percent, though it required an initial repayment of 10,000 barrels of crude oil per day. This per-day requirement would increase to as much as 120,000 barrels per day by the end of the 17 year loan. In 2007 China released the second $1 billion tranche of the loan, and added an additional $500 million after negotiations with the Angolan Ministry of Finance. The countries then signed a $2 billion loan securitized by oil aimed at education and health infrastructure. An Angolan Ministry of Finance employee noted that the loan with China EXIM bank made it easier to access finance from other sources including Western banks.

![Table 4: Projects Financed by EximBank of China (Phase I)](image)

The 2004 Angola concessional loan created a new model for infrastructure financing, after years of the West pouring money into white elephant projects in countries from the Democratic Republic of Congo to Ghana, which frequently yielded no results except for increased corruption. Angola first proposed its priority projects, which given the country’s state at the time covered every conceivable area of infrastructure. The Angolan Ministry of Finance and the Chinese Ministry of Foreign and Commercial Affairs agreed on the priority projects and released a tender. China stipulated that 70 percent of the value of all contracts would go to Chinese companies. This did not cause much consternation for Angolan businesses due to the paucity of potential bidders resulting from decades of war. Angolan contractors received the remaining 30 percent. This setup blocks competent foreign contractors from participating. Three or more Chinese firms must bid on a contract. A joint Chinese-Angolan group manages implementation. China EXIM Bank directly deposits allocated funds to the appropriate contractors, reducing the number of hands it passes through and thus the potential for theft. Angola deposits oil revenues in an account on a continual basis, with China collecting the entire sum on project completion. This funding mechanism can prove a win-win for China and the recipients. In the Angolan case both parties receive what they want: China gets fossil fuels and Angola gets infrastructure. This win-win can differ from Western aid programs. A Western donor may measure success in jobs created, literacy rates, and maternal mortality rates, while China measures success narrowly in barrels of oil, tons of copper, if it built the infrastructure and received payment. For the recipient, a win with China means that it received what it wanted on purely commercial terms, with no
meddling in governance. For a country like Angola, the interest rate on the loan matters more than the lender, although a deal with China can yield different undesirable results, like large numbers of Chinese in the country (nearly 1 million in Africa), Chinese monopoly over sectors like civil construction, and ineligibility for donor funds or debt forgiveness. On the other hand, experience gained with Chinese loans make recipients more likely to receive future loans from Paris Club financiers or commercial banks.

ANALYTIC VIEWPOINTS

On ideology and criticisms

The World Bank estimates that there are 300 million Chinese citizens living in poverty. Although the CCP has brought more people out of poverty faster than any country in the world, the massive gap between the rich and the poor has brought criticism from within China’s borders. As the CCP battles its own insecurities domestically and internationally, it is careful in orchestrating and directing the news and public information. Silence on the issue of international aid from the government in terms of detailed facts and lack of clarity is speculated to be a move to avoid domestic criticism condemnation.

The CCP is depending on continued economic growth to legitimize its rule within their own borders and abroad. However, their tactical approach to secure energy resources raises contention in the international community. The criticisms lie namely in China’s indifference to the domestic political strife and the ethical implications of the nature of China’s involvement. These traits are described by the Chinese as their driving ideological approach to international relations and are classified as values of non-interference, camaraderie and respect for state sovereignty.

China contends that its foreign aid to Africa is driven by solidarity, the same ideology that created its Eight Principles and spurred its investment in the TaZara Railway. In 2011, the Chinese Vice-Commerce Minister, Fu Ziying responded to criticism from the West by saying, "Just as western countries abandoned newly independent Africa, the Chinese came. Sixty nine sacrificed their lives and thousands labored with the Tanzanian and Zambian people. Why? For friendship." Although China’s efforts to put off criticism by releasing their first ever foreign aid policy in print, the vague details and lack of specificity of the nature of their involvement in Asia and Africa, recipients of 80 percent of the total aid, devalued their effort greatly.

China’s desire to maintain discretion in its aid dealings fit well with Central Asia’s desire for bilateral relations that were more non-interventionist than dealings with the US and Russia. With corruption on the rise, the short term benefits the FSU governments are seeing from China’s investments are highly valued. Money and infrastructure is being funneled in without the demand for accountability attached. Turkmenistan is one of the beneficiaries China’s non-interventionist and harmonious ideals, as the support of its dictatorship earned China the first energy deal signed with a foreign country.

More recently, China’s dealings with Sudan and South Sudan have been heavily scrutinized. As the largest investor in the nations’ oil industry, China has a great deal to protect, but their exchanges with the governments counter stability initiatives. While China provides arms and
supplies to militias accused of employing rape as a weapon of war and leaders poised to fuel further violent conflict, it defends its silence on the issue of human rights violations as a means of showing respect to the sovereignty and integrity of the nations. China has even gone as far as invoking its veto power in the UN Security Council as a means of blocking proposed sanctions and sending UN peacekeeping troops to the area.

As China’s economic and diplomatic power grows, it becomes less likely that the international community will be successful in pressuring the CCP to alter its approach in dealing with corrupt governments in developing nations. Currently, the tactics are working in China’s favor, as the soft and hard power initiatives are bringing positive returns to the nation. However, the sustainability of China’s energy use and aid remains questionable in moving forward.

On claims of neo-colonialism and fueling foreign conflicts

While it contends its concern for sovereignty, China’s involvement in nations with weak governance has raised anti-Chinese sentiment and opposition in the domestic politics of those countries. Being that the Asian and African nations deeply involved with China are known to sell large portions of land from under their citizens, backlash has surfaced and provoked colonialist accusations. At the same time, though, the lack of democratic processes in many of these countries hinders opposition activity.

The growing loan-for oil trend in Kazakhstan has earned the Alga! unregistered opposition party political popularity. The leader, Vladimir Kozlov, has stated that, "Chinese relations to resource exploitation have imperialist undertones." The group contends that the issue of land grabs and absent legal protection is a result of both China’s interests and the Kazakh government corruption. In addition, there is growing concern that China can expand its Xinjiang border to incorporate more of Kazakhstan as a result of inability to repay its indebtedness to Chinese loans and investment. China has responded to accusations saying that it has no intention to monopolize foreign countries’ land and access to economic opportunity, while Kazakh opposition to “Chinese expansionism” maintain otherwise. 62

In the 2011, Zambian anti-Chinese sentiment won Michael Sata the presidential election. Zambia, a nation rich in copper, coal and other natural minerals, has been working closely with China for decades. However, contention over labor laws in Chinese managed mines drove anti-Chinese sentiment. 63 During his presidential campaign, Sata declared, "Zambia has become a province of China…The Chinese are the most unpopular people in the country because no one trusts them. The Chinaman is coming just to invade and exploit Africa." Similar sentiments are reportedly emerging in countries around Africa as China’s aid structure and bid to secure energy and natural resources grows. Citizens of African nations that know Chinese business transactions and practices well are claiming that China is “hording African resources,” and the attitude towards the Chinese as “colonialists” is swelling. 64

The political reality, however, is that China is providing infrastructure, services, and goods to nations with poor or corrupt governance. They see China’s ventures as an economic gain with little to no incentive to alter their domestic governing practices. Although the citizens of these nations may harbor anti-Chinese sentiment, their ability to succeed in legally and politically protecting their resources is weak. Even Sata buckled after taking office, as the Chinese
influence was too deeply embedded in Zambia’s structure to uproot as quickly and effectively as he had hoped.

**On China’s use of soft power**

China’s investment, economic development, and infrastructure support initiatives in Central Asia and Africa at first glance constitute traditional soft power plays aimed at building influence with relatively weaker governments. These initiatives in turn help Beijing improve access to resources and global diplomatic influence. The results have paid dividends in China’s favor:

- Some 18 countries, including Kazakhstan and several North African states, stood with China in protesting the 2010 selection of Liu Xiaobo for the Nobel Peace Prize, according to press.
- South Africa denied the Dalai Lama’s visa application in 2011 to attend a function in honor of fellow Nobel Laureate Desmond Tutu.
- In 2011, Tajikistan ceded almost 400 square miles of territory to China, ending a long-standing border dispute.

China’s aid recipients however may find it increasingly difficult to oppose China diplomatically, politically, or economically as they grow into increasing debt with Beijing. Most of the infrastructure aid support China is providing to Central Asia and Africa tends to be in the form of interest bearing loans – below-market interest, but interest nonetheless. China has literally poured in billions of dollars in aid to some of these nations – one quote for a South Asian nation that is also applicable here is: “we could make payments for the next ten generations, but we will still remain indebted to the Chinese.” The recipient governments however – typically repressive and corrupt regimes – benefit from bolstering solidarity with an economic superpower, which reduces the likelihood that they will eschew aid in the future.

This system of preferred loans to support infrastructure aid portends longer-term standoffs between the governments and their constituencies as local populations begin to uncover the long-term consequences. While resource rich, the aid recipients typically have major income disparities with sizable portions of the population living below the respective national poverty thresholds. Infrastructure loan-aid could fuel anger and protest if these projects adversely impact local and traditional economies. This phenomenon emerged after completion of the Dushanbe – Chanak highway reconstruction project, an initiative China lobbied for with the Tajiks and financed with a loan through its EXIM Bank. Improvements to the transportation infrastructure are a necessary pre-condition for Beijing to facilitate trade, conduct surveys, and extract resources. Beijing likely upgraded the Dushanbe – Chanak highway project with these intentions in mind: connecting the major Central Asian cities to Xinjiang to reduce travel burden to these locations. One could argue the Tajiks win because one of their major national highways has been modernized through the aid program, thereby greatly reducing travel time to the north and Uzbekistan. However, a Central Asia Online report stated Tajik locals in 2010 were protesting the new toll system on their national highway – the recently upgraded Dushanbe – Chanak highway. The report described the meager incomes of many locals and how the cost to use the newly-improved road was prohibitive. The Chinese had come knocking for the Tajiks to pay the bill, and the Tajiks responded by taking their people. If Beijing’s aid strategy aims to maximize the long-term value of foreign aid infrastructure deals to China, then domestic politics
in the recipient nation likely will not impact future aid considerations unless the recipient government’s challenges affect its ability to make loan payments.

**On the sustainability of Chinese energy security-related aid**

China holds approximately $2.1 trillion in foreign reserves, some of which it uses to finance aid projects. This should not change in the short to medium term. The price volatility of the natural resources developing countries use to securitize loans with China EXIM Bank calls into question the sustainability of Chinese concessional loans however. For example, during the 2007-2008 economic troubles oil prices fell by about 50 percent, making the value of loans based on barrels of oil significantly lower. Price fluctuations can greatly change the dynamics of Chinese contracts with developing countries, either with China receiving a lower value on its loans or a recipient country facing domestic pressure to renegotiate loans or reclaim resources conceded to China. Investing in undiversified countries which rely on one resource for the majority of their export and tax earnings makes these deals extremely risky.

For recipient countries, inking deals with China EXIM Bank and others can put their debt forgiveness schedules with the IMF at risk. In 2009 the Democratic Republic of Congo renegotiated its concessional loan with China and signed a new loan program with the IMF. The Chinese loan increased the DRC’s debt so significantly that it no longer qualified for IMF debt forgiveness. Many potential countries for Chinese investment in Africa carry large debt burdens and would hesitate to forgo possible debt relief for a Chinese concessional loan, especially if the IMF would provide a similar loan while maintaining the debt forgiveness plan. The size of Chinese loans makes it extremely difficult for countries with weak institutions and low human capital to manage them. As a result, many projects fail or yield lower results than promised.

It appears that in some ways critics overhype China’s natural resources based aid to developing countries. While the deals raise concerns about sovereignty and a stalling of progress on governance and democratization in certain developing countries, China and the West will likely converge somewhat in their approach. Initially a country may go to China as the lender of last resort, but after successful repayment Western commercial banks will lend to the recipient country and force China to compete. With energy prices skyrocketing, large oil producers like Angola and Nigeria can bargain hard with China. Western governments and businesses increasingly work with countries they find distasteful because of natural resources prices, causing direct competition with China. Experts say the quality of China’s projects, though initially inferior to Western standards, now compares favorably, clearly a benefit to recipient countries. China’s willingness to design projects with developing countries will push the Paris Club and Bretton Woods institutions to do the same, instead of imposing projects from the top down.

Overall, the sustainability of China’s aid for energy security policy appears mixed. Financially, China appears able to continue its projects, especially given the return they generate in natural resources supplies, economic opportunities for Chinese businesses in the recipient countries, and possibilities to export to recipient countries. Countries’ capability to manage Chinese megaprojects remains in doubt, with the failure already of many projects. Even potentially rich countries like Angola cannot manage billions of dollars’ worth of infrastructure projects, nor do
they want too many Chinese in their country managing projects and expanding into related sectors. Finally, China will not likely maintain its ability to undercut Western donors on projects related to energy security, as the West feels pressure to secure resources, and all donors converge on loan terms and project quality.

CONCLUSION

As China’s economy prospers, the CCP recognizes that continued economic growth is tightly coupled to secure, long-term sources of energy. It is by no coincidence then that the two energy-rich regions evaluated in this report account for by some measures up to 80 percent of Chinese foreign infrastructure aid. This correlation is likely because the CCP has concluded its survival is contingent on sustained economic growth, and it has in turn mortgaged its future by indebting nations that are quite literally sitting on the resources Beijing needs to continue to prosper.

Three factors pose near- and medium-term threats to Beijing’s continued ability to underwrite access to energy sources through infrastructure aid development programs: growing domestic political discord in the Central Asian and African governments China partners with; ineffective management of the increasing scope and cost of aid projects. While this report did not focus on the domestic political challenges in the Central Asian and African states, many of these states present a stability risk for China’s investments. Furthermore, as projects increase in size and scope, they become progressively challenging to manage.

Perhaps drawing a lesson from its approach to border disputes, the Chinese government in 2011 released a white paper on foreign aid reiterating its half-century old “eight governing principles for foreign aid,” which includes many ideological themes. Beijing will likely continue this approach until its aid beneficiaries raise similar concerns.

Almost all of China’s Central Asian and African partners have weak governance and corrupt leaders, to varying degrees. These features coupled with reports that China is exploiting these states have fueled both anti-Chinese sentiment and greater opposition to the local governments. To foster strong partnerships and limit backlash, China should demonstrate that the projects benefit the broader population, not just the political elite. At the current rate of exponentially increasing aid recipients’ debt, China is ensuring that indebtedness exists at levels where these nations remain linked to China diplomatically, politically, or economically. China’s ability to sustain its “infrastructure aid-for-energy” model will depend on how leaders in Beijing navigate these issues.


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