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In a Fortnight

By Joseph E. Lin

China's Preparations for "Peace Mission 2007" Complete

The People's Liberation Army's preparations for the Shanghai Cooperation Organization (SCO) "Peace Mission 2007" joint military exercises have now been completed. Some 1,600 Chinese military personnel have been transported across Russia to the military base in Chebarkul in the Chelyabinsk region (*Jiefangjun Bao*, August 2; ITAR-TASS, August 4). In addition, 46 Chinese aircraft, including six Il-76 transports, eight JH-7A "Flying Leopard" fighter-bombers and 16 Mi-17 helicopters, were flown to a Russian airbase. The exercise, which is scheduled to be held from August 9-17, is being billed as a counter-terrorism drill, though it will also provide the Chinese military with the opportunity to exercise with Russian units in a conventional live-fire environment. Notable aspects of the exercise include the use of Chinese fighter-bombers to conduct precision strikes on targets based in the mountains as well as Chinese paratroopers who will be jumping with their Russian and Kazakh counterparts. In addition to the field exercises, operational headquarters drills will also play a prominent role during the nine-day exercise. From August 11-16, the military commanders from the six SCO member states will hold exercises to practice joint operational decision-making, coordination and planning (Xinhua, August 2). In an effort to assuage the concerns of neighboring and Western countries that the SCO is becoming a NATO-like alliance, the SCO has invited more than 80 military attaches and 400 reporters from various countries to observe the exercises, though it appears that the majority hail from select non-Western countries (Zhonguo Tongxun She, August 4).

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Hu's Economic Policies: Promoting Liberalization or Special Interests?

By Willy Lam

While widely recognized as holding conservative ideological and political views, the Hu Jintao leadership has been given reasonably high marks for pushing forward economic reforms first initiated by the late patriarch Deng Xiaoping. According to World Trade Organization provisions, the Chinese Communist Party (CCP) has opened up an unprecedented number of sectors for foreign equity participation. Yet, the authorities have at the same time tightened control over other aspects of the economy. This has resulted in the truncation, if not atrophy, of thousands of private firms. The latter are in danger of being edged out by powerful monopolies and oligopolies that are controlled either by the party-and-state apparatus or by senior cadres and their offspring.

Officially, the leadership under President Hu and Premier Wen Jiabao has been committed to further expanding the non-state sector, which has grown exponentially due to high levels of foreign direct investment—$69.5 billion in 2006—as well as to the massive outlays of *gumin*, a reference to the millions of "stocks-crazed" Chinese who have opened securities-related investment accounts with banks and brokerages [1]. Yet it must be noted that the sector that has benefited most from what pundits call the "preliminary stage of capitalism with PRC characteristics" consists of the so-called "aircraft carrier-type" enterprise groupings under the CCP and government apparatus. These giants are supervised by the powerful State Council agency, the State-owned Assets Supervision and Administration Commission (SASAC). While nearly all of these quasi-governmental behemoths, including the three oil and gas monopolies, the energy and electricity groups, airlines and telecoms, and most of the major banks, are now publicly-listed companies, government ministries or State Council entities control up to 50 percent of their shares. Moreover, most of their top executives are appointed by the CCP Organization Department in consultation with the SASAC. These privileged "red businessmen" carry the official ranks of ministers or vice-ministers.

Last year, total sales of these 160 or so state monopolies and oligopolies amounted to a stunning 12.20 trillion yuan ($1.6 trillion), or about 57 percent of the country's GDP. In addition, they generated 720 billion yuan ($95 billion) in earnings, half of which were made by the three oil giants alone. Up to 80 percent of the year-on-year increase in profits realized in 2006 by all Chinese enterprises were attributable to *longduan* or monopoly firms in the areas of oil and petrochemicals, electricity, coal, and metals (*People's Daily*, January 6; Xinhua, March 18). Thanks to their cartel-like powers, these firms are also least affected by the rise in costs of raw materials or energy. Equally controversial is the fact that their CEOs and senior executives are earning up to 10 million yuan a year ($1.3 million). While China is still a putatively socialist country with egalitarian values, the paychecks of these top managers are up to 27 times those of their employees. For an administration that is committed to "putting the masses first," it does not help that a number of the bosses of the *longduan* firms are the sons and daughters of party elders. The children of former Premier Li Peng, for example, are running two of the electricity monopolies. This has prompted even the state media to decry the rise of "special privileges" and the emergence of a "new class of monopoly state capitalists" at a time when friction among disparate socioeconomic groupings is threatening to tear apart the social fabric. Even the official Xinhua news agency recently ran a commentary decrying the fact that "the high earnings of *longduan* sectors have posed a challenge to social harmony" (Xinhua, May 18; *People's Daily*, July 25).

Beijing has consistently denied that it is protecting the big groupings—reminiscent of the *keiretsu* in Japan and *chaebol* in South Korea—while constricting private economic entities. Two years ago, the State Council unveiled a set of "36 regulations on the non-state economy," which in theory extended "national treatment" to the non-government sector. Private firms were allowed to venture into areas such as finance, electricity, telecommunications, railways, civil aviation, oil and natural gas. In 2005, when 14 private airlines went into business, it was hailed as a high-water mark for non-state firms' debut in the transportation sector. Most of these private airlines, however, are now in dire straits due to a number of reasons, including difficulty in securing loans from big banks.

More importantly, SASAC published a contravening set of policies last year, which said that seven sectors, including military equipment, electricity, oil and petrochemicals, telecommunications, coal, civil aviation and shipping, must be either entirely controlled, or dominated by state firms. "Domination" means that the three biggest companies in a *longduan* sector must be SASAC-affiliated firms. Moreover, regulations governing private companies entering state-protected sectors are deemed even more stringent than those for multinationals. For example, non-state companies that want to break into the field of finance must team up with a qualified foreign strategic investor. Those that are interested in doing wholesale or retail oil business must have registered capital of at least 30 million yuan ($4 million), plus oil-storage capacities of up to 10,000 cubic meters. With these regulations in place, a sizable number

of private oil retailers in Chongqing, Henan and Shenyang were left with no choice but to sell their businesses to the three oil oligopolies (*Wen Wei Po*, July 18).

Yet another form of monopolistic practice—in the form of high-growth real estate and infrastructure development—has been a direct result of the massive corruption in the rapidly growing cities along China's east coast (Xinhua, April 28). The detention of former Shanghai party secretary Chen Liangyu last September, as well as the arrest of rags-to-riches speculator Zhou Zhengyi in 2003—and again in 2007—have exposed how dozens of companies that enjoyed the patronage of senior Shanghai cadres have made billions of yuan in profits. Chen, for instance, authorized companies set up by his relatives and cronies to dig into the municipal government's social security funds to underwrite highway and other infrastructure projects. And Zhou made his millions thanks to choice—but cheap—land concessions that he had secured through bribing numerous municipal officials (*Wen Wei Po*, August 1).

Private firms that have tried to set up footholds in sectors dominated by either *lungduan* state firms or companies with sterling political connections are relatively large operations with assets well over 10 million yuan ($1.3 million). On the other hand, the fate of small and medium-sized enterprises (SMEs), including *getihu* or "individual enterprises" that employ no more than eight individuals has been less fortunate. While SMEs are energetic, market-oriented dynamos that were once considered the soul of a new-style Chinese capitalism, they have been relegated to a diminishing role in the Chinese economy. From the late 1990s to 2005, individual enterprises were shrinking at the rate of more than 1.3 million a year (*People's Daily*, December 8, 2006). The reasons include the failure to obtain low interests loans and the ever-rising energy and raw material costs.

Indications are that as the Wen cabinet gets even more serious with its "macro-economic adjustment and control" policies—designed to cool down high-growth sectors such as the stock and real estate markets—private firms of all sizes are going to see even harder times. While excessive investments by the *longduan* behemoths are a major reason behind the overheating, these firms have powerful lobbyists in the party and government. The political influence of private corporations has expanded in the past decade, with dozens of executives having been appointed to legislative and consultative bodies such as the National People's Congress and the Chinese People's Political Consultative Conference. The clout of the non-state sector, however, is still much smaller than that of the "red tycoons" running oligopolies.

Government departments are also set to tighten their control over the economy owing to the numerous scandals regarding Chinese products as well as environmental pollution. Hu and Wen have been hard hit by the recent spate of unhealthy and even dangerous food products, toys and other merchandise that have been returned to the country by angry importers in the United States and numerous other countries (*Newsweek*, July 15; www.FTChinese.com, July 25). The culprits, in most cases, are non-state firms that have tried to cut corners by using illegal and other questionable raw materials. Internally, the drastic deterioration of the water quality of the famous Tai and Dongting Lakes is due in large part to the discharge of waste by privately run factories and mills, including *getihu* as well as township and village enterprises.

On a macro-level, the overall decline of Beijing's control over the economy is mainly caused by the increasing assertiveness of "warlord cadres" in rich coastal provinces and cities. In the run-up to the pivotal 17th CCP Congress, however, Hu and Wen are anxious to project central-level authority—and to avoid taking the blame for the side effects of overheating, particularly inflation. With the Consumer Price Index projected to hit 5 percent or more later this year, the party-and-state apparatus seems to have no choice but to reemploy state fiats now that market-oriented tools, such as repeatedly raising interest rates as well as the capital-adequacy ratios of banks are not working. Take, for example, the extensive efforts that officials—from Premier Wen down to mayors and county chiefs—have used to cut the price of pork, which has risen more than 70 percent in the past year (Xinhua, July 17). Measures taken have ranged from government subsidies to warnings to the media not to "sensationalize" inflation-related reporting. This is in spite of the fact that the large-scale reappearance of state intervention, as much as the alarming decline of the role of private firms, runs counter to the free-market principles that underpin Deng's market reforms.

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NOTES

1. China's overall FDI inflow levels in 2006 are based on figures reported by the U.S.-China Business Council, available online at: http://www.uschina.org/info/forecast/2007/foreign-investment.html.

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China Debates Green GDP and Its Future Development Model

By Wenran Jiang

Green GDP has been the new catchphrase in the Chinese media and political discourse in the past few years. China's State Environment Protection Agency (SEPA) and the National Bureau of Statistics (NBS) jointly released China's first Green GDP report in 2006, which measures the country's GDP performance against the cost of resources and the impact on the environment. It concludes that a limited calculation of pollution alone cost 3.05 percent of China's GDP in 2004 [1]. The widely reported new method of assessing China's growth, however, will be relegated to simply an exciting start; Beijing recently announced that the much-anticipated Green GDP report for 2005, completed last year, would now be shelved indefinitely.

Challenging China's Old Growth Model

The announcement disappointed many who had believed that, with the new annual green indicators, China had embarked on a new path of development with a heavy emphasis on protecting the environment, maintaining a balanced ecosystem and conserving energy and resources.

The effort by a number of Chinese government agencies is indeed ambitious. It was partly based on the United Nations *Handbook of National Accounting: Integrated Environmental and Economic Accounting 2003,* referred to as SEEA 2003, a system that "brings together economic and environmental information in a common framework to measure the contribution of the environment to the economy and the impact of the economy on the environment. It provides policy-makers with indicators and descriptive statistics to monitor these interactions as well as a database for strategic planning and policy analysis to identify more sustainable paths of development [2]." It is also an accounting method that no other country in the world has implemented.

In the context of Chinese development experience, however, the new GDP indicators are a clear rejection of the old modernization model that exclusively focused on the growth rate of GDP. China desperately needs to confront the problems brought by its fast development—ranking first in the world in terms of economic growth rate, accumulation of foreign reserves and attracting foreign direct investment. Yet, China is also the largest consumer of the world's construction materials, expending the most energy in unit GDP production and ranking first in air and water pollution with 70 percent of its rivers and 90 percent of its city rivers being polluted. Chinese cities treat less than 20 percent of its garbage, with 150 million tons of garbage disposed openly in the countryside. In addition, more than 300 million rural residents have no access to clean water and more than 400 million urban dwellers breath polluted air [3].

Thus, the newly established Green GDP measures, according to Pan Yu, Vice Minister of SEPA and the leader of the Green GDP Working Group, are designed to correct these problems. They deduct seven new elements from the annual GDP growth: depletion costs for mines, forests, land, water and wild life, plus losses from environmental pollution and damage to the ecosystem. Due to the lack of technical expertise, the calculation for the 2004 Green GDP report could only focus on one of the seven losses: environmental pollution. Yet, even for this category, the study covers only over one-half of the estimated damages because neither underground water nor soil pollution was included. Still, such a limited assessment came to more than 3 percent of the GDP for 2004, a rather astonishing but candid acknowledgement of the cost of China's modernization program [4].

The Green Vision Challenged

It seems logical that such progressive and future-oriented policy measures should redirect China's development path to a more environment-friendly route. After all, President Hu Jintao and Premier Wen Jiabao have placed the "the concept of scientific development" at the center of their leadership, stressing harmony with the environment and equality of distribution. The National People's Congress also passed pieces of legislation in the spring of last year, targeting a 20 percent reduction in energy intensity in the period from 2006-2010.

Most of Beijing's forward looking elites have come to realize that the world cannot support a China that consumes energy on par with the developed world on a per capita basis; that unrestrained industrialization will contribute greatly to global warming; that the ecosystem cannot sustain the same pattern of development China has undertaken in the past three decades; and that China cannot afford to wait and fix its environmental damage like most other industrialized states when its per capita income reaches about $8,000. They have also recognized that social stability is at stake. In 2005 alone, there were 51,000 civil disputes related to the environment, 400,000 environment-related complaints and appeals. These complaints are increasing at an annual rate of 30 percent [5].

Yet, the repeated delay in releasing the 2005 Green GDP report for the past months and its eventual halting have demonstrated the strong resistance to such a new approach

to measuring development. First, there are debates regarding the scientific accuracy of the range of indicators and calculation methods. Some have openly questioned whether any country in the world could accurately assess the cost of resource depletion and environment damage in relation to GDP. In this regard, the original alliance of SEPA and NBS no longer exists. As Xie Fuzhan, the new head of the NBS, stated last month: "Since there is no truly internationally recognized green GDP standards, nor is there any country adapting such accounting methods, it is not possible to publish the data or make accurate calculations of the values involved [6]."

Second, local opposition to such a report has been mounting. As indicated by the officials and researchers involved, the unpublished 2005 report includes data that is more damaging than the 2004 figures. More specifically, it contains green GDP indicators for individual provinces, a category that was not in the 2004 report. Based on these numbers, there are clear "winners" and "losers," which served as the incentive for some of the provinces to officially appeal to both SEPA and NBS to withhold the data. The reason is very simple: if measured by green GDP standards, the entire annual growth rate for some provinces would be cancelled out if the cost for recovering the polluted environment is factored in, giving a zero annual growth rate [7].

Third, political calculations have taken priority over pressing environmental concerns. The Chinese Communist Party will meet for its 17th Party Congress this fall, and a torrent of bad news would make the Party leadership look bad. That multiple targets on energy conservation and pollution control set last year for the 11th Five Year Plan have not been met is also a disturbing reflection on the central government's inability to implement its agenda. Furthermore, according to the Netherlands Environmental Assessment Agency, China has overtaken the United States as the largest emitter of CO2, and international pressure is mounting for Beijing to take more active measures on global warming [8]. While the Chinese government is fighting back on what it perceives to be a new brand of the China threat theory—China as a green threat to the world—any new domestic restrictions on environment may prove to be more of a self-imposed trap than what it is willing to take on at the moment.

Challenges Facing both China and the World

Therefore, it is overly optimistic for some international observers to speculate that China is about to embark on a new road, one that is totally committed to environmental protection and green growth [9]. It is also simplistic to conclude that the new battle line between reformers and conservatives is drawn at whether to accept the green GDP indicators. The reality is far more complex. While "red China" has certainly turned blue, it may take a while before it turns green.

Yet, with all its limitations, incompleteness and setbacks, the green GDP as a new development concept seems to have great traction with the Chinese public. According to a survey of over 2,500 people by the *China Youth Daily* in late July, 96.4 percent of those polled agreed that China "needs to continue with the green GDP accounting." Additionally, 78.9 percent of the respondents felt that the government must take more responsibilities on environmental issues, and 85.2 percent of those surveyed said that in the regions they live, it is common that the pursuit of GDP growth was done at the expense of the environment, while 79.6 percent regard the green GDP accounting method as helpful in changing the local governments' "GDP only" performance mentality [10].

Internationally, the Chinese government officials and academics may become defensive if they feel that China is being singled out as the only environmental outlaw, and they may do so with good reason. Few Western countries, especially the United States, have a superior environment record that enables them to lecture the Chinese on either energy consumption or green house gas emission. Many of the Western world's giant multinationals are producing in China, transferring their own pollution costs to China in the process and contributing to China's growing environmental problems. For Western countries to continue benefiting from low cost Chinese exports, they will gain by working with China to tackle its growing green GDP needs. That is clearly a choice between win-win and loss-loss scenarios.

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Notes

1. The original report in Chinese is available online at: http://www.sepa.gov.cn/info/hbdxj/200612/W020061206587957039175.pdf.
2. Available online at: http://www.google.com/search?tab=nw&ie=UTF-8&q=seea%20united%20nations.
3. http://www.sepa.gov.cn/hjyw/200612/t20061220_97538.htm.
4. For more details, see "Huanbao zhongju, guojia tongjiju fabu luse GDP hesuan yanju chengguo," http://www.sepa.gov.cn/xcjy/zwhb/200609/t20060907_92529.htm.

5. http://www.sepa.gov.cn/hjyw/200612/t20061220_97538.htm.
6. "Wang Jinnan: 'Lüse GDP" shuju weihe bu gongkai," *Nanfang renwu zhoukan,* July 31, 2007, http://news.sina.com.cn/c/2007-07-31/170713565533.shtml.
7. "Lüse GDP hecuan xiaozu: Youxie shengfen GDG shiji shi ling zengzhang," Shanghai zhengjun bao, August 3, 2007, http://news.qq.com/a/20070803/002391.htm.
8. Netherlands Environmental Assessment Agency, June 21 2007. "Global fossil CO2 emissions for 2006." Available online at: http://www.mnp.nl/en/dossiers/Climatechange/moreinfo/Chinanowno1inCO2emissionsUSAinsecondposition.html.
9. Lisa Buckley, "Green GDP – The Real Chinese Revolution?" *The Globalist*, September 23, 2004, http://www.theglobalist.com/StoryId.aspx?StoryId=4156.
10. "Mindiao xianshi: 96.4% de gongzhong zhichi jinxing lüse GDP hesuan," *Zhongguo Qingnian bao*, July 30, 2007, http://sc.people.com.cn/news/HTML/2007/7/30/20070730101432.htm.

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China's Oil Offensive Strikes: Horn of Africa and Beyond

By Andrew McGregor

In its efforts to expel an Islamist government and capture a handful of inactive al-Qaeda suspects in Somalia, the United States has risked its political reputation in the region through a series of unpopular measures. These include backing an unsuccessful attempt by warlords to take over the country, several ineffective air raids, and finally, the financing of an unpopular Ethiopian military intervention. As African Union peacekeepers struggle to restore stability in the capital of Mogadishu, China has stepped in to sign the first oil exploration deal negotiated by Somalia's new government. The agreement is the first of its kind since the overthrow of the Siad Barre regime in 1991 began a long period of political chaos in the strategically important nation.

China's four major oil corporations have unlimited government support, allowing them to edge out the smaller Western oil companies that traditionally take on high-risk exploration projects like Somalia. Latecomers to the global oil game, the Chinese companies and their exploration offshoots have focused on oil-bearing regions neglected by major Western operators because of political turmoil, insecurity, sanctions or embargoes. China once hoped to supply the bulk of its energy needs from deposits in its western province of Xinjiang, but disappointing reserve estimates and an exploding economy have given urgency to China's drive to secure its energy future. Twenty-five percent of China's crude oil imports now come from African sources.

The Somalia deal is part of a decades-long Chinese campaign to engage Africa through investment, development aid, "soft loans," arms sales and technology transfers. The European Union recently warned China that it would not participate in any debt-relief projects involving China's generous "soft-loans" in Africa (Reuters, July 30).

Global demand for oil is expected to rise over 50 percent in the next two decades even as prices rise and reserves decline. To meet this demand, China and other Asian countries offer massive infrastructure developments in exchange for oil rights. President Hu Jintao and other Chinese leaders are regular visitors to African capitals and Chinese direct investment in Africa totaled $50 billion last year.

Oil in Somalia?

Last month a deal was reached between Somali President Abdullahi Yusuf Ahmad,
the China National Offshore Oil Corporation (CNOOC) and China International Oil and Gas (CIOG) to begin oil exploration in the Mudug region of the semi-autonomous state of Puntland (northeast Somalia) (*Financial Times*, July 17). Somalia's Transitional Federal Government (TFG), which has yet to secure its rule, is to receive 51 percent of the potential revenues under the deal.

Somali President Abdullahi Yusuf (a native of Puntland) appears to have negotiated the deal in concert with Puntland officials but without the knowledge of the Prime Minister, Ali Muhammad Gedi, who is still working on legislation governing the oil industry and production-sharing agreements. Gedi insists that "in order to protect the wealth of the country and the interests of the Somali people, we cannot operate without a regulatory body, without rules and regulations" (*Financial Times*, July 17). The agreement with China may become an important test of the authority of the transitional government. China has effectively preempted the return of Western oil interests to Somalia, though it is unclear how the Chinese project may be affected by the passage of a new national oil bill. Somali negotiators assured the Chinese firms that new legislation would have no impact on exploration work due to begin in September (Shabelle Media Network, July 17).

Though Somalia has no proven reserves of oil, Range Resources, a small Australian oil company already active in Puntland, suggests that the area might yield 5 to 10 billion barrels (Shabelle Media Network, July 14). Somalia is also estimated to have 200 billion cubic feet of untapped

natural gas reserves. Western petroleum corporations, however, conducted extensive exploration of potential oil-bearing sites in Somalia in the 1980s and found nothing worth developing.

Public unrest is already on the rise in Puntland as the local government grows increasingly authoritarian and the national treasury has mysteriously dried up. Discontent has accelerated as leaders of the one-party regime continue to sign resource development deals with Western and Arab companies without any form of public consultation. The new deal with China has the potential to ignite political unrest in one of the few areas of Somalia to have avoided the worst of the nation's brutal political nightmare.

China's Strategy in Africa

Last November, Beijing hosted an important summit meeting between Chinese leaders and representatives of 48 African countries. The African delegates gave unanimous support to a declaration endorsing a one-China policy and "China's peaceful reunification" [1]. China in turn announced a $5 billion African development fund (administered by China's Eximbank), with a promise of $15 billion more in aid and debt forgiveness to come. In exchange for secure energy supplies, China is also offering barrier-free access to Chinese markets, something Africans have been unable to obtain from the United States or the EU.

While China has had success in securing energy supplies in Africa, its oil offensive is by no means flawless. Chinese corporations working abroad provide little employment for local people and are remarkably tolerant of corruption and human rights abuses. Chinese overseas operations are also notorious for their disregard of environmental considerations. The latter is perhaps unsurprising, considering the environmental devastation afflicting China's own industrial centers. Yet, the combination of all these factors tends to create unrest in nations where Chinese operations are seen as benefiting members of the ruling elite and few others. What is also notable is that of the five African countries where China is involved in major resource operations, only one, Angola, is not dealing with a major insurgency.

Sudan

China continues to expand its operations in the Sudan, its most successful foreign energy project to date. Oil from southern Sudan currently supplies 10 percent of China's imported energy needs. Chinese and Malaysian companies operating as a joint venture (with a minority Sudanese share) stepped up to take over the exploitation of Sudan's vast oil reserves after international pressure forced out the Canadian Talisman Corporation. The China National Petroleum Corporation (CNPC) recently announced the acquisition of a 40 percent share in a major exploration site off the Sudanese Red Sea coast. A 1997 embargo prevents U.S. companies from operating in the Sudan.

The Sudanese/Swiss ABCO Corporation claims that preliminary drilling in Darfur revealed "abundant" reserves of oil. These reserves have yet to be confirmed, but it appears that the rights may have already passed into Chinese hands (AlertNet, June 15, 2005; *Guardian*, June 10, 2005).

Ethiopia

China and Malaysia, partners in the Sudan, are trying to replicate their Sudanese success in the Ogaden region of Ethiopia. As a demonstration of goodwill—and to increase the incentives for cooperation—China and Ethiopia signed a debt relief agreement in May worth $18.5 million (Xinhua, May 30). In addition, a new convention center for the African Union headquarters in Addis Ababa is being built with substantial Chinese assistance.

Following its usual practice, China imported its own labor to work in the Ogaden projects in preference to hiring local workers. Asian exploration companies tend to arrive in the region with large military escorts after negotiating contracts with the Tigrean-based government in Addis Ababa. The ethnic-Somali inhabitants of the Ogaden region have little input, making the operations a target of the rebel Ogaden National Liberation Front (ONLF). A commando unit of the ONLF attacked a well-guarded Chinese oil exploration facility in northern Ogaden on April 24, killing 65 Ethiopian troops and nine Chinese workers. A further seven Chinese workers were abducted "for their own safety" and released a week later (ONLF communiqué, April 24)

Niger

In Niger the CNPC (already active in two other concessions) appears to be in the lead for the sole rights to the promising Agadem concession, to be awarded sometime this month. With financial support from the Chinese government, CNPC is offering to build a refinery and a pipeline in exchange for the rights, a commitment even Western oil giants like Exxon have shied away from. A Tuareg-based rebel movement in the resource rich north has declared Chinese oil and uranium operations "unwelcome" while accusing China of supplying the Niger army with weapons to pacify the region. Rebels attacked an armed supply convoy heading to a CNPC exploration camp in July,

killing four soldiers (Reuters, July 31).

Nigeria

Last year, the CNOOC moved into territory previously dominated by major Western oil companies in the Niger Delta, paying $2.7 billion for a 45 percent share in an offshore oilfield expected to go into production in 2008 (Reuters, April 26, 2006). China is building $4 billion worth of oil facilities and other infrastructure in return for access to other promising Nigerian oil-fields, including the untapped inland Chad basin (BBC, April 26, 2006).

With a growing insurgency in the oil-rich Niger Delta threatening Nigeria's oil industry, China has stepped in to supply weapons, patrol boats and other military equipment. Beijing does not share Washington's reluctance to supply such hardware to a Nigerian military accused of corruption and human rights violations (*Financial Times*, February 27). The insurgents claim that Chinese, Dutch and U.S. resource companies fail to hire local labor and are devastating the local economy and environment through unchecked pollution. The world's eight largest oil exporter, Nigeria is also a major market for Chinese exports.

Angola

Beijing has been wooing oil-rich Angola through promises of aid and development. Its promise of $2 billion in soft loans brought a guarantee of uninterrupted oil supplies to China and offshore exploration rights for CNPC while enabling Angola to avoid Western pressure to restructure a corrupt and inefficient economy.

Competition with the United States

As China intensifies its economic engagement with Africa, the United States has been steadily increasing its military presence in Africa, supplying arms, training troops and opening new bases for U.S. personnel. Efforts such as the Trans-Saharan Counterterrorism Initiative have brought U.S. forces into many countries for the first time as part of the global effort against al-Qaeda. The creation last February of AFRICOM, a new U.S. regional combatant command for Africa, reflects Washington's new interest in the area. Despite the anti-terrorism rhetoric, it appears that the main function of AFRICOM will be to secure U.S. energy supplies in a region that is expected to provide a growing share of the United States' future energy needs.

Ironically, U.S. arms and military training provided under the guise of "counter-terrorism assistance" may ultimately provide Chinese oil interests with the security they need to carry out operations in high-risk areas. An Ethiopian army financed and equipped by the United States for use against "Al-Qaeda terrorists in Somalia" is now being used to protect Chinese oil exploration efforts in the Ogaden region through military operations against ONLF rebels and punitive attacks on ethnic-Somali civilians.

Conclusion

So far, a visible disinterest in tying resource development contracts to social or economic reforms has aided China in securing its energy future in Africa. To be fair, this pattern of tolerance for corruption in regimes with desirable natural resources was set long ago by Western corporations and governments. China still employs the rhetoric of anti-colonialism in its relations with Africa, but many Africans are beginning to see China as an exploitive major power supporting corrupt regimes in the same manner as the former Western imperial powers. While China is taking some small steps to correct this impression, problems will persist unless Africans see immediate benefits from the Chinese presence, particularly in the field of employment. China's success in presenting itself to the Third World as "the largest developing country" will eventually have limited currency if its business operations become indistinguishable from Western corporations. In the meantime, China's rivalry with the West for control of Africa's oil is certain to intensify.

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Notes

1. See the full text of the Declaration of the Beijing Summit Of the Forum on China-Africa Cooperation, available online at: http://english.focacsummit.org/2006-11/16/content_6586.htm.

Arms, Energy and Commerce in Sino-Russian Relations

By Sergei Blagov

Having moved beyond their antagonistic Cold War relationship, Russia and China are now seeking to develop a strategic partnership. In addition to Russia's substantial arms sales to China and the joint military exercises conducted under the umbrella of the Shanghai Cooperation Organization (SCO), the two countries have also sought to cement their bilateral relationship through energy ties. Indeed, China's rapidly growing economy and its increasing demands for energy, combined with Russia's massive energy resources have proven to be a complimentary

match. Yet, despite optimistic official pronouncements by the leaders of both countries, thorny issues remain, particularly in the area of bilateral commerce.

Arms Sales and Military Exercises

In recent weeks, a significant number of Chinese soldiers were transported through Russia for the SCO's upcoming military exercises, code-named "Peace Mission 2007." The drill, to be held from August 9-17, involves some 4,000 troops, mainly Russian and Chinese, in Chebarkul, Chelyabinsk region. The Kremlin has made little secret that it views the war games as a demonstration of multilateral solidarity, with anti-Western overtones. In June 2007, the SCO defense ministers met in Bishkek to discuss the drill. At the meeting, Russia's Defense Minister Anatoly Serdyukov criticized the U.S. missile defense plans for Eastern Europe (RIA Novosti, June 27). In an apparent reference to the perceived unilateralism of the United States, he reportedly claimed that some nations used the war on terror and non-proliferation efforts in their own interests, thus undermining the interests of other countries.

These exercises are part of a second series of major joint exercises, with the first being the eight-day maneuvers in August 2005, code-named "Peace Mission 2005," which involved some 10,000 troops in east China's Shandong Peninsula. Repeated displays of Russian and Chinese combined military power were understood to indicate the determination by both Moscow and Beijing to jointly project their clout in Central Asia. Incidentally, the SCO could have marked the "Peace Mission 2007" with even more anti-Western overtones. In 2006, Iran was understood to be interested in participating in the war games under its observer status in the SCO. The June 2006 SCO summit in Shanghai, however, made it clear that membership status was not going to be extended to Iran any time soon. Subsequently, only the militaries from the SCO member-states were invited to Chebarkul in August 2007.

The foundation of the Sino-Russian security relationship, however, rested not as much on the joint military drills, but upon the extensive arms sales between the two countries. Over the past decade, China has been a top importer of Russian-made military hardware, though beginning earlier this year, Russian media outlets have been speculating that Russian arms exports to China, estimated at some $1.5 billion in 2006, were slowing down. Chinese officials were quick to counter these claims. On July 27, Chinese ambassador to Moscow Liu Guchang announced in Chelyabinsk that bilateral military cooperation remained "very successful." In the meantime, Moscow and Beijing have repeatedly pledged to cement their partnership. During his March 26-28 state visit to Russia, Chinese President Hu Jintao hailed what he described as the bilateral "strategic cooperation" and presided over a ceremony in the Kremlin to open the "Year of China in Russia" (Xinhua, March 27).

Energy Partners?

China's import of Russian energy has likewise been a key element in the bilateral relationship, as reflected by the numerous deals that have been struck in recent years. In March, China and Russia signed a joint statement, pledging to cooperate on a variety of issues. In their declaration, Russia and China vowed to boost cooperation in the oil, gas and power sectors in order to consolidate "the comprehensive and long-term strategic collaborative relations in energy and resources" (Xinhua, March 27). Russian state-run oil giant Rosneft and China's Sinopec, however, reportedly postponed signing a $1 billion contract to increase crude oil supplies to China.

In November 2006, Rosneft and Sinopec, a subsidiary of the China National Petroleum Corporation (CNPC), signed an agreement on strategic cooperation. According to Rosneft, joint projects with Sinopec in Russia and some third countries could eventually total $3.5 billion [1].

In July 2005, Rosneft and Sinopec agreed to launch a joint venture to explore the Veninsky deposit, part of the Sakhalin-3 project. In February 2007, Rosneft and Sinopec reiterated their pledges to jointly develop the Veninsky bloc at Sakhalin-3, as well as the OAO Udmurtneft and Adaisky bloc in Kazakhstan. Sinopec reportedly offered to set up a joint refinery venture in Northern China (Interfax, February 7).

In addition, Rosneft, CNPC and the State Development Bank of China have also signed a $6 billion contract, involving the transfer of 50 million tons of crude oil to China. In October 2006, Rosneft and CNPC agreed to set up Vostok Energy, a joint venture company, which planned to produce 10 million tons of crude oil a year by 2009-2010 in Eastern Siberia and Russia's Far East. Rosneft has a 51 percent stake in the joint venture, while CNPC holds the remaining 49 percent interest in Vostok Energy (Interfax, October 17, 2006).

The Kremlin awarded the joint venture with lucrative concessions. On July 31, Vostok Energy placed winning bids to develop two oil and gas deposits in the Irkutsk region (RIA Novosti, July 31). Vostok Energy paid 400 million rubles for a license to develop the Western-Chonsk deposit and 780 million rubles for the Verkhneichersky deposit. On August 1, Rosneft stated that Vostok Energy was interested in a similar auction for licenses to develop

the Vakunai and Ignyalin deposits in the Irkutsk region, due in September.

Within Moscow's energy policy, China is clearly a priority, as evidenced by the building of a $12 billion pipeline from East Siberia to the Pacific to pump up to 80 million tons to China and Japan. Furthermore, Russia rushed to build the Eastern Siberia-Pacific Ocean (ESPO) pipeline, despite the uncertainty regarding whether the region could pump enough crude oil to fill it. Russia's pipeline monopoly Transneft pledged to build the 2,694-kilometer pipeline by the end of 2008 (Interfax, July 12). Russian government officials conceded, however, that investments in the ESPO would take 18-20 years to be recuperated.

Russian energy officials sought to reassure their Chinese counterparts that Russia was a reliable energy supplier. Indeed, Russia fulfilled its commitments and supplied 10 million tons of oil to China by rail, Industry and Energy Minister Viktor Khristenko announced in Beijing on July 10 (Interfax, July 9-10). Yet, he seemed reluctant to mention that Russia had previously planned—but failed—to increase its rail-based oil shipments to China up to 15 millions tons in 2006.

Russian officials were also keen to counter questions about the economic viability of the ESPO. The first stage of the ESPO would "undoubtedly" be filled with 30 million tons a year, because Russian oil companies had already pledged so supply more crude oil for the pipeline, Khristenko said in Beijing. If an offshoot to China is built from the ESPO, Russia would supply 15 millions tons/year at the first stage and up to 30 million tons/year eventually, Khristenko said in Beijing on July 10 (RIA Novosti, July 10).

Meanwhile, despite optimistic official pronouncements, indications of disagreements have begun to appear. Khristenko announced in Beijing on July 10 that Russian gas supplies to China may be postponed unless bilateral negotiations on the Western route are completed this year and talks on the Eastern route are finished in 2008. He added that gas supplies along the Western route are expected to start in 2011 and the Eastern route is due to be on stream in 2016 (Interfax, July 10). China, nevertheless, was understood to be reluctant to accept Russian offers of gas at high prices.

In March 2006, Russian President Vladimir Putin traveled to China and pledged to raise oil and gas exports to China. That same month, Gazprom and CNPC signed an agreement on gas supplies from Russia to China, via the "Altai pipeline" of the Western route. Gas supplies via both routes were expected to total 68 billion cubic meters (bcm) eventually, with the first shipments due in 2011. The Western route to China and the Eastern route are expected to funnel 30 bcm/year and 38 bcm/year, respectively.

Although Russia has repeatedly said that its plans to supply China does not mean that oil and gas exports would be rerouted from Europe, Moscow's China-bound pipeline plans are understood to imply a warning to European consumers: Russia would prefer to have the option to redirect oil and gas to China. Yet the Kremlin's pipeline game may still be undermined by China's reluctance to buy Russian energy resources at any price.

Moscow and Beijing also appeared to have struggled to agree on the terms of the ongoing bilateral energy trade. The two countries have long discussed an electricity trade. In the mid-1990s, Russia and China mulled over a project to build a 2,600-kilometer power transmission line from Irkutsk region in Siberia to China at a cost of $1.5 billion. Eventually, however, China abandoned the project in 1999 when the two sides could not agree on pricing.

Nonetheless, Russia has remained interested in exporting electricity to China. Russia's electricity grid RAO UES supplied about 800 million kWh of electricity to China last year and plans to supply 1.4 billion kWh in 2007 (*Vremya Novostei*, February 16). In November 2006, the UES and the Chinese State Grid Corporation agreed to raise annual exports of electricity from Russia to China up to approximately 4 billion kWh/year in 2008-2010, 18 billion kWh in 2010-2015 and 60 billion kWh eventually after 2025 (EDM, July 9).

Earlier this year, however, Russia's plan to boost electricity exports was dealt a major blow. Beginning in February, China refused to import Russian electricity, thus leaving the Bureiskaya and Zeiskaya plants without a market in which to sell electricity (*Vremya Novostei*, February 16). Chinese negotiators reportedly argued that the Russian price of $0.08/kilowatt-hour (kWh) was unreasonable and nearly twice as high as China's domestic prices. On August 3, the UES formally requested the Russian government to approve lower electricity prices in order to resume exports to China.

In spite of these setbacks, Russia reiterated its pledges to develop the energy partnership with China. On July 13, Russian and Chinese Foreign Ministers discussed bilateral ties, including energy issues, during talks in Moscow. After the meeting, Russia's top diplomat Sergei Lavrov noted their mutual interest in investment and energy cooperation, including the coordination of plans to develop Russia's Far East and Siberia, as well as northeastern China (RIA-Novosti, July 13).

Commercial Challenges

Russia has also pledged to increase trade with China, presumably aiming to prop up the bilateral strategic partnership. High growth rates of Sino-Russian commerce have been seen by Moscow as an important indicator of the health of the bilateral partnership. In 2006, President Putin announced plans to raise bilateral trade levels up to $60-80 billion a year by 2010 (Xinhua, March 17, 2006). That same year, Russia's trade with China reached some $30 billion, up 15 percent year-on-year (*People's Daily*, March 27). Russia still sells more goods to China than it buys, but in 2006, Russia's trade surplus was down by 35.4 percent year-on-year at $1.73 billion.

In 2007, Russia's trade with China is expected to reach $40 billion, according to both Russia's Trade and Industry Chamber and the Chinese government (Xinhua, August 1). Russia is no longer expected to have a trade surplus in its commerce with China, however, and growth rates of bilateral trade have begun to slow down.

Furthermore, Russian exporters voiced their concerns over the growing Chinese industrial exports to Russia. In July 2007, Russia's Natural Monopolies Institute (IPEM) released a study, warning of substantial economic and social risks of increased trade with China. The Chinese government subsidizes a number of the country's export-oriented sectors, and subsidized exports could destroy Russia's heavy industry, thus undermining steel production, the petrochemical sector and other industries, the study said. The study suggested that in order to limit Chinese exports to Russia, Moscow ought to increasingly rely on anti-dumping and anti-subsidy investigations as well as technical regulations.

Apart from military and security cooperation, the dynamic development of energy and commercial ties is meant to demonstrate a significant potential for Sino-Russian relations. If the strategic partnership is to become potent, however, many of the disagreements in the commercial relationship, notably ones involving Russian energy exports to China, will have to be resolved.

Prior to working as Moscow-based independent researcher and journalist, Dr. Sergei Blagov was a newswire reporter. He spent nearly seven years reporting from Hanoi, Vietnam, between 1983 and 1997.

Notes

1. See Rosneft press release, available online at: http://www.rosneft.com/news/pressrelease/10614.html.