










The China Monitor

April 2006



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A Publication of:
The Centre for Chinese Studies
Faculty of Arts, University of Stellenbosch

Editorial

China satisfies most of its energy requirements through its domestic coal resources. But as its industrial drive and rapid growth continues, China is importing over seven times the amount of oil it did a decade ago. Considering Beijing's strive for energy security, Africa's energy rich economies have thus risen in strategic importance. China now procures 28 percent of its oil and natural gas from Africa, with Sudan and Angola being the leading exporters to its economy.



To meet domestic demand, China's energy giants are on the international acquisition trail, including Africa. Approximately 15 percent of China's total foreign direct investment has been invested in Africa. China's state-owned China National Petroleum Corporation (CNPC) has invested in oil assets in Sudan and Chad. Another SOE, the China National Offshore Oil Corporation (CNOOC) has acquired energy interests in Morocco, Nigeria and Gabon. In December last year, CNOOC acquired a 45 percent stake in an offshore Nigerian oil field for US\$ 2.27 billion, China's largest foreign acquisition to date.

In value terms, the energy sector will continue to account for the bulk of China's investment in Africa. Cognisant of the importance of the Chinese energy sector, Sasol is investigating the market potential for two coal-to-liquid plants in the country. Sasol has contributed to this month's China Monitor outlining its business strategy vis-à-vis the Chinese economy.



Dr Martyn J. Davies
Director, Centre for Chinese Studies

Letter from China

Sasol's China Engagement

By Johann van Rheede

Sasol's coal-to-liquids (CTL) technology presents a powerful strategic fit with China's economic and development priorities. China has abundant coal reserves and as one of the biggest energy producers and consumers in the world is striving to rapidly establish energy security and energy self-sufficiency. Increasing demand for energy has forced the country to ramp up its oil imports exponentially.

In 2004 the current vice-premier of the People's Republic of China and other Chinese leaders met Sasol management and visited the world's largest coal-to-liquid fuels facility at Secunda, where approximately 160 000 barrels a day of crude oil equivalent is produced, to gain better insight into Sasol's CTL conversion process. Sasol offers China commercially proven and world-class experience in converting abundant coal reserves into valuable synthetic liquid fuels. Our proprietary CTL technology offers China a compelling alternative for meeting its future energy requirements in an efficient, reliable and sustainable manner.

“Our proprietary CTL technology offers China a compelling alternative for meeting its future energy requirements.”

The talks have born fruit with two coal-mining partners in the Chinese hinterland, selected as potential partners. These are Shenhua Corporation, focusing on a site in the Shaanxi Province, about 650 kilometers west of Beijing, and Shenhau Ningxia Coal Ltd (formerly Ningxia Coal group), located in the Ningxia Hui Autonomous Region, about 1 000 kilometers west of Beijing.



In January 2004 it was agreed that the two potential projects would be studied under the leadership of the National Development and Reform Commission in China. The focus was on exploring the potential of developing two CTL plants, using Sasol's low temperature Fischer-Tropsch technology, each with a capacity of about 80 000 barrels a day. Combined, these capacities are roughly equivalent to that of Sasol's existing Secunda facility.

Sasol and the two Chinese companies signed an agreement to conduct a feasibility study on 28 September 2004 and initiated a pre-feasibility study which was completed in November 2005. Negotiations have reached the stage where an appropriate framework for the development of feasibility stage II commenced in February 2006.

While the framework is still being determined, it is evident that key drivers for establishing a viable CTL business in China, using Sasol's unique technology, are in place:

- Identified locations meeting economy-of-scale CTL production criteria
- Projects enabling China to monetise large reserves of gasifiable coal
- Projects dovetail with China's overarching socio-economic and development policies. Besides the drive for energy-sufficiency, these include achieving productivity growth, underscored by a balance between economic development, people and the natural environment.

Economy of scale

A typical world-scale CTL plant has a nominal capacity of producing 80 000 barrels of oil equivalent per day (bpd). In essence this will account for 53 000 bpd of diesel; 24 000 bpd of naphtha and 6 000 bpd of liquid petroleum gas. Such a plant will consume between 15 and 19 million tons of coal per annum, depending on coal quality and will come at a capital cost of between US\$ 60 000 and US\$ 80 000 of installed bpd, depending on site specifications. At a coal price of US\$ 10 per ton, the feedstock cost could be approximately US\$ 5 per barrel. Other direct operating costs are in the order of US\$ 15 per barrel. It is estimated that it would require at least 15 CTL plants to replace close to 15% of China's fuel imports by 2010.

“A typical world-scale CTL plant has a nominal capacity of producing 80 000 bpd.”



The CTL process is capital intensive and Sasol's experience is that host government support via fiscal and other incentives is required for such projects to be viable and sustainable. As seen in South Africa, the strategic benefits are enormous. An 80 000 bpd facility could be expected to employ some 2 000 people on a permanent basis and would create significant secondary jobs to support such an industry. Additional advantages would include skills development and security of energy supplies.

The reasons for China to invest in Sasol's technology are manifold:

- China has large reserves of low-cost gasifiable coal at the proposed plant locations
- CTL plants based on 'stranded coal' (due to regulation, quality or location) that cannot easily be monetised in other ways
- China is a net importer of crude oil and refined energy products
- Energy self-sufficiency is of strategic importance
- Existing infra-structure or plans to establish infrastructure to support new CTL facility

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- Government indicated it is receptive to supporting a CTL industry
- Opportunities exist for carbon dioxide (CO2) management.

The development of more environmentally friendly coal-based technologies, combined with the potential for the commercial storage of concentrated carbon dioxide, now allows coal-rich countries to benefit from their coal reserves and adhere to global environmental demands.

New-generation technology now makes it possible to build CTL plants with clean coal technologies. These sharply reduce air emissions and other pollutants while increasing the amount of energy gained from every ton of coal.

In developing new CTL facilities, Sasol's objective is to design carbon capture ready plants, which can significantly reduce greenhouse gas emissions.

Sasol recognizes and admires the significant and rapid progress China has made in growing its economy by absorbing new technologies, gaining increased prominence in the world trade and improving the quality of life of its people.



“Sasol seeks to establish a win-win relationship with China...”

Sasol seeks to establish a win-win relationship with China based on our proven CTL technology, thereby contributing to China’s economic development and energy security. We can help leverage China’s coal resources, which comprise double the oil equivalent of Saudi Arabian oil resources.

While our technology has the potential to springboard China rapidly into the “CTL capital of the world” and provides numerous other spin-off industrial, economic and social opportunities, it also offers a platform to strengthen ties through export and resource development options into the Southern African development Community.

Johann van Rhee works at the Sasol Corporate Communications Division



Policy Watch

China's Strategic Interests in African Oil

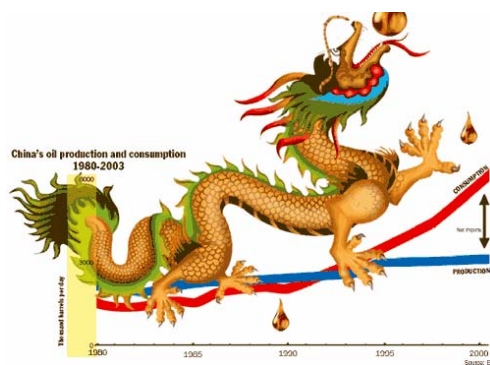
By Douglas Yates

The strategic interest of African oil to China is increasing in importance. Never before has China been so directly involved on the African continent. Today thousands of Chinese workers are conducting geophysical exploration, wildcat well drilling, pipeline constructing, ports construction and refinement. Now that they are here, it is important to ask some questions about the future. Will the Chinese develop a “sphere of influence” (bilateral-diplomatic, military-technical, financial-economic) in Africa? Since the United States is currently projecting that it will meet around a quarter of its oil import needs from Africa by 2025, will the Americans and the Chinese become rivals in Africa? Finally, is this really the beginning of a long period of direct Sino-African trade across the Indian Ocean? Or is it just another quick fix in the ongoing scramble for African oil?

“...is this really the beginning of a long period of direct Sino-African trade across the Indian Ocean?”

It is useful to have the basic facts on Chinese energy. In 1993 China became a net importing country of crude oil. Although the average Chinese consumes 40 times less per capita than the average American today, by 2025 Chinese consumption is projected to rise 119%, with Chinese consumers using overall half as much oil as their American counterparts. China's record growth rate – first among all the major powers last year – is largely fueled, like America's, by oil.

Paradoxically, China is a coal-dependent economy, and it will likely remain so, because it has vast coal reserves. According to Kang Wu, a researcher at Honolulu's East-West University, the share of coal in total Chinese energy consumption will remain dominant, slightly declining from 68.4% in 2005 to 57.5% by 2020. Crude oil is projected to decrease slightly, from 25.7% to 25.4%. So although we are all right when we say that China is diversifying away from coal into oil, we should not forget that



there are other energy sources. Natural gas consumption in China, for example, is expected to increase from 3% to 10%, and nuclear energy is expected also to increase, from 0.7% to 3.2% by 2020. But for the moment, there are only a few regions in the world with large enough reserves to feed China's new oil consumption needs: Siberia, the Caspian Sea, and Africa. Of the three, the weakest, the poorest – and the most open to Chinese penetration – is Africa.

The most important Chinese oil company in Africa is China National Petroleum Corporation (CNPC), founded 17 years ago. Its current president is a “capitalist” named Chen Geng, but he is answerable

“...by 2025
Chinese
consumption is
projected to rise
119%.”

to the “communist” party. Before liberalization in 1998 CNPC used to be China’s domestic onshore monopoly. Reorganization was the brainchild of the reformer Zhu Ronji (appointed premier in March 1998) whose aim was to make the four principal state-oil-&-gas companies more “commercial”. Today CNPC is a vertically integrated oil company, from upstream exploration and production to downstream refinement and distribution. Its

stock exchange masthead – PetroChina – had a market value of \$133.4 billion in 2004. The China Petrochemical Corporation (Sinopec) is the communist party’s super-large petroleum refining and petrochemical group, the biggest producer and distributor of oil products (both wholesale and retail gasoline, diesel, and jet fuel) and the premier producer of petrochemicals (like polymers, synthetic fibers, and chemical fertilizers). Its chairman, Chen Tonghai, also listed a masthead, Sinopec

Corporation, on the New York and Hong Kong stock exchanges, “to diversify the ownership structure, abide by the rules of the market economy, and establish a modern enterprise system,” i.e. to raise capital. In 1988, China’s oil sector was divided into four state oil companies: (1) CNOP for domestic onshore production; (2) China National Offshore Oil Corporation (CNOOC) for offshore production; (3) Sinopec for refinement and distribution, and finally; (4)



Sinochem for oil imports and exports. But over time the companies naturally migrated into related activities. CNPC has a number of refineries, for instance, and both CNOOC and Sinochem have joint ventures in refineries. Sinopec, through its division Unipec, is involved in oil trading. These are not only large integrated petroleum firms. They have become Chinese “sovereign entrepreneurs,” like the old national oil companies of Europe.

Geographically, the Chinese oil companies have invested more in the Sahara and the Gulf of Guinea than in any other region of the continent. But East Africa may become more interesting as China continues to increase its natural gas consumption. East Africa possesses large untapped natural gas reserves. (CNOOC has applied to explore for oil in Kenya.)

The range of methods available to the Chinese oilmen to do business in Africa makes it difficult to speak, for the present moment, about a typical case. The model of Sudan is certainly an extreme example of immoral business practices. The business with Angola and Equatorial Guinea is amoral: “No political strings attached”. But the many other Saharan exploration and production activities in Libya, Algeria, and Mauritania, and the purchasing of oil exports from Nigeria and Gabon, and the signing of partnership agreements to develop offshore oil blocks, are morally neutral. If we eliminate the cases of Sudan, Angola, and Equatorial Guinea, the rest of PetroChina and Sinopec activities on the African continent are not especially reprehensible.

“Geo-strategically, the importance of the Indian Ocean to oil will remain a constant factor.”

Geo-strategically, the importance of the Indian Ocean to oil will remain a constant factor. African oil will not be shipped across to Atlantic and Pacific Oceans to China. The Indian Ocean provides major sea routes connecting East Asia to the Middle East, and Africa. It carries a particularly heavy traffic of petroleum and petroleum products from the oilfields of the Persian Gulf and Indonesia. All of the African oil exported to China must pass through the Indian Ocean, with its four critically important access waterways: the Suez Canal, Bab el Mandeb, the Straits of Hormuz, and the Straits of Malacca. It is this last waterway, between Indonesia and Malaysia, which causes the greatest concern for the military command in Beijing. For if the US Navy were to block the Straits of Malacca, China would have the bulk of its oil imports cut off, including all its new African oil.

Professor Yates teaches political science at the American University of Paris, has published several books on oil in Africa, including The Rentier State in Africa: Oil-Rent Dependency and Neocolonialism in the Republic of Gabon (1996), and The Historical Dictionary of Gabon, 3rd ed. (2006)

Business Briefs

Significant business developments in China over the past month

China becomes No.1 forex reserve holder

Since 2000 China's foreign exchange reserve holdings have swiftly increased and Chinese Premier Wen Jiabao announced this month that China has overtaken Japan to become the greatest forex reserve holder with US \$ 853.6 billion in February 2006, compared to Japan's US \$ 850.1 billion at the end of February this year.

satellites for the observation of worldwide disasters. China invests about US\$ 500 million annually in its space programme and has had 46 successive launches since 1996.

Rising Oil Use in China Will Keep Prices High

Oil-importing countries are concerned about the future supply of the energy source. With China's increasing demand for energy sources its energy consumption is predicted to increase 150 percent by the year 2020. Increasing energy requirements from China and other parts of Asia are expected to continue driving-up global oil prices in a free market pricing system.

Chinese space official lays out exploration plans

Luo Ge, a vice administrator at the Chinese National



Space Administration, has revealed China's striving space exploration plans for the next decade, which includes a robotic moon mission from 2007 with a lunar fly-by, the construction of a non-polluting heavy-lifter launch vehicle by 2010 and numerous

Chinese Government approves Mazda investment in Changan Ford

Mazda's investment in Changan Ford has been endorsed by the Chinese government. The joint venture between the three parties was renamed to Changan Ford Mazda Automobile

Co., Ltd. (CFMA), where Changan, Ford and Mazda hold 50, 35 and 15 percent in CFMA shares respectively.

A fair bit of competition As the 5 year transitional period, after joining the WTO in 2001, concludes China wants to open its government procurement market to global competition as indicated in the WTO's Government Procurement Agreement. Government purchase orders of the Asian giant amounted to 100 billion yuan in 2002 and are estimated to hit 300 billion yuan this year. The transformation will increase transparency and fairness in government procurement through domestic and foreign rivalry, forcing local suppliers to polish up their competitiveness. Other by-products of the reform include reduced levels of corruption, irregularities and waste.

China ZTE '05 Net Up 1.2%; Product Mix Shift ZTE Corp., one of China's two telecommunication equipment companies, has demonstrated dreary growth in both revenue and profit figures for 2005 due to a product mix shift. Net profit was only up 1.2% to 1.2 billion yuan (US\$ 160.7 million) last year and revenue increased by 1.6% to 21.6 billion yuan. The company shifted its focus from cellphone to increased network equipment production last year, which resulted in a decline of sales in China. Company president Yin Yimin plans to expand ZTE Corp. sales in the US this year.

Boeing, Microsoft see China as complex opportunity Microsoft Corp. is breaking into the Chinese market as the Chinese government begins to crack down on piracy. At the same time the company and its competitors have been criticised for aiding

government censorship efforts in order to gain access to the online market. The Chinese market is important for Microsoft as the developed market is becoming saturated. Boeing Co. has won pledges for big airplane orders that could help diplomacy efforts. The company's potential is limited by strict regulation of Chinese airlines and it faces stiffer competition in China from rival Airbus SAS. Boeing believes China will require 2,600 new airplanes over the next 20 years and would like to be dominant in the market in which it has benefited from US and Chinese attempts to address the growing trade imbalances. Boeing and Microsoft both manufacture in China.

Once cool-off property market gaining steam again China's property market



cooled-off last year on account of government applied policies but has been booming again since March this year, experiencing steep hikes in metropolitan housing prices. During March 2006 commercial housing prices increased from 7,558 yuan (US\$ 944.75) to 9,457 yuan (US\$ 1,182) per square metre. In the capital of the Guangdong Province, Guangzhou, housing prices climbed 14% to 7,483 yuan (US\$ 935) per square metre in the first quarter of 2006. Experts' views are split, but some attribute the new hikes to the appreciation of the local unit if exchange.

Yuan Gains After Lawmaker Calls for China to Widen Trading Band The yuan rose to its second highest close since last year's evaluation, following a comment by a local lawmaker that the currency's trading band be

widened. It is speculated that China may broaden its band, previously only 0.3%, as a symbolic gesture before Chinese President Hu Jintao's state visit to Washington on 20 April. US policymakers feel that the undervalued yuan gives China's export a competitive edge, increasing its trade surplus with the United States, but Chinese central bank Governor Zhou Xiaochuan says that a stronger yuan would not decrease the trade gap.

Chinese government cracks down on internet sites Beijing-based portals have called for the self-censorship and the eradication of pornographic and violence oriented websites. The government has already closed domestic websites displaying material it is regarding as illegal. China is trying to seek ways to better regulate the content from local sites, calling for self-discipline and self-regulation from internet companies.

China's automotive exports set to increase China aims to secure a 10 percent share of the global automotive industry since becoming a net exporter in 2005. Guangzhou Honda is the country's chief export car to date with a market in Europe. However obtaining the necessary components for manufacture locally is proving difficult and the company has resorted to joint ventures with other Honda subsidiaries. Of the 120 suppliers of the components it uses, only 17 are Chinese companies. Nevertheless the company secured 60% of locally produced car exports destined for the international market against 90% from its plant focused on supplying the same car to the domestic market.

A unified open grain market for China The Chinese government has embarked on a mission to coordinate cooperation between its domestic grain producing areas and the recipient regions. Efforts were made to improve the security of grain supplies, policies on subsidies for grain production and minimum purchasing prices of the commodity. 12.5 billion yuan worth of direct subsidies spread across 600 million grain growers has been pledged by the Chinese government bringing the total amount of subsidies to 26.7 billion yuan for the year. Direct subsidies to grain growers began in 2004 at a time when output was falling due to deteriorating profits.



SABMiller beer volumes climb, expands in China

SABMiller's annual beer volumes rose 5 percent with business strong in Europe and Asia as it expands further into China. It was only US volumes that were weak due to tough competition from Anheuser Busch. SABMiller operates in China through a 49 percent owned venture, China Resources Snow Breweries Ltd. running 41 breweries in the country. The company will continue to expand into the world's biggest beer market.

China says tariff on shoe imports violates EU rules The European Union has proposed a single tariff on leather shoes imported from China. From April 7 this tariff will be effective at 4 percent on imports from both China and Vietnam, who were found to be dumping shoes on European markets. 5 billion euros of shoes were imported from the two countries in 2005 hurting European manufacturers. However, director of the ministry's Bureau of Fair Trade for Imports and Exports, Wang Shichun, said

that the decision to impose a single tariff on the whole industry breaches EU rules

China plans to spend \$22.5 billion in oil refining sector in next five years China's largest oil producer, PetroChina, stated that China is planning to spend US\$ 22.5 billion in the oil refining and petrochemical sector over the next five years, with plans to build five oil refining bases and six ethylene production bases. China plans to increase its oil refining capacity by 5 percent to 170 million tons by the year 2010.



Authentic Windows system going into

China PCs Chinese government officials have committed to increase protection for intellectual property such as software and have ordered that all computers sold in the country must have legal software preloaded to reduce piracy. In the coming three years China's second largest PC manufacturer, Founder Technology, will buy US\$ 250 million of authentic operation system software mainly from Microsoft, whose revenue potentials have deflated due to the distribution of non-authentic copies. The Lenovo Group, China's largest PC manufacturer, already preinstalls legal Windows software in China. As a role-model, Beijing is committed to distribute authentic software to all government agencies in China, allocating up to 150 million yuan (US\$ 18.7 million) for legitimate software purchases. China aims to give overseas companies confidence in its efforts to protect intellectual property rights. President Hu Jintao's first stop of his US visit included a meeting with Microsoft Corp founder Bill Gates in Seattle.

China considers allowing private companies to explore for oil

China is considering opening the oil exploration sector to private companies. A draft paper by the Ministry of Land and Resources said companies would need capital of at least 10 billion yuan to explore for oil and 10% of all technical staff would have to be senior engineers experienced in oil exploitation for the company to get an oil exploration license. Currently state-owned companies, CNOOC Ltd, PetroChina Co Ltd, and Sinopec and local government owned Shaanxi Yanchang Oil Group Corp are the only entities allowed to explore for oil.

Reforms in the pipeline for China's oil industry

China's big oil firms will face tax and policy reforms in coming years aimed at linking an insular industry with international markets. Analysts have warned that there are potential measures that could dull their earnings and their stocks' appeal due to the short-term uncertainties. China has controlled oil products' prices inflation that could create social unrest but artificially low prices have left refiners with billions of dollars in losses in 2005. China has targeted higher taxes, subsidies for poorer consumers and mechanisms that allow fuel prices to rise. Measures include a windfall tax and a pricing mechanism for refined oil products. China has yet to bring Chinese refined product prices up to international levels which are about 40 per cent lower than the US.

China approves IATA's proposed route

The Chinese government has permitted the International Air Transport Association's (IATA) request on a new international air traffic route to open this month, reducing flight times

between China and Europe. The collaboration between industry and government will include fuel savings of around US\$ 30 million and significant environmental benefits.

China oil firm inks Australia deal China's largest offshore oil producer CNOOC Ltd. has signed an agreement with global miner BHP Billiton to explore for gas in the Outer Browse Basin off the coast of Western Australia. The deal was signed through a subsidiary of the company, CNOOC Australia E&P Pty Ltd and included US-based Kerr-McGee Corp. The Chinese company's statement said it would



have a 25 per cent interest in the blocks to be explored about 300 kilometres off from the coast, covering an area of 21,000 square kilometres. CNOOC has been aggressively looking for overseas assets, recently signing deals to explore for oil in Nigeria.

China Expert Technology Wins New Contracts China Expert Technology won two contracts worth US\$ 10 million and US\$ 12 million to construct the third and fourth phase e-government system for Dehua City in Fujian. The project aims to establish a national electronic government system combining existing networks to form a united technology standard and regulation, and consequently a united national government service platform. The third phase commenced in January 2006, aimed to be completed in June 2007. E-government administration software will be implemented for over 70 government departments within the city. The fourth phase construction began in March 2006, aimed to be completed in December 2006.

China fires nuclear reaction Australia has sealed an export deal to supply uranium to China for its nuclear power program and to allow cooperation in peaceful use of nuclear technology. China mostly uses energy from coal but needs a cleaner source to combat pollution and the dwindling supply of coal. China plans to quadruple the amount of electricity used from nuclear power stations by 2020 by building 28 nuclear power plants. But the soaring prices of uranium stocks led to warnings that new uranium producing mines will not be opened in the near future. This is partly because of the continuing three-mines policy of the Labour Party. After the announcement of the expected uranium exporting agreement between Australia and China, stocks surged by up to 34 per cent.

China backs down on ore price fight China is backing down in its attempts to lower iron ore prices. This raises expectations that Australia's iron ore export industry will get its price increase in 2006/07. A Chinese steel industry website claimed local steel makers agreed to a 10 per cent price rise, however, Australian producers denied such a settlement. After reports that in Europe, steel mills would accept a 12-15 per cent increase China acknowledged that prices might need to be raised at least 10 per cent. Rio and BHP's arch rival in the business, Brazil's CVRD, wants a 24 per cent increase. World iron ore prices have traditionally been set in the Japanese market but the rise of the Chinese steel industry has increased the prospect that the price-setting status could pass to China.

China Mobile offers 4 bln USD for Nasdaq-listed Millicom China Mobile has offered US\$ 4 billion for Nasdaq-listed Millicom

International Cellular, a cellphone operator attending to emerging market needs, in the second round of bids. Possible other bidders include Orascom (Egypt), Investcom (Dubai), TC (Kuwait), Telenor (Norway) and America Movil (Mexico).

Hu leaves on visit to US, 4 other countries

Chinese president Hu Jintao left Beijing for his visit to the US this month. His official trip will include visits to Boing Co., Microsoft Corp and the White House, and his stay will focus on human rights issues and reducing the growing trade imbalances between the two nations. From 22-29 April president Hu will travel on to



the African continent to discuss energy supply deals with Morocco, Nigeria, Kenya and Saudi Arabia.

US, China to Discuss Competing Interests in Latin America

For the first time talks between the United States and China on the Latin American region are planned. China's increased interest in global energy resources led to ties with Venezuela, the world's 5th biggest oil exporter. However, Venezuela has been Washington's long term supplier in the past, which is now experiencing energy rivalry from the east. US experts feel that China's involvement in Latin America would result in political, security and economic implications for the US. Beijing's interests on the South American continent are beyond petroleum – China announced US\$ 100 billion of investment in the tropical region and increased defence spending links are expected. China has also become Latin America's 3rd largest trading partner with Sino-Latin American trade realising US\$ 50 billion in 2005.

Foreign takeovers controversial Critics warn of monopolies being created in some sectors due to foreign takeovers of Chinese enterprises and have expressed concern over losing Chinese brands and innovation ability, allowing core sectors to be controlled by multinationals. The growth of economic nationalism has been caused by national pride, resentment over CNOOC's failed US\$ 18 billion bid for Unocal last year, and a protectionist resurgence, responding to growing protectionist sentiment in the US and Europe against low-cost Chinese exporters.

AT&T's struggles in the east

US telecommunication giant, AT&T is looking at grasping a larger share of the Chinese market. The company, which has owned a small share in a Shanghai joint venture since 2001, believes it could do much better given the economy's current growth rate. Trade issues between the two countries have been seen to hamper such development initiatives and the Ministry of Information Industry's mandate to impose substantial licence fees of up to US\$ 250 million on foreign companies in China presents another stumbling block. AT&T remains optimistic about China and hopes that the issue will receive top priority in the trade talks between the countries.



China to face tougher int'l trade environment

Major economies have been joined by developing countries regarding complaints on trade with China. More than 60 percent of trade investigations result from developing nations such as Turkey, India and South Africa. Increased disputes on textile products between China and emerging economies have currently lead to talks with

South Africa and Turkey. Sino-Brazilian trade stabilised after similar frictions were eliminated on the trade agreement signed last month. To avert further quarrels between Beijing and developing nations, the Chinese Ministry of Commerce has encouraged local companies

to increase investment spending in developing countries, aiding technology development and personnel training. China and developing world trade amounted to US\$ 705.5 billion in 2005.

Sourced from: *Reuters, Bloomberg, Xinhua, The Age, Sunday Times, The Star, CNS News, TNC Net, China Daily, Business Week, Travel Daily News, The Independent, Forbes, Peoples Daily, Chosun, VOA News, The Standard, UK Auto Industry, Yahoo Finance, Baltimore Times, China Tech News, PC Advisor, BBC News*

China & Africa

The latest updates on Chinese activity on the African continent.

Sino-Africa Relations China's Africa Policy, which was launched earlier in the year, is proving more important than ever. It allows China to take advantage of opportunities while acknowledging economic benefits Africa has to similarly derive. It has cancelled debt estimated to be worth US\$ 1, 2 billion and has eliminated tariffs from African products. The aim is to strengthen Sino-African relations.

undermines Africa's capacity to develop a manufacturing sector.

Unionist says Growing trade with China hurts SA Clothing imports from China have grown by 480 percent over the last two years and have nearly crushed the South African textile industry according to the South African



Clothing and Textile Workers' Union General Secretary Ebrahim Patel. He said between 2003 and 2005 job losses amounted to 62 000, with about 300 000 people affected. He partly blamed illegal imports through under-invoicing and false declaration. He compared SA's relationship with China to a colonial one where South Africa exports raw materials and imports manufactured products and seriously

Cosatu warns of job losses on SA-China trade deal Government and the Congress of South African Trade Unions (Cosatu) disagree over SA's proposed trade agreement with China. Cosatu has warned the deal will cause further unemployment in the textiles sector. President Thabo Mbeki announced in his state of the nation address that an agreement had been reached with China to protect South Africa's clothing and textile industry. The agreement includes reducing Chinese exports to SA although free trade between the two countries has not been ruled out. Cosatu says the deal favours China. Government's determination to pursue a bilateral trade agreement with China has caused tension with Cosatu, which has accused the Department of Trade and Industry of acting unilaterally in its dealings with China. Government has said the unions have been involved in talks with China.

Sudan opens new oil pipeline Sudan has opened a new pipeline which should increase oil production to half a million barrels per day



with a structure that could double output in the coming year.

The oil fields, Block 3 and 7, are

operated by Petrodar, a consortium three quarters owned by China National Petroleum Corp. and Malaysia's Petronas. Smaller shares are held by Sudan's Sudapet, China's Sinopec and al-Thani of the United Arab Emirates. Western companies have mostly withdrawn from Sudan over alleged human rights abuses. This leaves the region dominated by state-owned Chinese, Malaysian and Indian entities. China has its largest overseas oil production operation in Sudan.

China called to assist Nigeria's unemployed engineers Nigeria's Minister of Science and Technology, Professor Turner Isoun, has asked Chinese firms to increase involvement and skills development in the Nigerian technologies sector to help overcome the technological gap between the countries. At present 50,000 Nigerian engineers are unemployable or need supplementary training. Isoun blames the low quality and outdated curricula of Nigerian tertiary institutions. Huwawei Technologies Nigeria Limited, a Chinese FDI initiative in Nigeria, has established a training centre in Nigeria to tackle human capacity building in the telecommunications industry by training 2000 telecom engineers annually.

Chinese Peace-keepers

Leave for Sudan Mission A 25-member squad of a Chinese detachment, part of a United Nations peace-keeping mission in Sudan is heading for Khartoum.



China plans to send 435 peace-keepers, mainly to rebuild infrastructure, destroy weapons, and assist peace-keeping forces in the area.

China, Angola's biggest aid partner, increases economic ties with Portuguese-speaking countries China has overtaken Brazil, Portugal and Russia as Angola's biggest aid partner, accounting for almost 60% of Angola's loans. Debt reduction is expected for countries such as Angola, Mozambique and Cape Verde, as well as low interest loans and waiver of customs taxes. China is currently running a successful policy of strengthening ties with Portuguese-speaking African countries. China has granted a credit line to Angola for reconstruction, guaranteed by oil exports, with a total value of US\$ 2 billion and could increase to US\$ 3 billion. Since 2002 US\$ 5.5 billion in foreign loans have been received from China.

China's rubber demand encourages international production As the largest consumer and importer of rubber, China has embarked on a plan to grow natural rubber in Southeast Asia and Africa to meet domestic demand, primarily from its automobile industry.

US\$ 600,000 pledged for logistical assistance in Liberia In an effort to help reconstruct the capacity of the Liberian army, China has offered logistical assistance amounting to US\$ 600,000 according the Chief of the Foreign Affairs Office in China. The package includes technical items ranging from vehicles and laptops to generators.

China gives Eritrea US\$ 23million loan In an effort to strengthen its cooperation with

resource rich countries on the continent China awarded Eritrea with a US\$ 23million loan. Although the purpose for which it was granted was not disclosed, the Ministry of Information's website stated that it was payable over the long term. Eritrea's economic growth has been rather slow since the 3 year border war with Ethiopia. The mining of gold and other minerals said to commence in 2008 are likely to affect the economy positively.

China to build cellphone plant in Nigeria

Nigeria is to receive its first cellphone plant in one of its oil-rich states by the end of this year. The agreement between the Nigerian government, American investors and a Chinese firm "The China Electronics Corporation" entails that each contributes 33% of the funds. The new plant will start in the cellphone packaging business and commence to manufacturing at a later stage.

Companies want access to Ethiopia's gas fields

The ministry of mines and energy issued an invitation for expressions of interest in the Hilala and Calub gas fields, which has brought in 19 potential local and international bidders. Among the bidders is Malaysia's Pertonas, one of the most active companies in Ethiopia. It is currently in charge of four concessions and

has been looking for access to the Hilala and Calub gas fields since 2004. There was also interest from the Middle East, China, India and Russia. China has been looking to Africa for resources for its rapidly expanding market. The Middle East has been moving investments away from the West because of growing anti-Muslim sentiment in Europe and the US.

Chinese cars to hit SA market

McCarthy Limited plans to launch a range of fully-



imported Chinese vehicles onto the South African market by end of the first quarter of 2007. They

will be imported from reputable manufacturers, using proven-technology. The motor industry in China has experienced dramatic growth and is the second largest new vehicle market in the world. It plans to expand into the international market and has identified South Africa as an important opportunity. McCarthy Motor Holdings says the Chinese vehicles will compete for leadership in the value segments of the market. They will be competitively priced with low ownership costs.

Sourced from: *Business Day, News 24, The Mercury, Business in Africa Online, This Day, Kerala News, African News Dimension, Reuters, All Africa, Xinhua*

The China Forum

Recent Events

Visit of the Director of the International Office at Stellenbosch University to Beijing – 2-6 April 2006

Robert Kotze, Director of the International Office at Stellenbosch was hosted by the International College of Chinese Language Studies on his trip to Beijing. He was assisted in the arrangement of his itinerary, and the setting up of various appointments at Beijing University, among others, by Thomas Orr, CCS's Beijing representative and Zhang Yuan, CCS Language and Culture Manager.

Presentation to the Norwegian Foreign Service – 4 April 2006

Dr Martyn Davies, Director of CCS, made a presentation entitled "*Strategic implications of China's engagement of Africa*", to Norwegian Government Heads of Mission Meeting at Stellenbosch University.

Presentation to the French Chamber of Business – 6 April 2006

Dr Martyn Davies, Director of CCS, made a presentation entitled "*China's Africa Foray – Implications for Business*" to the French Chamber in Johannesburg.

Chinese Government Scholarships – April 2006

CCS, in collaboration with the PRC Embassy in Pretoria and the Department of Education, marketed and co-ordinated the applications for the 2006 round of the Chinese Government Scholarships available for South African students. Five candidates from around the country have been short-listed for this fully subsidized opportunity to study in China.

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