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# Oil, security and community engagement

A collection of essays on China's growing role in South Sudan



August 2013

**Saferworld is an independent international organisation working to prevent violent conflict and build safer lives. We work with local people affected by conflict to improve their safety and sense of security, and conduct wider research and analysis. We use this evidence and learning to improve local, national and international policies and practices that can help build lasting peace. Our priority is people – we believe that everyone should be able to lead peaceful, fulfilling lives, free from insecurity and violent conflict.**

**COVER PHOTO:** Boys with their flock of sheep and goats near an oil pumping station. © SVEN TORFINN/PANOS



Saferworld

**UK OFFICE**

The Grayston Centre  
28 Charles Square  
London N1 6HT, UK

Phone: +44 (0)20 7324 4646

Fax: +44 (0)20 7324 4647

Email: [general@saferworld.org.uk](mailto:general@saferworld.org.uk)

Web: [www.saferworld.org.uk](http://www.saferworld.org.uk)

Registered charity no. 1043843

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no. 3015948

**SOUTH SUDAN OFFICE**

Hamza Inn  
Juba Town  
South Sudan



# Oil, security and community engagement

**A collection of essays on China's growing role in South Sudan**

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## Abbreviations

<b>AU</b>	African Union
<b>CA&amp;CD</b>	Corporate Affairs & Community Development
<b>CAITEC</b>	Chinese Academy of International Trade and Economic Cooperation
<b>CNPC</b>	China National Petroleum Corporation
<b>CPA</b>	Comprehensive Peace Agreement
<b>CSO</b>	Civil society organisations
<b>CSR</b>	Corporate social responsibility
<b>GoSS</b>	Government of South Sudan
<b>GPOC</b>	Greater Pioneer Operating Company
<b>HSE</b>	Health Safety and Environment
<b>INGO</b>	International non-governmental organisations
<b>NGO</b>	Non-governmental organisations
<b>NPA</b>	Norwegian People's Aid
<b>ONGC</b>	Oil and Natural Gas Corporation Limited
<b>OVL</b>	ONGC Videsh Limited
<b>SIIS</b>	Shanghai Institute for International Studies
<b>SPLM</b>	Sudan People's Liberation Movement

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# Executive summary

**INDEPENDENCE IN SOUTH SUDAN** has brought tangible benefits to only a small minority of people. Pervasive violent conflict is arguably the country's most pressing challenge. This is driven by local factors such as conflicts over water, national factors such as governance and small arms proliferation, and regional factors, most saliently disputes with its northern neighbour Sudan. While conflict dynamics are rooted in local, national and regional factors, international actors can have an impact, which can be positive in some cases, and more negative in others.

Saferworld's recent research has shown that China's growing commercial engagement and development assistance to South Sudan will undoubtedly have implications for peace and conflict dynamics. Whether China will play a positive role in South Sudan's development depends significantly on the level of expertise among Chinese policy-makers on conflict dynamics in South Sudan. At present this expertise remains limited, with few Chinese scholars afforded the opportunity to conduct independent field research in South Sudan.

One aim of this report is to go some way towards filling this knowledge gap, by creating an opportunity for joint research in South Sudan that brings together Chinese, South Sudanese and other international researchers. This collection intends to create a better understanding of conflict issues and people-centred security in South Sudan among a wider set of Chinese actors, including those in the commercial sector. It also aims to identify policy recommendations for how China can better support long-term peace and stability in the country.

A second aim of this report is to encourage a deeper understanding among South Sudanese civil society on the nature of China's engagement in South Sudan so it is better able to hold the Government of South Sudan accountable for its relations with China.

Third, by creating a space for dialogue and a process of discussion and interaction among this broad array of researchers, new relationships will be built, giving South Sudanese researchers direct channels to the Chinese policy community, thus helping to shape China's conflict-sensitive engagement in South Sudan.

Although the backgrounds and experiences of the authors vary greatly, there are several common and related themes which permeate the articles:

- Firstly, many of the articles touch upon the various security threats facing Chinese interests in South Sudan. As Wang Hongxu explores, while China should cooperate more with the African Union to build peace and security mechanisms to help resolve South Sudan's security problems, at the same time, China and South Sudan should work together to reinforce the security of Chinese companies operating within South

Sudan. According to Tim Steinecke, a significant factor contributing to the insecurity of Chinese companies in South Sudan is poor expectation management among these companies, the South Sudanese Government, and the local communities.

- Secondly, the articles go some way towards addressing China's involvement in South Sudan's oil industry and the associated problems and opportunities. According to Leben Moro, the signing of the Comprehensive Peace Agreement in 2005 provided a better security environment for oil companies to expand operations, but this resulted in an increase in local grievances towards companies, as local people felt they were not adequately consulted. These grievances were further exacerbated during the 2012 oil shutdown. Qian Zhen offers several recommendations for how Chinese oil companies should deal with conflict risks in South Sudan, including reforming the training that company managers receive and having better communication with, respect for, and understanding of local populations.
- A third and connected theme relates to local relations between Chinese oil companies and communities in oil-producing parts of South Sudan. Ross Anthony argues that there has recently been more attention from Chinese companies towards corporate social responsibility (CSR), dictated by the logic that corporate development overseas needs to be offset by community engagement, if only because this lessens any potentially negative political, economic and environmental impacts. Zhang Hui and Jiang Heng note that it is important to ensure that local needs are prioritised over publicity-seeking CSR projects aimed more at reputational enhancement and less at constructive community engagement.

The views in these articles are those of the authors. They do not represent the opinions and views of Saferworld.

### Background

Building on its established programmes in China and South Sudan, in September 2012 Saferworld launched a project that encourages Chinese policy and engagement in South Sudan to be more conflict sensitive and open to dialogue with other actors. Three aspects of China's deepening engagement in South Sudan are of specific interest:

- While China's growing commercial engagement and development assistance to South Sudan can potentially contribute to peace, what is its impact on conflict drivers and dynamics?
- Can China–South Sudan dialogue on conflict go beyond official state-to-state relations, with a focus on human security as well as national security?
- How can China's policy community and corporate sector increase capacity to engage on conflict dynamics in South Sudan?

This report is a product of two activities under this project. In April 2013 researchers (Wang Hongxu, Zhang Chun, Ross Anthony, Jiang Heng, Zhang Hui, Tim Steinecke, and Jiang Hengkun) joined Saferworld in South Sudan where they participated in a series of workshops and seminars to share their reflections on the links between economic cooperation and conflict. The researchers also held meetings and interviews with a variety of stakeholders to better understand the specific challenges that the Chinese Government and commercial actors face in South Sudan.

In July 2013 Saferworld facilitated a field research assignment to focus on one sector of economic cooperation between China and South Sudan: the extractive sector. Three researchers (Leben Moro, Qian Zhen, and Ranga Gworo) investigated how one Chinese company was currently engaging with South Sudanese civil society and local communities in operations in and around the oil-producing areas of Unity State.

# 1

## Foreword

**Daniel Large, Assistant Professor, School of Public Policy, Central European University and Project Director of the Rift Valley Institute's Sudan Open Archive ([www.sudanarchive.net](http://www.sudanarchive.net))**

**SOUTH SUDAN AND SUDAN** continue to attract headlines for the wrong reasons. Political instability and conflict are ongoing, exacerbated by the shutdown of South Sudan's oil industry in early 2012 and the protracted failure of Juba and Khartoum to achieve a lasting negotiated agreement on the oil industry and other crucial outstanding matters. Most notably, in July 2013, a series of decrees issued by President Salva Kiir Mayardit changed the political landscape in South Sudan. By removing the vice-president, Riek Machar Teny, replacing all ministers and deputy ministers, and ordering an investigation into Pagan Amum Okiech, removed as the Sudan People's Liberation Movement (SPLM) Secretary General, the President further rocked South Sudan's ship of state. Different kinds of conflict have continued in South Sudan, including tensions in oil-producing regions and those in oil concessions that have not been developed yet, most importantly Jonglei. At the same time, the localised conflicts with Sudan continue to be an important factor affecting relations across the relatively new and still contested international border separating the two Sudans.

The collection of short articles assembled here provides insights into a range of issues concerning South Sudan's relations with China – a relationship that is relatively young and still developing. These relations are also important and topical beyond these immediate parameters, most obviously in Sudan. They include such issues as the various security threats facing Chinese interests in South Sudan and Sudan; the current state, problems, and potential of South Sudan's oil industry; and local relations between Chinese oil companies and communities in oil-producing parts of South Sudan. There are also questions about China's changing relations with South Sudan and Sudan, including, as Zhang Chun notes, the intriguing issue of whether and if so to what extent the Chinese Government might leverage its counterparts in Juba and Khartoum towards a more cooperative future. Altogether, this collection provides a useful snapshot of aspects of South Sudan–China relations, especially relating to questions of the oil industry and conflict, and the myriad challenges surrounding these areas for the diverse range of actors involved. To these are added some constructive suggestions for measures that might improve relations. While timely, the fluid nature of recent politics in and between the two Sudans has been such that although many of the issues touched on in these articles remain important as underlying dynamics, the political context continues to change in notable ways.



At the same time, despite changes and new developments, many of the issues covered here are familiar and fit into a longer history of relations between the countries. In this, the technicolour recent past of the Comprehensive Peace Agreement (CPA) period and that following South Sudan's independence in July 2011 naturally overshadows a deeper, more distant black and white history. This history extends back to periods when China was either absent or often peripheral in Sudanese affairs, but also covers the recent past when the Chinese role became more involved, especially when precipitated by the National Islamic Front coup and the 1991 Sudan People's Liberation Army (SPLA) split that led to the interlocking combination of Sudan's North–South and South–South civil wars. This history is much more than a colourful prelude to the latest developments, or an optional backdrop to engagement in South Sudan. Instead, it must be understood as actively influencing the present.

Some of these articles point towards the continuing need to come to terms with the past in the context of addressing the present problems facing the oil industry in general, and aspects of South Sudan's relations with China in particular. As Ross Anthony notes, there is a need to listen to all, including the most critical voices. An honest reckoning with a troubled wartime history is necessary since the past cannot be ignored. Such a reckoning can also be constructive. Any ahistorical engagement is perilous. This has been evident for some time. History is mentioned but not explored in any particular depth in these contributions; that is not their aim. However, these contributions follow on from previous efforts to address similar issues, including by the European Coalition on Oil in Sudan and the Sudan Council of Churches. At a policy workshop organised by the South African Institute of International Affairs in Juba in September 2010, for example, the assembled South Sudanese officials, academics, and civil society representatives and Chinese consulate officials had a frank exchange of views, one that enhanced the understanding of each side at what was an important transitional phase for South Sudan as a whole, as well as Juba–Beijing relations.

A note of caution should be registered here. The favoured policy vocabulary of 'risk' is useful up to a point, but not when used euphemistically to actually refer to more sensitive, challenging political questions and sometimes strong grievances. Such questions, as the oil industry demonstrates, do not uniquely apply to China and Chinese companies. As the American, French, Canadian or Swedish oil companies that were active in Sudan before discovered, politics has exercised a determining influence. This is especially the case because many of the issues touched on in these articles refer to problems that are historically rooted, compound grievances indicative of a structural political economy of historically extreme underdevelopment and often coercive and violent projects marshalled under the flag of development, including the phase that saw the creation of Sudan's oil export industry in the 1990s.

In this sense, a more historically informed understanding of these issues, combined with a deeper appreciation of the intractable complexity of the intensely politicised dynamics most of these areas entail, is necessary in order not just to better enhance understanding but also to inform possible steps forward. In this sense, phrases like 'negative perceptions' are to be used carefully, since there is often hard experience informing these, and what are dismissed as perceptions can refer to alternative, experience-based interpretations that inform action. In a similar way, the idea of 'managing expectations', which was popular with a variety of political actors in South Sudan led by the SPLM before and during the CPA, and now after independence, should also be treated with caution if the more difficult politics the expression can glide over is not sufficiently appreciated. As Zhang Hui and Jiang Heng rightly note, it is important to ensure that local needs are prioritised over publicity-seeking corporate social responsibility (CSR) projects aimed more at reputational enhancement and less at constructive community engagement.

Perhaps understandably, what is not fully developed here is the full political context – within South Sudan and between Sudan and South Sudan – in which these issues need

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to be properly located. The idea that underdevelopment has been a cause of conflict follows an established way of thinking going back some time. The notion that there can be peace through development was once popular in Sudan (including with the SPLM). However, we should also ask: how does 'development' itself cause different kinds of conflict?

These contributions helpfully underline the need to engage with but also go beyond the central state in Juba, as part of a multi-tiered approach connecting local relations to the broader national and international political and corporate processes these are bound up in. Importantly, these articles begin to bring out the deeper set of community relations that these issues are rooted in. This emphasises the importance of one of the salient aspects that these contributions point to, namely, the value in and pronounced need for local knowledge and understanding as the basis for forging and enhancing relations between South Sudan and China. Prominent in this is the need for mutual learning in a properly mutualised sense. As Leben Moro points out, there are good examples of individual Chinese entrepreneurs who have developed positive paths forward in South Sudan.

This report is a timely addition to the growing interest in the subject. As part of Saferworld's programme, the way the essays were put together confirms a positive trend towards processes capable of advancing mutual understanding and overcoming some of the previous constraints and barriers to enhancing South Sudan–China exchanges. It is thus to be hoped that this process can be continued and that further similar research can be carried out and put to good use.

# 2

## China and South Sudan: a strategic partnership?

**Professor Wang Hongxu, Secretary General of the Centre of International Strategic Studies, Party School of the Central Committee of the Communist Party of China**

- This paper argues that China and South Sudan should be building their strategic relationship in three key areas: the economy, security, and education. In the economic realm, China and South Sudan should focus on resource-backed infrastructure loans agreements, which China has employed in other countries such as Angola. Agriculture development is another area of cooperation for China and South Sudan to capitalise upon as South Sudan begins to diversify its economy.
- In the field of security, China should cooperate more with the African Union to build peace and security mechanisms to help resolve South Sudan's security problems. At the same time, the two sides should work together to reinforce the security of Chinese companies operating within South Sudan.
- As for educational cooperation, South Sudan should consider establishing a Confucius Institute, which would facilitate an increase in cultural exchanges between the two sides. The two countries should also focus on producing high-quality joint academic research.

### Constructing a mutually beneficial economic partnership

**GREAT POTENTIAL EXISTS FOR FURTHER COOPERATION** in the energy sector between China and South Sudan. China's interests lie in securing the resources needed to sustain its rapid growth, while South Sudan looks to China's vast market, technology, management, and financial support to fuel its own economic development. China is thus willing and able to use its comparative advantages to help serve South Sudan's development agenda.

China and South Sudan can draw lessons from the Angolan model. The Angolan model refers to China's resource-backed infrastructure loans agreements, made famous by loans provided by Exim Bank to the Angolan Government. The loans were to be spent directly on infrastructure development in post-war Angola, in exchange for which China would receive Angolan oil. The Angola model is hailed as a success, as Angola's post-conflict economy recovered quickly from one of disarray to the fastest growing economy in Africa. China's relations with Angola are a model of equality,

mutual benefit, shared respect for state sovereignty, and non-interference in each other's internal affairs.

In some respects South Sudan, the world's youngest country, is similar to post-war Angola. With even basic infrastructure still lacking, revenues gained from oil exports are vital to boost the country's national economy. There is a clear opportunity for China and South Sudan to follow the Angola model. This model could play an important role in the recovery and development of South Sudan's economy in the immediate and mid-term.

However, South Sudan's reliance on oil revenues as the country's economic lifeline puts it in a very vulnerable position, with dependency on oil only set to increase. Given this situation, South Sudan should focus its attention on diversifying its economy.

The agricultural sector will be vital in this regard. This is a new area of cooperation for China and South Sudan to capitalise upon. China's advanced agricultural production methods and modern agricultural technology make it an attractive partner for South Sudan. The two countries should also strengthen their cooperation in the fields of water conservation and irrigation, stock farming, the garment industry, and small-scale commodity trading, among others.

With the development of industry, environmental protection will become increasingly relevant as a necessary condition for national sustainable development. China's new government attaches great importance to the protection of the environment, both at home and in its overseas operations. The government's emphasis on environmental protection has caused Chinese companies to become increasingly aware of the importance of this issue. On 29 November 2012, China Petrochemical Corporation (Sinopec Group) officially announced the release of their first white paper on environmental protection in Beijing. The white paper sets out Sinopec's goals: making the company into a world-class energy and chemical enterprise, standardising management procedures, improving industry organisation, carrying out a green and low carbon strategy, innovating in green technology, and adhering to clean production.

### **Constructing a mutually beneficial security partnership**

The security partnership between China and South Sudan can be viewed under the framework of China's broader cooperation with Africa on peace and security issues. China plans to launch the 'Initiative on China–Africa Co-operative Partnership for Peace and Security', to deepen cooperation with the African Union (AU) and African countries in the areas of peace and security. China will also provide support to the AU's African Peace and Security Architecture<sup>1</sup> in the form of facilitating military and police personnel exchanges; delivering trainings on peace and security; facilitating bilateral and multilateral talks on conflict prevention, management, and resolution; and offering assistance on post-conflict reconstruction and development.

China should cooperate more with the AU, which comprises important countries neighbouring South Sudan, to build peace and security mechanisms to help resolve South Sudan's security problems. By working within the framework of the AU, South Sudan can strive to find collective and peaceful solutions to the country's current difficulties.

China has been involved in regional peacekeeping activities, protecting and promoting peace and stability in South Sudan. At the end of 2012, China sent its tenth peacekeeping force and its second police force to South Sudan.

Recently in South Sudan there has been an increase in the crime rate, including robberies, which have posed a threat to Chinese companies and citizens operating in the country. By January 2013, about 100 Chinese companies had registered in South

<sup>1</sup> The African Peace and Security Architecture was established by the AU in collaboration with the Regional Economic Communities. Its role is to deal with prevention, management, and resolution of conflicts in Africa. Its core organ is the AU Peace and Security Council.

Sudan in the petroleum and infrastructure (including buildings, roads, and bridges construction, as well as communications) sectors. With the increasing involvement of Chinese companies in South Sudan, the protection of Chinese interests in the country is becoming a point of contention between the two sides. In order to maintain positive bilateral relations and mutual economic development, it is necessary to reinforce the security of Chinese interests and citizens within South Sudan.

### **Promoting cultural and educational cooperation**

China has provided many government scholarships to South Sudanese students wishing to study in China. By October 2012, the Chinese Government had funded 23 South Sudanese students to study there. The Chinese Government has also funded South Sudanese government training programmes. Over 500 South Sudanese officials and technical staff have so far been trained in China. Such education and training opportunities will assist South Sudan in developing the technical capacity, knowledge, and skills of its citizens as the country carves out its own path of national development.

China established the first Confucius Institute in Africa at University of Nairobi in Kenya in 2005. Since then thirty-one Confucius Institutes and five separate Confucius classrooms have been established across the continent. These attract thousands of African students wishing to gain an in-depth knowledge of Chinese language and culture. South Sudan is not yet home to a Confucius Institute. The South Sudan Government and its Ministry of Education in particular should consider the establishment of a Confucius Institute in the country, which would allow an increase in cultural exchange between the two countries.

Under the framework of the Forum on China–Africa Co-operation, South Sudan should seek to increase joint academic research opportunities with Chinese scholars. The two countries should also strengthen their understandings of each other, increase their interactions, produce high-quality joint academic research, and contribute to the smooth development of bilateral ties.

In conclusion, a strategic partnership should be constructed between China and South Sudan, which will benefit both countries and will help South Sudan to recover quickly and achieve lasting peace and security.

# 3

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## China's relations with two Sudans: From 'one country, two systems' to 'two countries, one system'

**Dr Zhang Chun, Deputy Director, Center for West Asian and African Studies and Deputy Editor-in-Chief, Global Review, at Shanghai Institute for International Studies (SIIS).**

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- Since 2005 and the signing of the Comprehensive Peace Agreement (CPA), China followed a policy of 'one country, two systems'. Although the North and South of Sudan remained as one, China was effectively dealing with two different political systems. During this period, China's core focus towards the North and South of Sudan prioritised dispute resolution and the implementation of the CPA.
  - Since the secession of South Sudan in 2011, China's policy has transformed to that of 'two countries, one system'. While China now deals with two separate countries, its policy towards them remains the same – in other words it is characterised by 'one system'. The goals of such a policy are to respect state sovereignty and to help both parties find a way to develop economically.
  - China's policies throughout these periods have in fact remained largely consistent, since China always perceived the resolution of disputes simply as a precondition to promoting economic development.
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**BOTH BEFORE AND SINCE THEIR SEPARATION,** the relationship between the North and South of Sudan has been characterised by a climate of mistrust, leading to disputes, conflicts, and the threat of war, which have imposed great pressures on China's foreign policy. However, China made great efforts to play a constructive role in both the signing and implementation of the CPA, concluded in 2005, and in mediating conflicts between the North and the South after the latter's secession in 2011.

While China's foreign policy towards the Sudans had an element of continuity before and after secession, there were some important differences. Prior to the independence

of South Sudan, China followed a policy of ‘one country, two systems’; after secession, this changed to a policy of ‘two countries, one system’.

### One country, two systems

Since the signing of the CPA in 2005, China has been closely involved in its implementation. To better deal with the SPLM-led Government of South Sudan (GoSS), China followed the ‘one country, two systems’ framework created by the CPA.<sup>2</sup>

China and the GoSS established formal relations in 2005, with President Hu Jintao and President Salva Kiir meeting twice in 2007 and with China opening a consulate in Juba in 2008. Several Chinese companies meanwhile established branches in Juba. The Chinese Government’s Special Representative for African Affairs, Liu Guijin, who held a special interest in Sudan and Darfur, attached great importance to the implementation of the CPA. In the face of international scepticism, China showed the international community that it supported the full implementation of the CPA and would collaborate with the United States to this end. Liu Guijin met with the US Special Envoy to Sudan, Princeton Lyman, at least five times in the half year before the referendum in January 2011. Lyman expressed his belief that China had delivered the right message to both parties of Sudan.<sup>3</sup>

During this period China’s core focus towards the North and South of Sudan related to the implementation of the CPA. While China always attached great importance to economic development, peace and stability were the more urgent issues at hand.

### Two countries, one system

Though secession was largely a peaceful affair, the story is not over. There remain many unsettled disputes, which will require policy adjustments not only from China but also other external actors, including for example the United States and the European Union.

After South Sudan gained its independence, China’s policy changed to one of ‘two countries, one system’. It is important to note that the term ‘system’ is employed to mean different things in the two periods. ‘One country, two systems’, refers to systems in the political sense of the word. However, when discussing ‘two countries, one system’, the term system refers to China’s policy towards the Sudans. One system in this sense denotes that China’s fundamental policy goals towards the two countries are one and the same – to help both parties find a way to develop through resolving their disputes.

It is important to note here that while China’s prior policy of ‘one country, two systems’ appeared to prioritise dispute resolution, in fact resolving disputes was simply a precondition for promoting economic development. In this sense China’s core policy objectives remained largely consistent throughout the two periods. In the eyes of the Chinese, whether the South of Sudan gained independence or not, economic development was always considered fundamental to dispute resolution. With the independence of South Sudan, it is now time to shift the focus from reconciliation to development. To meet this goal, both sides need to abandon their zero-sum game approaches, through which each side is attempting to weaken the other in order to gain bargaining chips during negotiations.

On the Sudanese side, accepting the separation of South Sudan was a difficult process. In exchange, the country expects concessions from the international community and South Sudan in particular. However, perhaps due to the feelings of victory associated with its newly found independence, South Sudan refused to grant Sudan such concessions, which after all were outside the realms of the CPA. As a result a kind of

<sup>2</sup> Large D, ‘China’s Sudan engagement: Changing Northern and Southern political trajectories in peace and war’, *The China Quarterly* 199, September 2009, pp 610–626.

<sup>3</sup> Ifeng.com, ‘UN disappointed China not arrest Sudanese President, US content with China’, 2 July 2011 ([http://news.ifeng.com/world/detail\\_2011\\_07/02/7394697\\_0.shtml](http://news.ifeng.com/world/detail_2011_07/02/7394697_0.shtml)).

security dilemma has arisen. Since 2012 and the unilateral decision of South Sudan to stop oil production and to refrain from using Sudanese oil infrastructure, coupled with Sudan's decision to close its border with a 'shoot-to-kill' policy towards any smugglers of goods to South Sudan, bilateral relations between the two countries have deteriorated. Relations reached a breaking point in April 2012 when crisis broke out in Heglig/Panthou. Up until September 2012, similar stories characterised the bilateral relationship.

China has attempted to persuade the two parties to establish and maintain positive relations. Through shuttle diplomacy, China's new Special Envoy Ambassador, Zhong Jianhua, argued to both sides that they should be sensitive to the expectations of their people and the international community, and to take the talks seriously so as to find solutions that would improve their strained relations. China has warned both sides that the economic costs of a lasting conflict are unaffordable; already the economies of the two countries have been badly affected by their strained relations. While South Sudan temporarily lost oil revenue that constituted 98 per cent of its national income, Sudan lost more than 30 per cent of its revenues from oil-related fees imposed by South Sudan, as well as around 80 per cent of its foreign exchange earnings. This is not to mention the more serious and long-term economic impacts. For example, the monthly inflation rate, which was formerly in single digits, reached more than 30 per cent in Sudan and around 25 per cent in South Sudan in the first half of 2012. In the same period, the exchange rate, which was less than three Sudanese pounds and three South Sudanese pounds per dollar, reached almost six Sudanese pounds and five South Sudanese pounds in the parallel market during the same period.<sup>4</sup>

China has used its leverage to push Sudan and South Sudan to concentrate their energies on rebuilding their respective economies through policies of joint cooperation. While Sudan has a better understanding of how to do this, South Sudan needs more time. For example, in the first half of 2012, South Sudan strongly believed that the mega port and oil refinery projects of the Lamu–Juba corridor could become its main oil export outlet, substituting the export line to Port Sudan. This policy showed South Sudan taking a zero-sum stance, trying to cut itself off from Sudan economically. For China, this is not a viable policy option, as it creates a lose–lose scenario.<sup>5</sup>

## Future developments

Despite the change in policy from 'one country, two systems' to 'two countries, one system', China's policy objectives have actually remained largely consistent through the post-CPA and post-independence periods. These policies consist of respect for formal state sovereignty and the promotion of economic development for Sudan and South Sudan. This is the secret of the success of China's Africa policy in general and its two Sudans policy in particular. Considering the signs of reconciliation between Sudan and South Sudan, the future development of China's policy towards the two will include the following elements:

- 1. To facilitate the common development of the two Sudans is a fundamental goal of China.** In order to help Sudan rebuild its fragile economy, China will promote the transition from an economic system of oil-dependence to one of sustainable development. China hopes instead that Sudan will develop a complex economic system by upgrading their extractive industry and agriculture sectors while meanwhile developing its manufacturing and agro-industry sectors. Given the difficulties inherent in achieving both economic development and nation-building, China will help South Sudan build an effective and varied national economic system and likewise encourage the country to avoid becoming dependent on oil revenues. Meanwhile,

<sup>4</sup> Deng LB, 'Strained Sudan-South Sudan relations: Who pays the price?' *Sudan Tribune*, 24 June 2012, ([www.sudantribune.com/Strained-Sudan-South-Sudan,43030](http://www.sudantribune.com/Strained-Sudan-South-Sudan,43030)).

<sup>5</sup> 'China Welcomes Oil Deal between Sudan, South Sudan,' *Xinhua News*, 6 August 2012, ([http://news.xinhuanet.com/english/china/2012-08/06/c\\_131765167.htm](http://news.xinhuanet.com/english/china/2012-08/06/c_131765167.htm)); Jane Perlez, 'South Sudan to Get Aid from China; No Oil Deal', *New York Times*, 25 April 2012, ([www.nytimes.com/2012/04/26/world/asia/china-to-aid-south-sudan-but-pipeline-efforts-stall.html?\\_r=0](http://www.nytimes.com/2012/04/26/world/asia/china-to-aid-south-sudan-but-pipeline-efforts-stall.html?_r=0)).



China will share with South Sudan its experiences of nation-building, especially with respect to governing multiple nationalities and ethnicities.

- 2. China will contribute more to promoting political reconciliation between the two countries.** As neighbours, Sudan and South Sudan will not achieve common and sustainable development unless they combine their efforts, which will require further reconciliation between the two parties. While there are many positive signs that relations are improving, external support is still greatly needed. China will continue supporting such efforts through, for example, the China Executive Leadership Academy in Pudong, Shanghai, through which China invites governmental officials from the two capitals to exchange their experiences in nation-building.
- 3. China will not intervene in the domestic affairs of either country and will clarify the preconditions of its non-interference policy.** Although the non-interference policy has been challenged in the case of Sudan, China's approach has remained one of constructive mediation, and it has not abandoned its traditional policy of non-interference. It is important to note that non-intervention is not absolute. In the author's personal view, there are at least three preconditions for intervention, including ethical considerations (not necessarily the same as those in the West), Chinese core national interests, and collective authorisation (for example, intervention or sanctions authorised by the United Nations Security Council).
- 4. China will help the two Sudans through both bilateral and multilateral means.** Given the concerns relating to transparency and legitimacy when bilateral mechanisms are employed, multilateral platforms will be the more important method for China when engaging with the two Sudans.

# 4

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## Obstacles to Chinese oil company engagement with local communities in South Sudan

**Dr Ross Anthony, Research Fellow at the Centre for Chinese Studies, Stellenbosch University**

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- The earlier model of Chinese engagement saw a stricter adherence to China's 'non-interference' policy, in that Chinese companies tended to maintain a certain distance from the local communities impacted by their operations.
  - More recently, there has been more attention by Chinese companies to CSR, dictated by the logic that corporate development overseas needs to be offset by community engagement, if only because this lessens the political, economic, and environmental impact a given industry might incur.
  - Compared with previous decades, Chinese companies have made admirable shifts in overseas investment practices. Nevertheless, there is still much room for improvement.
  - The extraction of resources in the interests of profit is a global phenomenon. A culture of collective international responsibility needs to be cultivated, in which Chinese companies will play their own unique part.
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### **Beyond official discourse**

**ON 27 APRIL 2013**, Saferworld facilitated an event at the University of Juba, attended by over 60 members of the public, in which two Chinese researchers gave a lecture on China's engagement in South Sudan. What marked the lively public debate which followed was a sustained critique of China's presence in South Sudan, with complaints including China's support for Omar al-Bashir's regime (which was at war with the SPLA). The event distinguished itself from the majority of China-Africa forums, particularly those in which parties from these two regions meet face-to-face, in that as it was not a meeting among elites (academics, policymakers, and politicians). While these latter forums are crucial for the creation and fostering of high-level institutional

relations, they frequently run the risk of being suffocated by protocol and decorum. For example, Chinese representatives will frequently push the official discourse of 'win-win' and 'mutual benefit' while Western and African counterparts will espouse the virtues of transparency, community engagement, and human rights. The danger of such interaction – repeated through countless workshops, colloquia, and conferences – is that it can quickly become abstracted from situations 'on the ground'.

Political expediency dictates that such inclusive forums are often to be avoided as they run the risk of raising issues which contradict official policy. For instance, very little which was said at the University of Juba event lent credence to the Chinese official policy of an 'old friendship' with the people of South Sudan. While exposing oneself to negative public sentiment can at times be damaging at the level of public diplomacy, on another level it is vital to China's interests that these voices are heard. Greater exposure to South Sudanese public sentiment towards China's involvement in the country offers both Chinese companies and the Chinese Government more information from which to construct adaptive strategies of engagement. Official policy discourse in China which emphasises the 'harmonious' nature of the country's overseas engagement runs the risk of ignoring instances in which engagement causes friction or worse. In so doing China risks alienating local communities, de-legitimising instances in which their engagement brings about positive outcomes to host states, and ultimately sabotaging long-term, sustainable relationships with African countries.

The consequences of public engagement offer some broad lessons for Chinese corporations as they become increasingly present in South Sudan, and nowhere is this more applicable than in the oil industry.

### Charm offensive?

Initially, in the mid-1990s, China National Petroleum Corporation (CNPC), China's largest state-owned oil company and the largest Chinese investor in South Sudan, attempted to immunise itself from local political concerns. CNPC's 1999 development of Block 1 in what is now Unity State, as part of the Greater Nile Petroleum Corporation consortium (involving a partnership Malaysia's Petronas, Sudan's Sudapet, and India's Oil and Natural Gas Corporation Limited (ONGC) was marred by forced land clearances through violent means. Sudanese Government forces, as well as armed militias backed by the al-Bashir government, launched several attacks on the ethnic Dinka, burning food, houses and seeds and driving them from their land.<sup>6</sup> These events were part of a much broader process of violent land clearance, including other multinationals such as Sweden's Lundin and Austria's OMV, who were involved in even more severe forms of land clearance in Block 5a. As a consequence, the reputation of China suffered in the eyes of many South Sudanese. To compound matters, many South Sudanese were aggrieved by China's historic and close relationship with the al-Bashir regime, the selling of weapons to Khartoum during the civil war, and the perceived inaction on Darfur. In a shift from its earlier engagement, CNPC has within recent years striven to pay greater attention to CSR within the Sudanese region.<sup>7</sup> While critics have argued that the vast majority of Chinese aid was distributed to the North and its allies, more recently South Sudan has been a recipient of Chinese development assistance. CNPC representatives informed Saferworld researchers of increased technology transfers to locals, a commitment to drawing on local labour and the development of vocational training programmes. For instance, the company has sponsored South Sudanese students to attend the Chinese University of Petroleum in Beijing, donated US\$700,000 for a computer laboratory to the University of Juba and, according to company representatives, the proportion of local employees working on oil projects for CNPC globally exceeds 95 per cent.<sup>8</sup> In addition, CNPC developed

<sup>6</sup> Human Rights Watch (2003) *Sudan, Oil and Human Rights* (Brussels, London, New York, Washington D.C.: Human Rights Watch) pp. 186–191

<sup>7</sup> China National Petroleum Corporation (2010) *CNPC in Sudan* (Beijing: CNPC)

<sup>8</sup> Saferworld (2013), 'Partnerships for Peace and Development: South Sudan and China, Seminar and Workshop Report'.

medical facilities, contributed US\$1.6 million toward a sewage treatment plant, and assisted in the reconstruction of Juba's airport.

While such developments can be seen as part of a charm offensive toward South Sudan, such a process can also be situated within the context of a growing risk-awareness strategy on the part of many Chinese actors – a result not only from its experiences in Sudan but also in other unstable regions, such as Libya and Myanmar. The earlier model of Chinese engagement saw a stricter adherence to China's 'non-interference' policy – in that Chinese companies tended to maintain a certain distance from the local communities impacted by their operations. However, as witnessed by CNPC's ventures during wartime in Sudan, it was this distance which played a role in creating negative perceptions of the company. Leaving responsibility for the securing of the oil fields to the state led to serious human rights abuses. While it is true that such abuses were in no way carried out by Chinese companies themselves, it is equally true that forces sympathetic to the South Sudanese cause were quick to perceive the North's political aggression as inextricably bound to Chinese commercial interests. This had consequences for Chinese infrastructure and operating staff, with a number of sabotage attacks and the kidnapping and killing of Chinese workers.

### **Corporate social responsibility**

This in turn has had domestic implications for China, as it is increasingly obliged by segments of its own population to intervene in order to aid fellow citizens. In the wake of such events, there has been more attention to CSR, dictated by the logic that corporate development overseas needs to be offset by community engagement, if only because this lessens the political, economic, and environmental difficulties which a given industry might incur. These offsets also contribute toward creating a more stable long-term investment environment. The realisation of such a policy is largely dependent on the success of community engagement: the more a company is able to develop sustainable and trusting relationships at both national and local levels, the more secure its investments will be. Within China, there have been significant policy shifts regarding Chinese companies investing abroad, including the 2006 'Corporation Law' providing a legal foundation for CSR and the 'Guidelines for Corporate Social Responsibility compliance for Foreign-Invested Enterprises' issued in 2008 by the Chinese Academy of International Trade and Economic Co-operation.

### **Room for improvement**

Compared with previous decades, Chinese companies have made admirable shifts in overseas investment practices. Nevertheless, there is still much room for improvement. One of the main grievances which emerged from this Saferworld fieldwork research project, particularly from the South Sudanese actors, was the persistent lack of direct and sustained contact between Chinese representatives and local communities. Several government officials interviewed stated that Chinese companies preferred to delegate face-to-face duties to local officials. Similar discontent was expressed at a more local level. Several communities in the oil regions of Upper Nile and Unity State have set up 'Oil Task Forces'. The local County Commissioner helps organise the Task Force, which ideally consists of about seven members of local communities, including local chiefs, elders (retired government officials), women, and youth. The idea behind these community meetings is to encourage dialogue among the government, the local communities, and the oil companies. However, Chinese companies have so far had limited involvement.

This lack of personal engagement cuts off channels of communication designed to help both communities and the companies themselves. For one, face-to-face engagement could help in 'expectation management'. It is often the case that locals believe that once oil companies arrive, they will be bestowed with many benefits including jobs, schools, hospitals, wells, and roads. Sustained lines of communications as to what the oil

companies can realistically offer and how they will implement such offers would help dispel rumours that either the oil companies or government officials are deliberately depriving locals of what they perceive themselves to deserve.

Additionally, oil companies need to understand their own role in the exacerbation of local conflict. This is pertinent, for instance, in oil-producing states where increased revenues ideally create conditions for increased community prosperity but in reality create political rivalry for access to these revenues. High levels of corruption and the entrenchment of patronage politics mean that contending for state level jobs in such provinces can lead to conflict. This is evident in Unity State, where Governor Taban Deng, who has ruled since 2005, has been accused of favouring the Nuer ethnic group as well as vote rigging. Subsequently, several armed rebellions have broken out, some of which have targeted Chinese nationals (because discouraging Chinese oil investments directly affects the governor's access to revenue).

## Community engagement

In the 1990s, the Chinese held the view that local militias used to protect oil production in Block 1 were the Sudanese Government's responsibility rather than that of the oil companies. Similarly, companies at present often feel that issues such as the correct allocation of oil revenues are the sole business of the state. But as in the 1990s, local political instability, either initiated or enflamed by oil production, often has a direct impact on the security of oil workers and the assets themselves. In this sense, if Chinese companies familiarised themselves more with the impact of their operations upon local dynamics, they might be able to better advocate, for example, a more equal distribution of oil revenues. This is not so much a question of interference as it is an attempt to ensure, from their side, that their own core company values (for instance, the CNPC motto, "Caring for Energy, Caring for You") are fulfilled. There is, of course, the cynical temptation to assert that oil companies merely use sanitised company mottos and CSR promises to conceal the very narrow-minded pursuit of short-term profit. However, at the level of holding a given company to account, these public relations mantras become crucial in that they are the only publicly professed benchmarks by which the company publicly holds itself to account. In addition, greater community engagement provides a more long-term and sustainable environment within which these companies can operate.

Another major obstacle to community engagement relates to the nature of oil production. In South Sudan, oil production centres are fenced off and heavily guarded by the military; they are increasingly also guarded by private security firms. Within joint ventures, companies may hire their own security staff for additional protection within already fenced-off installations. Moreover, several oil sites have their own airports so that personnel flying in and out do not even have to enter regional towns. Various military checkpoints are assembled on the roads which lead into these compounds. When such hyper-security is in place, there is little possibility – and more importantly, incentive – to engage with communities displaced and shut out from such spaces. Quite simply, the security measures put in place render what occurs outside increasingly irrelevant. Certain critics have even argued that it is only within such spaces that effective governance is conducted, rendering what lies beyond as 'unusable Africa'.<sup>9</sup> This is part of a much broader problem within the resource extraction industry in developing countries, of which China is now an instrumental part.

## Conclusion

Within South Sudan, China is largely still viewed as a power which has been a long-time ally of the Sudanese North and this political history makes the Chinese presence in South Sudan particularly challenging. Additionally, oil extraction, which is at once

<sup>9</sup> Ferguson J (2006) 'Seeing like an oil company: space, security and global capital in neoliberal Africa', *American Anthropologist* 107 (3)

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China's major economic interest in the country and the country's dominant economic export, is an industry which lends itself to secrecy, corruption, and hyper-secure facilities. It is vital that Chinese actors seek to work against these factors through sustained and intimate interaction with local South Sudanese. This should happen not only at the behest of companies but also through the encouragement of the Chinese Government, whose links, particularly with state-owned enterprises, put them in a unique position to exert influence. Additionally, it should be stressed that such challenges are not the burden of Chinese companies alone; the extraction of resources in the interests of profit is a global phenomenon and Chinese companies are by no means the only actors who need to engage more in this regard. Rather a culture of collective international responsibility needs to be cultivated, in which Chinese companies will play their own unique part.

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## Managing security challenges for Chinese companies in South Sudan

**Dr Jiang Heng, Deputy Director-general, Research Center of Transnational Corporations, Chinese Academy of International Trade and Economic Cooperation (CAITEC), Ministry of Commerce of the People's Republic of China; and Zhang Hui, Project Officer, Saferworld's China Programme**

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- The Chinese policy community has made headway in managing security risks abroad by providing country-level political risk analysis and guidance to Chinese companies operating overseas. This analysis can be further improved by providing more in-depth, local-level analysis of security risks.
  - Efforts made by Chinese companies to 'pay back' the local communities in which they work through CSR projects have not on the whole been well received by these communities. Chinese companies should prioritise genuine local needs over incentives for good publicity when conceiving of and implementing such projects.
  - Chinese companies can contribute to the improvement of the security situation in South Sudan by understanding the local context better, considering the impact of their activities upon the local context, and then acting upon this knowledge in a conflict-sensitive manner.
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**AS CHINA'S ECONOMIC ENGAGEMENT HAS GROWN GLOBALLY,** Chinese companies are increasingly present in countries affected by conflict. Economic and development cooperation with such countries presents a number of special challenges for the Chinese Government and Chinese businesses. In countries such as Sudan, Libya, and Myanmar, Chinese citizens have experienced kidnappings and violent attacks, Chinese companies been victims of armed robbery, and business has been held up or terminated because of political instability and conflict.

## South Sudan's security challenges

On 8 February 2013 over a hundred civilians in Akobo in Jonglei State were murdered by armed Murle militia or the Yau Yau rebel group during the community's annual migration to cattle camps.<sup>10</sup> Ethnic conflict, small arms proliferation, rebellions, cattle raiding, robberies, and kidnappings characterise South Sudan's fragile internal security environment. The kidnapping of 29 Sinohydro workers in South Kordofan State, Sudan, in January 2012 received a great deal of media attention.<sup>11</sup> In April 2013 China Railway Fifth Group's office was robbed by an armed group, which caused serious injury and loss of property.<sup>12</sup>

Security challenges affect Chinese companies as they affect companies from other countries operating in South Sudan. However, Chinese companies are also facing a number of unique challenges. For example, one public lecture organised by Saferworld at the University of Juba in April 2013 seemed to illustrate that the perception of Chinese companies among a considerable number of South Sudanese is still largely influenced by China's historic role in aiding Sudan's development at the expense of the South. This has led to suspicion towards China's present economic engagement in South Sudan.<sup>13</sup> The situation is not aided by the language barrier, which puts Chinese companies on the back foot when conflict breaks out.

## Chinese responses

In order to better respond to these security challenges, in Beijing the Chinese Government and policy banks<sup>14</sup> have published risk analysis reports and guidance papers aimed at Chinese companies, which assess the political environment in different countries.<sup>15</sup> Moreover, according to a senior official from the Export-Import Bank of China, conflict-related risk is to be incorporated into the bank's risk management system when assessing the viability of concessional loans for overseas projects.<sup>16</sup> In Juba, the Chinese Economic and Commercial Counsellor Zhang Yi believed that in order to reduce the risk of insecurity, companies should make contributions to local welfare and communicate the nature of their investment projects with local populations. Zhang also suggested that companies operating in South Sudan should incorporate security costs in their daily operational budgets.<sup>17</sup>

Chinese companies in Juba have adopted various measures to respond to security challenges. Some companies have hired private security guards to protect their working and living areas as have other local or international companies, while many have employed local people as security staff. Some have suggested that the employees of Chinese companies should improve their communication skills by learning English and being more sensitive and to local practices and concerns. One representative of a state-owned enterprise encouraged company managers to become more engaged by following current political issues in South Sudan in the newspaper.<sup>18</sup>

<sup>10</sup> 'Murle militia attacks unarmed civilians in Akobo West on 8 February 2013', *Sudan Tribune* 2013 ([www.sudantribune.com/spip.php?article45467](http://www.sudantribune.com/spip.php?article45467)).

<sup>11</sup> 'Kidnapped Chinese workers freed in Sudan oil state', *Reuters* 2012 ([www.reuters.com/article/2012/02/07/us-china-sudan-workers-idUSTRE8160UU20120207](http://www.reuters.com/article/2012/02/07/us-china-sudan-workers-idUSTRE8160UU20120207)).

<sup>12</sup> Saferworld interview, Juba, April 2013.

<sup>13</sup> Many believe Chinese companies are responsible for the disruption to Sudan's oil infrastructure development in the 1990s.

<sup>14</sup> There are three 'policy banks' in China: the Agricultural Development Bank of China, China Development Bank and The Export-Import Bank of China. They are responsible for financing economic and trade development and state-invested projects.

<sup>15</sup> For example, since 2005 China Export & Credit Insurance Corporation – a major Chinese state owned enterprise – published its biennial risk analysis report: *Sinorating* (2010), *Country Risk Analysis Report*, ([www.gotohui.com/yp/web/show.php?userid-20066561/category-product/id-85.html](http://www.gotohui.com/yp/web/show.php?userid-20066561/category-product/id-85.html)). Another example: since 2009 the Ministry of Commerce (MOFCOM) has issued an annual *Guide to Countries (Regions) for Overseas Investments*, which accesses the political and security environment in 165 countries and regions. MOFCOM (2012), *Guidance on Social Responsibility for Contracted Industry Overseas*, (<http://fec.mofcom.gov.cn/gbzn/gobiezhinan.shtml>).

<sup>16</sup> Saferworld interview, Beijing, February 2013.

<sup>17</sup> Saferworld interview, Juba, February 2013.

<sup>18</sup> Saferworld interviews, Juba, February, April 2013.



## Recommendations 1. Consider local-level security risks

China has made headway in managing security risks. However, current risk analysis reports and guidance documents produced by the Chinese Government and policy banks only examine security risks at the country level. This level of analysis does not best capture the nuances of local conflict dynamics, which vary greatly from region to region and evolve rapidly. To better manage overseas security risks, Chinese actors should provide more in-depth and frequent analysis of local-level security dynamics.

In order to do so, Chinese risk analysts need better access to information on the ground to examine the existing conflict drivers and different conflict actors. Chinese companies working in the field have direct experience of the local context, so are well placed to play an important role in gathering such information and reporting it back to Beijing. Chinese risk analysts could also consider consulting with various local stakeholders to obtain information from a wider range of sources.

## 2. Improve communication

Ineffective communication can undermine good intentions. As evidenced by the CSR reports of many Chinese companies operating in South Sudan, it is clear that these companies have made significant efforts to create benefits for the communities in which they are operating. However, the high number of violent incidents shows that these efforts have not always won favour with local communities. While schools and medical facilities have been built by the Chinese, they remain contentious because in many cases local communities have had no say in their construction, as well as the fact that sometimes these projects are not being used for their intended purposes due to a lack of proper planning and sustained support.<sup>19</sup>

To improve communication, Chinese companies should make sure they understand the needs and concerns of the relevant South Sudanese stakeholders so they can design and implement projects in a way that meets local needs. Equally important, Chinese companies should make an effort to communicate the nature of their work to the affected local communities. Before starting a project companies should explain its intended purpose to the proximate communities. Once a decision is made to implement the project, the company should explain to the communities why and how they came to this decision. A senior official from the GoSS Ministry of Culture recommend South Sudanese who speak Chinese should be given roles within the Chinese community in South Sudan to advise, not just in terms of language but also on cultural nuances.

## 3. Manage local expectations

A number of companies interviewed by Saferworld revealed their frustrations with hiring local employees. According to those interviewed, after a few months of service the employees requested remuneration not commensurate with the position. Failure to meet the requests led to disputes, lawsuits, and large fines from local labour authorities.<sup>20</sup>

Another Chinese company shared with Saferworld that in 2011 one local employee died due to a work injury. Because a compensation agreement could not be reached, the company had to evacuate their staff to the UN peacekeeping compound to avoid being attacked; even so, people from the village still surrounded the UN peacekeeping compound for several days.<sup>21</sup>

Local communities expect to benefit from the companies' investment projects by receiving, among other things, jobs, public services, and compensation. However, for a number of reasons, including their limited capacity, according to the interviewees

<sup>19</sup> Saferworld interview, Beijing, May 2013.

<sup>20</sup> Saferworld interview, Juba, April 2013.

<sup>21</sup> Saferworld interview, Juba, April 2013.

even the best-intentioned company simply cannot meet all these expectations. Failure to meet these expectations could, it was argued, result in anger, alienation of the company, and even violent conflict. To avoid this, Chinese companies should explain clearly to local populations what they can and cannot do. They should also learn from best practices of other companies when dealing with employment and compensation, for example by formalising working contracts and increasing employee welfare.

Furthermore, it is crucial for companies to balance the expectations of different local stakeholders. The access and control over resources, wealth, and power that investments bring can be important conflict drivers. Turning a blind eye to this risks generating tensions between different stakeholders. This is especially true in a country like South Sudan, at high risk of inter-ethnic conflict.

One Chinese company told Saferworld researchers that as part of their CSR strategy they planned to build a school in a community in which they were working. However, two local tribes began quarrelling over ownership of the school ever since the project was announced. Elders from the respective tribes organised protests to prevent the other tribe from benefiting from the proposed school. To prevent the conflict from worsening, the company decided to postpone the project. Before commencing the project, the company should have conducted preventative conflict-sensitive practices to ensure they were not starting a project that may inadvertently fuel conflict. Prior due diligence could include consulting with other local, governmental and international bodies with in-depth knowledge of local dynamics. If the decision was made to implement the project, before it was started the company should have explained to the rival groups that the location of the project was irrelevant and would be constructed in a manner that benefited both of the two ethnic groups. The company could also have sought help from a third party, such as a local civil society organisation, in order to resolve the dispute.

#### **4. Engage local communities**

Engaging local communities is an essential ingredient in obtaining local legitimacy and preventing local populations from feeling marginalised. Chinese companies should realise the importance of consulting with non-state actors and involving them in the decision-making process when engaging in South Sudan. This will enable companies to understand their needs and address their concerns and in so doing potentially ease tensions within and among communities.

Local communities have far better knowledge of local conflict dynamics than do Chinese companies. Drawing on this knowledge will help companies mitigate their own security risks and respond to conflict more quickly. Sinohydro has experience in this respect. The company assisted local populations in Malakal and Palouich with the planting of vegetables. In return the local people reportedly assisted Sinohydro when local conflict dynamics worsened by forewarning the company and guarding their campsite.<sup>22</sup>

On the whole, Chinese companies have not been very successful in developing close relations with local communities when operating overseas. In the past, in order to avoid controversies which might require intervention on the part of China, many chose to isolate themselves by not engaging with non-state actors. In the past few years however, experiences of tense relations with local communities have forced Chinese companies to adopt more proactive approaches. Chinese companies are in need of practical guidance in this area.

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<sup>22</sup> Saferworld interview, Juba, April 2013.

## **5. Integrate security and development**

Chinese Government officials in Beijing believe underdevelopment is the root cause of conflict and see economic growth and development as key to promoting peace in conflict-affected states like South Sudan. Officials and company managers in Juba also argue that economic investment and development projects in South Sudan will promote development, which in turn will contribute to security.

Economic investments and development projects have had positive impacts upon South Sudan. However, experience has taught us that projects cannot be delivered properly in the absence of a secure operating environment.

Insecurity is a major obstacle to development. Security challenges need to be addressed together with development challenges. Chinese companies can contribute to the improvement of security by adopting a conflict-sensitive approach when delivering economic projects.

By understanding the local context better, considering the impact of their activities upon the local context, and then acting upon this knowledge in a conflict-sensitive manner, companies can reduce the risk that their operations will trigger conflict.

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## Chinese engagement in South Sudan and the management of insecurity and conflict

**Tim Steinecke, PhD candidate, School of International Relations, University of St Andrews**

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- Chinese commercial actors and their staff face numerous threats to their safety and security when operating in South Sudan. Responses to insecurity remain underdeveloped, but first steps by Chinese companies include the development of stronger compliance management systems, conducting more thorough risk analysis, and enhancing emergency response systems.
  - While several foreign commercial actors are engaged in South Sudan's oil sector, Chinese actors may feel the effects of insecurity and conflict more powerfully.
  - A significant factor contributing to the insecurity of Chinese companies in South Sudan is poor expectation management among the Chinese companies, the South Sudanese Government, and the local South Sudanese communities.
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**SOUTH SUDAN, THE WORLD'S YOUNGEST NATION,** had its second birthday last July. Two years into independence, South Sudan's development has arguably progressed slowly. Foreign actors, such as the United Nations and commercial organisations, remain crucial to the development of capacities and much-needed infrastructure. Many concerns such as political tensions between Sudan and South Sudan as well as the overarching obstacle (the shutdown of the oil supply pipeline between South Sudan and Sudan) remain. The shutdown, which began in January 2012 as a result of failed negotiations over transit fees, was resolved earlier this year, but the current agreement is more than fragile, as repeated threats by the Government of Sudan to shut down the oil pipeline again have shown.

Chinese companies and the Chinese Government remain at the forefront of South Sudan's oil sector and have been making headlines beyond oil production not only in South Sudan but also across Africa. A major focus for Chinese engagement in South Sudan, as well as the wider continent, has been the development of infrastructure, often financed by loans given by the Chinese Government or related Chinese entities, such as the Chinese development banks. However, after the evacuation of Chinese workers from Libya in 2011 and the kidnapping of Chinese workers in Southern Kordofan/Sudan, Chinese institutions and commercial actors have increased their focus on the management of risks in Africa. This includes risks to personnel, reputation, investments, and Chinese broader interests in the region.

## Managing Chinese security concerns

Chinese commercial actors have different expectations and opinions relating to their safety in South Sudan. There have been numerous small-scale incidents involving Chinese nationals and companies in South Sudan over recent months. These incidents include armed robberies and petty theft. Additionally, many South Sudanese local communities see Chinese enterprises, both state-owned and private, as an extension of the Chinese Government.<sup>23</sup> This perception adds to the insecurity felt by Chinese companies engaged in South Sudan, since historical grievances often shape the opinion of South Sudanese local communities.

Both these small-scale incidents and more general political and security issues such as violent conflict between South Sudanese tribes or the limited reach of national security forces across South Sudan affect the security of Chinese enterprises in South Sudan.

The main security risks affecting Chinese commercial actors in South Sudan are armed robbery, theft, incidents involving small non-state military groups, and the risks resulting from a lack of infrastructure in rural areas, such as a lack of emergency services and inadequate cell phone reception.<sup>24</sup> One response – though still relatively uncommon – has been to employ private security firms to protect companies and housing compounds in South Sudan's capital, Juba, as well as in the oil fields (though this is accepted as being a limited solution).<sup>25</sup> Beyond the protection of compounds, Chinese companies have different opinions on possible solutions to the general insecurity affecting them as well as their role in helping mitigate conflict in South Sudan.

Some companies believe that the Chinese Government should dispatch more Chinese peacekeepers as part of the UN Mission to South Sudan.<sup>26</sup> Other commercial actors would like the Chinese Embassy to take a greater role in promoting their interests and security concerns with the South Sudanese authorities. As part of greater security cooperation, the South Sudanese Government is open to assistance in capacity building of security personnel and the provision of security equipment by Chinese companies in South Sudan.<sup>27</sup> There seems to be general openness on the side of the South Sudanese Government to involve Chinese companies to a greater extent in the development of security and peace. Some Chinese corporate actors in South Sudan hope for a greater involvement from private security companies in the provision of physical security, while other companies would like to see greater Chinese Government involvement in the training and equipment of South Sudan's security forces.

Interviews with Chinese commercial actors in South Sudan suggest that cooperation between Chinese enterprises and the Chinese Embassy in Juba lacks a clear and formalised system that can contribute to the security of Chinese nationals in South Sudan.<sup>28</sup> In addition to the limited use of private security firms, Chinese companies have begun to address their insecurity by developing stronger compliance manage-

<sup>23</sup> Saferworld interview, Juba, March 2013.

<sup>24</sup> Saferworld interview, Juba, March 2013.

<sup>25</sup> Saferworld interview, Juba, March 2013.

<sup>26</sup> Saferworld interview, Juba, March 2013.

<sup>27</sup> Saferworld interview, Juba, March 2013.

<sup>28</sup> Saferworld interview, Juba, March 2013.

ment systems, conducting more extensive and diligent risk analysis, and enhancing their emergency response systems although progress remains limited.<sup>29</sup>

### **Managing relations with the GoSS**

The majority of Chinese corporations in South Sudan operate on the basis of contracts with the South Sudanese Government. Based on these contracts the South Sudanese Government is generally responsible for the security of the contracted Chinese enterprises. This applies especially for private Chinese enterprises undertaking infrastructure projects.<sup>30</sup> Chinese companies have complained about a lack of security in their South Sudanese projects. It would appear that either the GoSS lacks sufficient capacity to address insecurity, or else there is unwillingness on the government's part to fulfil its contractual obligations.

Various Chinese private commercial actors operating in South Sudan apparently believe that the GoSS prefers to deal with Chinese state-owned enterprises rather than private companies; the assumption is that because of their close ties to the Chinese Government, dealing with state-owned enterprises appears to add an extra level of financial security to a given project for the GoSS.<sup>31</sup>

### **Managing responsibilities in the oil sector**

Two years into independence and the most significant Chinese financial engagement in South Sudan still takes place in the oil sector. The oil sector remains crucial to both the GoSS as well as Chinese actors.

Contrary to popular perception, foreign engagement in the South Sudanese oil sector is not exclusively Chinese. Chinese state-owned enterprises such as the CNPC or the China Petroleum and Chemical Corporation (Sinopec) operate as part of international joint ventures, with companies from India, Malaysia, Kuwait, and Europe.

CNPC and Sinopec work with the Indian state-owned enterprise ONGC Videsh Limited (OVL) and the Malaysian state-owned enterprise Petroliam Nasional Berhad (Petronas), both of which are major stakeholders in the South Sudanese oil sector. This illustrates how Chinese companies operate in joint ventures led by other oil companies. At the same time, the GoSS is directly part of joint ventures through its state-owned enterprise Nilepet.

While several foreign commercial actors (almost exclusively state-owned enterprises) are engaged in South Sudan's oil sector, it may be the case that Chinese actors feel the effects of insecurity and conflict more deeply. Chinese companies in the past have generally relied on the host country to provide physical security and coordinate the political process between different stakeholders. At the same time companies may not be investing sufficiently in the infrastructure and activities needed to avoid the security incidents that Chinese firms have commonly been associated with. In addition, the historic links between China, Sudan, and South Sudan weigh heavily on the current relationship between China and South Sudan and impacts upon the security of Chinese actors. The South Sudanese have not forgotten Beijing's political, economic, and military support for Khartoum during the second phase of the Sudanese civil war.

### **Managing expectations**

A significant factor contributing to the insecurity of Chinese companies in South Sudan is poor expectation management among the Chinese companies, the South Sudanese Government, and the local South Sudanese communities. The operational environment for Chinese commercial actors in South Sudan seems to have improved

<sup>29</sup> Saferworld interview, Juba and Beijing, March/April 2013.

<sup>30</sup> Saferworld interview, Juba, March 2013.

<sup>31</sup> Saferworld interview, Juba, March 2013.

slightly since independence.<sup>32</sup> South Sudanese local communities and the South Sudanese general public appear to have accepted the Chinese presence more than in previous years.<sup>33</sup> Yet tensions and historical grievances remain, despite the fact that both the Chinese and the South Sudanese seem to have realised that economic and political cooperation are in the interests of both countries.

Significant discrepancies in expectations among the GoSS, Chinese actors, and local South Sudanese communities contribute to conflict and insecurity for all three. An example of this concerns employment expectations in both the oil and infrastructure sectors, where the three constituencies have differing expectations. Within the oil sector, local communities near oil fields generally undertake casual, unskilled labour. In a recent development, local communities have begun to expect that better paid, higher-status positions should be filled with local elites, despite their lacking the appropriate experience and training. Companies (both Chinese and other foreign organisations) are unable to meet this expectation, and local communities subsequently may turn against oil companies, adding to insecurity for the companies.<sup>34</sup>

For Chinese companies operating within the remits of South Sudanese Government contracts, there is an expectation that the GoSS will handle issues relating to physical security and government relations (if not directly then via the respective organisational structures of the joint ventures).

In some cases the GoSS expects local communities to accept Chinese engagement in regions without further demands, as these should have been met as part of the work of the Oil Task Force or the Constituency Development Fund. However, to date both these GoSS initiatives have failed to comprehensively address community needs.<sup>35</sup>

### **Managing Chinese engagement**

As South Sudan goes into its third year since independence, China remains a critically important partner. Issues relating to the proliferation of small weapons and light arms within South Sudan, Chinese loans, engagement in the oil sector, addressing historical grievances, and infrastructure projects remain at the centre of the Chinese–South Sudanese relations. And where concerns lie, they are exacerbated by a lack of communication between Chinese commercial and state actors and their South Sudanese counterparts. Only when expectations are properly managed and better met can security and development improve.

<sup>32</sup> Saferworld interview, Juba, March 2013.

<sup>33</sup> Saferworld interview, Juba, March 2013.

<sup>34</sup> Saferworld interview, Juba, March 2013.

<sup>35</sup> Saferworld interview, Juba, March 2013.

# 7

## Chinese oil companies and local communities in Unity State, South Sudan

**Dr Leben Nelson Moro, Director of External Relations, University of Juba**

- The signing of the CPA in 2005 provided a better security environment for oil companies to expand operations, but this resulted in an increase in local grievances towards companies, who were not adequately consulted. During the oil shutdown, Chinese oil companies cut back on employment and reduced salaries of their workers, which only served to heighten local resentment.
- Chinese oil companies do provide some services to communities living close to the oil fields, however assistance is limited. Yet there are indications that the Chinese companies are willing to improve their relations with local communities by meeting some of their development needs.
- Looking forward, oil companies will have to establish direct links with local communities; deal with concerns about environmental pollution; and provide more employment opportunities to local people.

**DURING THE WAR IN THE FORMER SUDAN,** oil companies were managed by the government in Khartoum. The security forces of the former Sudan, notorious for abusing the human rights of civilians, protected oil company activities from threats of attacks by rebels and other opponents of the government. Inevitably, the oil companies were accused of complicity in egregious abuses against civilians. After the war ended, the companies made efforts to repair the damage done to their image through providing some basic services to communities from whose land they extracted oil and also to compensate for some of the losses suffered by local people as a result of oil operations. In general, however, these services were perceived by ordinary people as inadequate.

This report note explores the relations between Chinese oil companies and communities in the context of the generally unstable security and political situation in South Sudan.



It is based on interviews, discussions and observations carried out during a five-day visit to Greater Pioneer Operating Company (GPOC)<sup>36</sup> Unity base camp and Bentiu town in the oil-producing Unity State.

### Developments before South Sudanese independence

The formal end to violent conflict in 2005 removed some of the security threats to oil activities, and henceforth oil companies were in a better position to pay more attention to local concerns about their activities. Some roads, basic schools, and health care centres were constructed to address some of the concerns. Moreover, efforts were made to recompense local communities harmed as a result of oil infrastructure construction (such as oil wells and roads). Some individuals were paid for losses of property linked to oil activities.

The end of fighting provided a better security environment for oil companies to expand operations, but this resulted in more local grievances. The expanding operations put more pressure on local communities as some agricultural and grazing areas were taken over by oil infrastructure. In addition, expanding oil activities were connected with increasing environmental pollution: 'produced water'<sup>37</sup>, which contains dangerous chemicals, was deposited in the environment, causing complaints from local communities.

Problematically, the development activities carried out by, or with the support of, oil companies were undermined by a lack of broad consultations with targeted communities. During an interview, a member of the Unity Oil Task Force, a loose organisation that advocates on behalf of local people, expounded on this weakness as follows: oil companies often talked to government people – the governor at the state level and the commissioner at the local level. In some cases, commissioners appointed committees to deal with issues connected to oil, particularly local grievances and demands for compensation. But these committees were appointed by and answerable to commissioners and not ordinary people.

The danger of this bureaucratic arrangement is that the commissioners do not always represent the best interests of local communities. A member of the Task Force argued that the "position of chief is complex. He represents local people but also is a political authority and can side with the government people". Indeed, in some instances, he contended, "oil companies bribed government persons, who then threatened local communities". In some places, such as Pariang County, local people resorted to disrupting oil activities to press claims for compensation and development projects. In some cases, the county administration took a hard line against the protesters so as to maintain peace and the continued flow of oil, vital for the economic viability of the then Southern Sudan region/present day South Sudan. It is worth noting that the oil sector contributed close to 98 per cent of Southern Sudan's income in 2010.<sup>38</sup>

A lack of or limited communication with local communities and poor coordination with government structures negatively affected some of the projects oil companies funded. For example, according to another member of the Task Force, some schools and health care centres had no teachers or health personnel to manage them, undermining the purpose of the buildings. This only generated more disillusionment on the part of local communities.

### Developments since secession

The secession of Southern Sudan was followed shortly by the total shutdown of oil production. Before the shutdown, oil flowed from the field processing facilities in the five counties to the central processing facility in Heglig or Panthou, from where it

<sup>36</sup> The shares in GPOC are held by China National Petroleum Operating Company, Petronas, ONGC, and Nilepet.

<sup>37</sup> The water is produced together with oil but is later separated in the oil processing facility.

<sup>38</sup> European Coalition on Oil in Sudan, *Sudan's oil sector on the eve of referendum: facts and analysis IV*, December 2010.

flowed to Port Sudan or the refinery in Khartoum. The oil shut down only worsened the already tense relations between the two countries. Bombings by Sudanese planes became frequent in the oil-rich border areas between the two countries. In April 2012, the armies of the two countries fought over Heglig, or what South Sudanese call Panthou, which led to significant damage to oil infrastructure. A security official at the base camp said that many oil wells were destroyed in the Al Naar and Toma South oilfields, which caused oil to flow into the wider environment. The Health Safety and Environment (HSE) Supervisor at the base camp said that GPOC had sorted out this problem following advice from an assessment team. However, he also reported that in some cases the construction section of the GPOC simply covered with murrum or soil any oil that got into the wider environment by way of, for example, seeping from pipelines.

According to a member of the Oil Task Force, many roads, which used to be passable before the shutdown of oil production, had deteriorated and become impassable because of heavy rainfalls. This indicated that the roads were probably not well done in the first place. Oil companies only continued to maintain roads connecting base camps with oil wells, a problem said to be particularly acute in the southern part of the state. This led the government to complain that the oil companies were not helping to maintain roads, with the issue being raised in the state assembly.

Chinese oil company managers, however, claimed that their ties with government officials and communities were good. But they stated that during the shutdown companies were not making money and had to cut back on employment and reduce salaries, which did not go down well with the affected persons. The inability of oil companies to recruit more locals heightened local resentment; the Chinese managers claim that the situation will get better when full oil production is achieved and labour needs increase.

The companies do continue to provide some services to communities living close to the base camp. Indeed, we saw examples of company engagement: water tankers filling up empty drums placed along roads near the camp, although some of community members, such as the village chief at Kuor village in Rotriak Boma, claimed that the water was insufficient; the clinic at the base camp is open to the ordinary people and soldiers guarding the oil areas, with one supervisor claiming that the number of civilians served at the clinic was much higher than that of oil workers; the oil companies operate an ambulance service, which also benefits some local people.

However, assistance is perceived to be limited, with the GPOC providing meagre support to local efforts to establish a basic school in the Kuor village, which the chief claimed had served 2,000 households. According to the chief, the natives of this village had not left during the war despite bombings by Antonov planes. The oil companies provided five tents for use as temporary classrooms, which accommodated pupils from primary 1 to 5. The teachers have been paid by the community. Most of the youth, thought to comprise about 75 per cent of the population of the village, have reportedly gone after cattle or to towns to look for work. Clearly, the lives of these people are difficult even though GPOC have been extracting huge quantities of oil from their land.

In spite of the challenges, the community said their relations with oil companies are getting better, and oil workers have started to listen to their concerns. They reported that the location of a garbage dumping site, which caused local concerns, had been addressed by the companies. The local people took the case to the assistant manager at the camp, a South Sudanese, and the HSE Supervisor confirmed that the site was too close to the village and so had to be moved to a more distant and secure location – consequently the site was relocated far from the village. This illustrated that ordinary people can have concerns addressed directly by officials at the base camp.

Others paint a more negative picture. Some communities not too far away from the base camp received limited support, if any at all. The villagers at Thol Wang, situated

along the Bentiu-Abiemnom road, said they received nothing from oil companies even though there were wells not far from the village. One community member said that there were no schools and no clinic nearby, and people needing medical attention had to travel to the base camp or Bentiu town. “We lack everything”, he lamented. He reported that the local people began returning to the village only in the previous year when the security became normal again. During the war, there was reportedly a lot of fighting in the area. He explained that the local people had to move to more secure locations during the war, and returned only gradually to the village. He further explained: “first people began putting up temporarily structures (or *rakuba*) and then planted crops. Then, they constructed *kraals* (*luaks*), and moved in with their cattle.”

Certainly the ability of oil companies to satisfy local demand for services will continue to be low. A supervisor at the base camp complained that local people wanted everything done at once, which was not feasible. However, according to officials of the Corporate Affairs & Community Development (CA&CD), which had a development budget of US\$1.2 million, the GPOC has been working on a project to provide water to the five host counties in the northern part of the state. The CA&CD officials said that they did an assessment and realised that water was the greatest need and decided to design a project to drill boreholes for all the host communities in Rubkona, Guit, Pariang, Abiemnom, and Mayom counties.

Despite the concerns about oil activities, the local people do not want oil companies to cease working. A village chief said that they wanted oil companies to continue operating in their areas, bringing development, but not spoiling the environment.

### Engagement with civil society organisations

Local civil society organisations (CSOs) have limited roles in oil issues, which are considered as politically sensitive. The Director of Unity State Relief and Rehabilitation Commission accurately pointed out that local CSOs have been used by international non-governmental organisations (INGOs) as subcontractors to perform specific roles that they are not able to fulfil. In general, the local CSOs have limited capacity, and generally do not actively engage with oil issues.

Nonetheless, there is growing interest to support local CSOs so that they can engage with government institutions on oil issues. Several INGOs, including Global Witness, European Coalition on Oil in Sudan, Saferworld, and Norwegian People's Aid (NPA), have been supporting or working with local CSOs on natural resource governance issues. NPA supported the launching of Task Forces in three states, Unity, Upper Nile, and Jonglei, so as to engage government institutions and oil companies.

The Unity Oil Task Force was founded in 2008, and consisted of 13 members. At the moment the Commissioner of Rubkona is the head of the task force. Task Force duties include looking into the impact of oil development on local communities as well as development activities. Presently, members of the task force have been engaged in discussions on the relationships between oil companies and local communities as well as legal frameworks to regulate the oil sector. A lot of input from local CSOs went into the debates on the Revenue Management bill, which has been passed by the National Assembly.

The discussions have focused on the legal entitlement of local communities to a share of oil revenues. It is proposed that two per cent of revenues should go to the oil-producing state and three per cent to local communities. However, according to a member of the Unity Oil Task Force, there are questions about the management of the proposed three per cent set aside for local communities. Is it up to the local councils at county level or community development fund committees, appointed by the commissioners, to regulate its use? He said that the local CSOs tried to lobby for the appointment of separate and independent persons to manage the three per cent, but the government might not accept.

## Future prospects

It is hoped that future relations between oil companies and local communities will improve. Nonetheless, as a member of the Unity Oil Task Force pointed out, oil production has only just resumed, and no one knows what will happen in the future. However, there are indications that the Chinese companies are willing to improve their relations with local communities by meeting some of their development needs.

Perhaps the Chinese oil executives working for oil companies might learn from the experience of a very interesting and intrepid Chinese man who has been doing business in Bentiu over the past six years. His enterprises have covered building construction and a bottled water factory. He speaks the local language Nuer and has established excellent relations with local leaders. Moreover, he has been involved in good causes, including building public projects and providing clean drinking water to local people near his business premises. Although in the past he had employed a lot of Chinese workers, he is very willing to train and employ local people as they are cheaper than Chinese workers. He has encountered problems: during the oil shutdown, he could not employ many staff because of skyrocketing inflation and the inability of government to pay owed money. However, he has used his good relations with government officials to help oil companies solve some of their problems, especially disputes with workers.

Already, companies are engaging more closely with local people. They are employing labourers from the local ethnic groups and some of the local supervisors they employed have been communicating with local communities so as to solve problems. The representative of the Commissioner of Rubkona is also based at the camp. He is involved in the recruitment of labourers as well as addressing issues affecting the relations between companies and ordinary people.

Moreover, companies have been paying compensation for losses suffered by ordinary people. For example, a supervisor at the base camp said the company paid South Sudanese £2,500 to a farmer whose cow fell into a pond constructed by companies and died. However, another official claimed that some communities are settling close to oil wells with the expectation that they would be compensated should the operations expand. If true, this is dangerous. More should be done to enlighten local communities on the dangers of oil activities. Local CSOs could be assisted in raising awareness of the dangers linked to oil activities.

Due to the danger posed by oil operations, the government representative on the base camp said that the GPOC had proposed relocating communities living close to the base camp to a site far away. He added that a site, along the Bentiu-Abiemnom road, had been identified but the companies had not started to construct a school and health care centre on it. Perhaps the delay had to do with the shutdown of oil activities, which meant that the companies had less money.

## Conclusion

The flow of oil has just restarted after about a year-long shutdown (at present oil is only flowing from Manga and Unity as the other three fields were heavily bombed during the violent conflict in the border zone). In the past, the local communities have complained about environmental pollution, lack of development, and lack of employment opportunities. They often blamed oil companies for neglecting local concerns; they were perceived as being more interested in extracting oil and less concerned about the welfare of local communities. However, oil companies now appear to be interested in improving their relations with local communities. One pertinent question is how to do this.

In the past, oil companies have been working with government officials, presumably because they thought these officials represented the local people. Of course, this is not always the case in the context of South Sudan, where corruption is rampant. Oil companies will have to establish direct links with local communities through chiefs and local CSOs. Moreover, they have to deal with concerns about environmental pollution.

There is a need to quickly clean up any oil that has been deposited in the environment through safe means, rather than by the current practice of covering it with murram or soil.

There is also a need to provide more employment opportunities to local people, especially young people. Already efforts are being made in this regard. There are positive indications that oil companies will do more to engage local young people when production reaches pre-shutdown levels.

# 8

## Chinese oil companies in South Sudan's conflict environment

**Qian Zhen, Associate Professor, Institute for International Strategic Studies, Party School of the Central Committee of the Communist Party of China**

- Some claim that China has played an instrumental role in exacerbating past and current tensions between Sudan and South Sudan. The conflict between Sudan and South Sudan has also played an important role in increasing the risks to Chinese investments.
- As Chinese enterprises increasingly operate in South Sudan, it is necessary that they understand the conflict dynamics of South Sudan. The engagement of Chinese oil companies in South Sudan plays a mixed role in resolving conflict.
- Chinese oil companies should deal with conflict risks in South Sudan through improving communication with local populations; understanding and respecting local cultures and customs; reforming the style of management; interacting with local communities as well as the central government; cooperating with the Chinese Government and other private enterprises; recognising the importance of corporate public relations; and strengthening business strategy consulting.

### Origins of conflict

**AS CHINESE ENTERPRISES INCREASINGLY OPERATE IN THE COUNTRY,** it is necessary that they understand the conflict dynamics of South Sudan. Historically there have been divisions between the Arabic-speaking Muslims in northern Sudan and African-language speaking non-Muslims in southern Sudan. Sudanese independence in 1956 led to senior positions in the new state institutions being held by northerners,<sup>39</sup> who marginalised the southerners' culture and traditional religion and insisted all Sudanese citizens should accept the Arab language, culture, and religion.<sup>40</sup> The new central government was enthusiastic about large-scale projects in the northern area but, dissatisfied with calls for southern independence, was reluctant to invest scarce resources in the South's development.<sup>41</sup> North–South tensions eventually evolved into

<sup>39</sup> Collins R, *A History of Modern Sudan*, (Cambridge University Press, 2008), p 65.

<sup>40</sup> *ibid*, p 137.

<sup>41</sup> *ibid*, p 134.

the 21-year civil war, which brought huge losses to northern and especially southern Sudanese. Although in 2011 the South separated from Sudan and declared independence after a referendum, the two sides seriously disagreed on many major issues such as border demarcation, the distribution of oil benefits, and claims to ownership of the disputed area of Abyei. The slow negotiation process was at times interrupted by bitter border conflicts.

South Sudan's independence also brought *intra*-country tensions to the fore. Strains between different ethnic and religious groups and how these interact with central–local power dynamics are important contributing factors. Tensions between central and local interests are reflected in the distribution of oil revenues. When the author visited a Nuer-dominated village which accommodates more than 2,000 households near the oil field in Unity State, he asked the village chief what they got from oil production revenue: the answer was “nothing”.<sup>42</sup>

Some claim that China has played an instrumental role in exacerbating past and current tensions between Sudan and South Sudan.<sup>43</sup> Before the independence of South Sudan, China's contribution to Sudan in the sectors of aid, trade, and investment – particularly its contribution to the country's oil industry – disproportionately benefited the North, to the detriment of the South. According to one report, there were only tens of kilometres of asphalt in Southern Sudan when it declared independence.<sup>44</sup> To compound tensions, the Sudanese Government used the money brought by economic development to buy arms to fight with the South.<sup>45</sup>

The conflict between Sudan and South Sudan has also played an important role in increasing the risks to Chinese investments, as occurred in January 2012, when the two governments failed to reach agreement on the issue of oil transit fees and South Sudan decided to suspend its oil exploration. Following the oil shutdown the GoSS accused the head of the Chinese and Malaysian-owned oil company Petrodar of collaborating with Khartoum in “stealing” the crude oil that Khartoum had confiscated. Indeed in February 2012 a Chinese national, Liu Yingcai, was asked to leave following an investigation into Khartoum's “theft” of oil worth US\$815m.<sup>46</sup> Wider investor confidence has been affected too. One Chinese entrepreneur admitted that the turbulent situation forced a reduction in the scale of investments to avoid high risks,<sup>47</sup> while some enterprises switched from the construction business to another industry because the state government could not pay for the construction work, affecting their ability to recover costs and make profits.

## Conflict and Chinese oil companies

Chinese oil company engagement in South Sudan plays a mixed role in resolving conflicts. Oil development is vital to the country's economic and social development, providing the main source of revenue for the government; which can help to resolve conflicts caused by economic grievances. Before oil production was stopped in 2012, 98 per cent of government income came from oil production.<sup>48</sup> After independence, South Sudan lacked the funds and technology to develop the industry, so Chinese oil companies brought their experience and qualified business and technical staff, to support oil industry development.<sup>49</sup> Their operations have helped South Sudan's

<sup>42</sup> Saferworld interview, Unity State, 3 July 2013.

<sup>43</sup> [www.caijing.com.cn/2011-07-11/110770981.html](http://www.caijing.com.cn/2011-07-11/110770981.html)

<sup>44</sup> Ding Dawei, ‘South Sudan independence influences Chinese oil enterprises’, *Phoenix Weekly*, 31 July 2011, ([http://news.ifeng.com/world/detail\\_2011\\_07/31/8071004\\_1.shtml](http://news.ifeng.com/world/detail_2011_07/31/8071004_1.shtml)).

<sup>45</sup> Martin Meredith, *The State of Africa: A History of Fifty Years of Independence*, vol 2, pp 539 (Chinese version).

<sup>46</sup> [www.bbc.co.uk/news/world-africa-17126340](http://www.bbc.co.uk/news/world-africa-17126340).

<sup>47</sup> Saferworld interview, Juba, 6 July 2013.

<sup>48</sup> Kuich BT, ‘Oil shutdown is correcting tax revenue shortfall in Unity State – official’, 2013 ([www.sudantribune.com/spip.php?article45252](http://www.sudantribune.com/spip.php?article45252)).

<sup>49</sup> The author's interview with Chinese staff in Bentiu oilfields confirmed this. After returning to China, a malaria patient (infected when doing field work in South Sudan) in the same ward with the author also confirmed that they were selected before going to South Sudan.

economic development. By contrast, some Western companies have withdrawn from this area due to security and human rights concerns.<sup>50</sup>

Many Chinese enterprises are state owned, pursuing not only corporate benefits but also social responsibility. For example, in 2007 CNPC began publishing an annual CSR report. The company introduced a stakeholder participation mechanism whereby it carries out exchanges with local government, communities, employees, and others seeking in-depth understanding of stakeholder concerns and aspirations, and increased transparency. In manufacturing operations, CNPC adheres to environmental and staffing regulations, implementing environmentally sustainable development, and, among other things, helping the poor by sponsoring students, actively participating in public welfare, and serving the community.<sup>51</sup> GPOC (an oil consortium under which CNPC operates) contributed technology and capital to the renovation of a football field in Juba and to renovations to the lighting of Juba.<sup>52</sup> In 2012, CNPC and the Chinese Embassy in South Sudan jointly built two basketball courts for two primary schools in Juba and funded two students to study in Suzhou University and the China University of Petroleum.<sup>53</sup>

While South Sudanese respondents often said that Chinese enterprises have contributed a lot by constructing roads and starting up clinics and hospitals, they still have complaints against Chinese enterprises, which include accusations that the Chinese

- have robbed locals of jobs – many South Sudanese advocate that Chinese enterprises should hire and train more local staff, which not only helps to improve the lives of local people but also is conducive to the country's self-development;
- are unwilling to communicate with locals, leaving some to feel they are looked down on;<sup>54</sup>
- have not provided effective human rights protection, with some accusing Chinese companies of ignoring human rights standards;
- have created environmental pollution by caring only about production, with little environmental awareness;
- have only dealt with governments – some NGO leaders said that Chinese companies only maintained good relations with senior officials and were less concerned about community development, never contacting CSOs.

These negative comments about Chinese enterprises and their staff will affect their relationship with local people and may lead to conflicts.

## Recommendations

How should Chinese oil companies deal with conflict risk in a conflict-affected country like South Sudan?

**First:** communication. In order to be successful, overseas Chinese oil companies should not only focus on oil production but also consider how to communicate with local populations. In South Sudan a lack of communication appears to have led to suspicion and even hostility, but in response to this complaint, Chinese staff explain that it is due to fear.<sup>55</sup> Better communication helps Africans understand the Chinese, and vice versa. Better communication would also serve to improve the living conditions of Chinese workers: when the author held talks with Chinese employees in the Bentiu oilfield and looked at problems encountered by workers, he found that their lives were monotonous and they had little access to entertainment. Carrying out social activities

<sup>50</sup> *Op cit*, Collins.

<sup>51</sup> See China National Petroleum Corporation Social Responsibility Report 2012 ([www.cnpc.com.cn/csr/PageAssets/Reports/shzr2012-cn.pdf](http://www.cnpc.com.cn/csr/PageAssets/Reports/shzr2012-cn.pdf)).

<sup>52</sup> Saferworld interview, South Sudan, July 2013

<sup>53</sup> When interviewed in Juba this June, China National Petroleum Corporation described the establishment of the mechanism, see also at ([www.cnpc.com.cn/csr/PageAssets/Reports/shzr2012-cn.pdf](http://www.cnpc.com.cn/csr/PageAssets/Reports/shzr2012-cn.pdf)).

<sup>54</sup> Saferworld interview, Juba, July 2013.

<sup>55</sup> Saferworld interview, Bentiu oilfields, July 2013.



together with the locals can eliminate misunderstandings and help both sides learn from each other.<sup>56</sup>

**Second:** understand and respect the local culture and customs. The South Sudanese and Chinese have different approaches to work and leisure, and so these differences must be understood and worked on in order to prevent workplace tensions from increasing. In one case, a Chinese manager demanded that a local member of staff complete a work task, but he refused on the grounds that it was not his responsibility. In this situation, Chinese cannot simply refuse to hire local staff or stringently apply their own management modes but should try to better understand the local people's values and explore a management mode that suits the locals.<sup>57</sup> It is also necessary to understand local needs, so as to ensure that Chinese employers provide the help that the locals really need.

**Third:** revise management styles. Some Chinese managers have insensitive and inappropriate management styles, often scolding and firing local employees with little cause. One Chinese entrepreneur told such a story: in Nigeria, a Chinese manager caught a local employee stealing oil, and fired him. However, when the employee was packing up, the manager insulted him. Consequently, the employee's brother gathered a dozen soldiers and they beat this manager to death.<sup>58</sup> In South Sudan, a Chinese manager fired a Kenyan woman who had worked there for only three days; he was then falsely accused of rape.<sup>59</sup>

**Fourth:** deal with local communities as well as the central government. Due to political instability,<sup>60</sup> the South Sudan central government has limited capacity or time to tackle local difficulties. Therefore, Chinese enterprises should not only deal with the central and state governments but also with grassroots communities, making friends with them and helping them solve problems.<sup>61</sup> In South Sudan, particularly in rural areas, chiefs play an important role.<sup>62</sup> Therefore, establishing a good relationship with them is critical for enterprises' operations and safety.<sup>63</sup> In South Sudan, there are a lot of international and local NGOs, many of which are dedicated to ameliorating existing social problems in South Sudan, such as those working on malaria treatment and the rights of children. As they pay long-term attention to a particular area and become increasingly familiar with local circumstances, Chinese enterprises can act more effectively to improve local welfare by cooperating with such organisations.

**Fifth:** cooperate with the Chinese Government and other private enterprises. The conflicts between Sudan and South Sudan have a serious impact on oil companies. Oil companies should cooperate with the Chinese Government, making use of the good relationship between the Chinese Government and those of Sudan and South Sudan to create opportunities and encourage the governments to resolve problems through negotiations. Also, the South Sudanese sometimes regard Chinese enterprises as part of a greater whole, meaning that the actions of private enterprises are commonly attributed to state-owned companies. Some private enterprises make important contributions to local communities. Yet others clearly do not. In Ghana for example, thousands of prospectors destroyed arable land and polluted water for gold; this illegal gold mining not only implicated those private Chinese companies involved but also

<sup>56</sup> South Sudan's official language is English, therefore Chinese employees can improve their English by communicating with the locals. Africans are also sociable, so leisure activities can be shared.

<sup>57</sup> A Chinese entrepreneur interviewee in Bentiu mentioned that when he was a lab leader, a subordinate did not follow the instructions. So he went through the whole process by himself and at last local staff also succeeded in meeting the work standards.

<sup>58</sup> Saferworld interview, Juba, 30 June 2013.

<sup>59</sup> Saferworld interview, June 2013. Interview Juba, 30 June 2013.

<sup>60</sup> An example is that the President suddenly dismissed the cabinet this July 2013. A professor from Juba University also said officials could be replaced at any time.

<sup>61</sup> The author visited a village near the Bentiu oilfields and asked what help the village needs. Interviews revealed that they need education; the village accommodates more than 2,000 households but cannot afford to have a teacher, so the local children cannot go to school.

<sup>62</sup> When conducting a survey in Bentiu, the author saw the TV news reports that the President of South Sudan expressed condolence to a deceased chief, which showed chiefs in southern Sudan hold an important social position.

<sup>63</sup> A Chinese entrepreneur in South Sudan told the author that one of their projects happens to cross two tribal territories, in which case the government cannot help solve the problem; instead they must communicate and coordinate with the tribal chiefs.

affected the reputation of other Chinese companies and employees. On 6 June 2013, Chinese enterprises in South Sudan established an organisation called “Chinese-funded institutions in South Sudan friendship mechanism”.<sup>64</sup> This should be taken as an opportunity to promote legitimacy, integrity, and fair competition; to avoid misconduct; and to promote friendship between South Sudan and China. Only in this way can Chinese enterprises better contribute to economic development in South Sudan.

**Sixth:** recognise the importance of corporate public relations. As South Sudan has a 73 per cent illiteracy rate,<sup>65</sup> Chinese companies’ contributions to local welfare may remain unknown to local people if it is only publicised through written documents. The author found during interviews that except for government officials, even NGO leaders living in the capital were not clear about what Chinese oil companies have done for South Sudan. As mentioned above, serving grassroots communities directly and working with local NGOs are effective ways to create and improve the corporate image of companies. In addition, Chinese companies should use the limited local media resources, explore effective means of transmission, and introduce and explain their ideas and practices to the local people in order to eliminate misunderstanding and deepen friendship.

**Seventh:** strengthen business strategy consulting. As a large international company, CNPC keeps growing and is increasingly engaged in unstable countries. Learning about the history, folklore, social structure, political ecology, and values of different countries and ethnicities is very important for large-scale multinationals like CNPC. They should invite relevant experts and scholars to do field research, follow-up surveys, theoretical analysis on certain issues, and act as consultants to companies. This will help corporate decision makers to clearly understand the business environment, effectively assess possible risks that enterprises are facing, and find reasonable, quick, and effective countermeasures in times of crisis.

## Conclusion

As a newly independent country, South Sudan faces chronic insecurity and violence. The many Chinese enterprises, including oil companies, that have established operations in the country must take this context into account. In order to achieve constructive and long-term engagement, Chinese enterprises in South Sudan should be conflict-sensitive, identifying and trying to avoid potential conflict. Conflict sensitivity is not just about passively securing lives and property; Chinese enterprises should also actively approach the local people, communicate with local communities to understand their difficulties and demands, provide necessary help for local development, strive for mutually beneficial and win-win development, and promote friendship.

<sup>64</sup> When interviewed in Juba this June, CNPC described the establishment of the mechanism, see also at [www.fmprc.gov.cn/mfa\\_chn/wjdt\\_611265/zwbdt\\_611281/t1050521.shtml](http://www.fmprc.gov.cn/mfa_chn/wjdt_611265/zwbdt_611281/t1050521.shtml)

<sup>65</sup> [www.gurtong.net/ECM/Editorial/tabid/124/ctl/ArticleView/mid/519/articleId/5293/South-Sudan-Illiteracy-Reduces-To-73-Minister-Says.aspx](http://www.gurtong.net/ECM/Editorial/tabid/124/ctl/ArticleView/mid/519/articleId/5293/South-Sudan-Illiteracy-Reduces-To-73-Minister-Says.aspx)

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## Oil companies and community relations in Unity State

**Ranga Gworo, South Sudan Project Coordinator, Saferworld**

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- GPOC, an oil consortium of which CNPC is a stakeholder, is investing in a number of areas to promote good relations with host communities in and around Unity State oilfield.
  - The dialogue and interaction between GPOC and the local community has led to some improvements in GPOC practices, but also an increase in costs to the company.
  - There is no specific or heightened security threat facing the oil company staff in Unity Oilfield, according to Chinese oil workers. Of greater concern for Chinese staff is the wider security situation. The area was a conflict zone last year when Sudan and South Sudan were on the brink of war.
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**GPOC IS INVESTING IN A NUMBER OF AREAS** to promote good relations with host communities, according to Saferworld's research findings conducted in and around Unity Oilfield, South Sudan in July 2013.<sup>66</sup> Major costs discussed by GPOC staff include compensation expenses, community development programmes, and managing the impact of environmental damage caused by the oil companies' activities and providing basic assistance to people living near the oilfield.

GPOC believes the area in the immediate vicinity of the oil fields should be out of bounds for communities, since oil extraction can pose public health dangers to those in close proximity, and since it is easier to get on with their work in an uninhabited environment. The GPOC staff suggested that the GoSS shares this view. For these reasons, GPOC's community development projects in Unity State are far away from the oil infrastructure. For example, since the oil flow started again in April 2013, GPOC has begun installing 20 water pumps at various locations around Unity State, 15 of which have been completed.<sup>67</sup>

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<sup>66</sup> Saferworld field research in Unity state, South Sudan, July 2013.

<sup>67</sup> Saferworld interview with GPOC staff, Unity Oilfield, Unity state, 4 July 2013.

This has not stopped some families settling right next to the oil infrastructure, with a view to improving their living conditions. While GPOC does not want to attract people to the area, it feels an obligation to help those living close-by to its facilities, which in turn acts as a magnet drawing other people into the area just outside the perimeter fence. Those who are settled in the immediate vicinity of the oilfield premises are currently being provided with water, are sharing health facilities with GPOC staff and have been issued with makeshift tents for erecting temporary schools for their children. GPOC could further its efforts to help local communities without inadvertently attracting people to settle next to the oil fields by borrowing from the best practices of organisations such as the United Nations High Commissioner for Refugees, who have many years of experience working on how to avoid creating 'pull' factors when providing assistance.

GPOC views some of these inhabitants as new arrivals to the area, coming to seek benefits from the company's activities. One company worker said, "You visit an area today and find no one there. The next day, somebody has already built a house there". The discussion we had with local communities living next to the oilfield suggested that some of them are indeed newcomers. However, the reasons people choose to live there are not always the same. The communities who were previously settled in these oilfields were forcefully evicted in the 1990s by the Sudanese Government and allied militias to make way for oil extraction. These evicted communities have not yet been compensated for their land.<sup>68</sup> The 2012 border conflict between Sudan and South Sudan also forced many others to flee for their lives. Some of the displaced people have since resettled elsewhere, while others have returned to the area around the oil fields. However, it does seem that new settlers have also come simply searching for improved living conditions. This is not surprising given the hardships citizens of Unity State experience. In addition, since the oil fields are a potential target for attack in the event of conflict with Sudan or with rebel groups, a large number of SPLA soldiers have been posted near the oil fields, their families with them.

## Compensation demands spiral

The dialogue and interaction between GPOC and the local community have led to some improvements in GPOC practices, but also an increase in costs. The local community complained recently to the company against its dumping site which was located close to their settlement. They said the dumping site was so close that their children played with the refuse, which caused them skin diseases. In response the company shifted its dumping site and fenced it off, showing a willingness to listen and respond to community concerns where it can.

Among issues that have come up between the community and GPOC have been complaints about air pollution, which the community claims is causing illnesses, and there have been demands for more jobs for local people. Work on a pipeline needed to connect to a newly built oil refinery had to be halted temporarily after a homeowner stood in the way and demanded compensation for the use of his land. Other households have demanded compensation when their animals have fallen into the pits dug by the company during road construction and maintenance. GPOC had to settle some of these claims.

Recently GPOC had to settle a compensation claim over a community member who had requested a lift from a passing company vehicle and had died when the car overturned. Although company policy does not allow giving a ride to non-staff, local people increasingly put passing vehicles under pressure to provide a lift as a way of showing generosity, and sometimes it is difficult to refuse. However, there are some incidences where GPOC was dragged into courts for failing to meet financial settlements with the community, according to a Chinese private investor we interviewed.

<sup>68</sup> Sudan Tribune (2013), "'Compensation needed for oil displacement' – Land Commission Head In Unity", retrieved on 17 July 2013, [www.gurtong.net/ECM/Editorial/tabid/124/ctl/ArticleView/mid/519/articleId/1073/Compensation-needed-for-oil-company-displacement-land-commission-head-in-Unity.aspx](http://www.gurtong.net/ECM/Editorial/tabid/124/ctl/ArticleView/mid/519/articleId/1073/Compensation-needed-for-oil-company-displacement-land-commission-head-in-Unity.aspx)

In some instances, the company sometimes had to use intermediaries to settle such matters.

GPOC is considering the feasibility of relocating new settlers away from the oilfield as the area poses a health risk to them and their presence hampers the company's work – for example, in the instance of a man who delayed work on a pipeline by not giving way until he was paid – but it is unclear if this would be accepted by the local community or whether it would be possible to stop new people arriving after any relocation.

### Chinese staff safety

There is no specific or heightened security threat facing the oil company staff in Unity Oilfield, according to the Chinese oil workers.<sup>69</sup> The Chinese are apparently safe from threat as they feel safe to travel in and around the oilfield in the course of their work, and also to mingle with local colleagues. The army are providing protection to oilfield facilities and managing road checkpoints, while police are increasingly scaling up their protection of the oilfield compound. As a result, GPOC staff feel comfortable when travelling without armed guards to areas of operations outside the GPOC premises.

A greater concern for Chinese staff is the wider security situation. The area was a conflict zone last year when Sudan and South Sudan were on the brink of war. The area suffered a great deal from aerial bombardment by Sudan Armed Forces warplanes that not only damaged oil facilities but also killed civilians and forced others to flee. Being close to the border with Sudan, the area will remain susceptible to the effects of interstate conflict. However, the Non-Aggression Pact that was signed between the two countries in 2012, coupled with The Co-operation Agreement, created some ease in the area. In addition, the surrender of about 3,000 heavily armed rebels in response to a Presidential amnesty has led to an improvement in the overall security of the oil extracting areas. And while cattle raiding is still a problem in some parts of the state, Unity Oilfield remains safe from the effects of this.

<sup>69</sup> Focus Group Discussion with Chinese oil workers, Unity oilfield, Unity State, 4 July 2013

# Challenges and opportunities for Chinese enterprises in South Sudan<sup>70</sup>

**Jiang Hengkun, Associate Professor, Institute of African Studies, Zhejiang Normal University**

- Chinese companies face many challenges due to the unstable local investment and operating environment as well as their own relatively limited capacities.
- Moving forward Chinese companies should explore conflict-prevention mechanisms; enhance their self-image; actively fulfill their social responsibilities; and improve their treatment of local staff.
- The Chinese Government should strengthen consular protection; improve the regulation of overseas enterprises; provide more guidance to the private sector; increase efforts to support peace and security; and promote a better understanding of China.
- The Government of South Sudan should develop more stable policies and regulations; protect the legitimate rights and interests of foreign enterprise; and better manage the effects of foreign investments.

## Unstable bilateral relations

**CHINESE ENTERPRISES IN SOUTH SUDAN** are affected by national-level political dynamics as well as the country's tense relations with its northern neighbour which has resulted for example in South Sudan's oil production shutdown early in 2012 and the subsequent armed conflict in Heglig/Panthou. Many issues remain unresolved which could potentially lead to worsening bilateral relations, such as oil revenue allocation, debt sharing, border demarcation, territorial disputes, support for rebel groups, and the role of the international community in future negotiations.

<sup>70</sup> The information in this report primarily comes from interviews conducted by the author in Juba, South Sudan in April 2013. The author conducted interviews with companies, governmental employees, non-governmental organisations, university faculty, and civil society.

The unstable relationship between the two countries has had serious consequences for Chinese companies operating in the border areas. In 2008, nine CNPC employees were kidnapped at the oil producing blocks 1/2/4. On 28 January 2012 in Southern Kordofan State 29 Chinese Sinohydro employees were abducted from a highway construction site by Sudan People's Liberation Movement-North (SPLM-N). It may be the case that rebels kidnap Chinese staff in order to blackmail the Government of South Sudan (GoSS). Considering that the GoSS obtains most of its revenue from oil exports, the shutdown of oil production would inevitably negatively affect the development of South Sudan. The involvement of Chinese companies in South Sudan would likewise be affected by the uncertainty of continued oil revenues. Combined, these factors create an extremely insecure environment in many areas outside Juba, the result being that most Chinese companies choose to operate only in Juba.

### **Crime**

The GoSS is unable to ensure a safe environment within many areas of South Sudan. In this context, many foreign enterprises have become primary targets of crime. The security risks are even higher for Chinese enterprises working on infrastructure construction, since their operations are based outdoors and thus exposed to attacks, especially armed robbery. Even in Juba, offices of Chinese companies have been targeted. In April 2013, two armed robberies were committed against Chinese enterprises during which office workers were physically attacked and belongings, such as money, computers, and mobile phones were taken.

Chinese enterprises face two major security challenges. First, their security capabilities are limited. Chinese security providers cannot operate in South Sudan without special permission from the GoSS. As such most Chinese companies rely on local/regional security companies. The GoSS also provides troops and police to protect the oil fields. Some operations rely almost entirely on local security companies. For example, privately owned Zhonghao Overseas Construction Engineering Company hired armed security guards from the South Sudanese licensed armed security company, Veteran Security Services Limited to protect its projects. Others, such as China Friendship Hospital in Juba, directly employ local police. The second security challenge comes from the fact that the local judiciary sometimes lacks the capacity or incentive to protect the interests of Chinese companies. Local protectionism can place Chinese companies in a weak position when they become involved in disputes with local people.

### **Challenging policy environment**

At times, the GoSS' policy formulation and execution has presented significant challenges for Chinese companies. According to some interviewees, the GoSS will formulate policies without warning, announce them on the radio or television, and then start implementation and taxation the following day. Due to disputes with Sudan over oil revenues, South Sudan also at times threatens to suspend existing oil contracts and agreements, the result being that oil companies do not dare to invest further. The GoSS has also banned all foreign-operated water projects, which among other things led to water shortages.

Another challenge for companies relates to taxation. After oil production was halted in 2012, the GoSS increased taxation on foreign companies, which was intended to boost taxation in the short-term in order to account for lost revenue. Interviews with employees from the construction industry reveal that the GoSS continues to levy a heavy tax on building materials despite the country's urgent need for infrastructure.

**Difficult operating environment**

According to interviews, Chinese enterprises and their employees face numerous challenges to their daily lives in South Sudan, including a lack of food suitable for their diets, low-quality drinking water, the threat of disease, and poor local medical facilities. Poor infrastructure such as inferior roads (which slows the transportation of construction materials) also hampers the speed of operations, as do procurement difficulties (Chinese companies must procure most of the supplies, tools and accessories from neighbouring countries or China), and inefficient local administrative procedures. This latter challenge can often lead to a delay in project implementation, especially for infrastructure companies. For example, custom clearance of goods purchased from Uganda takes anywhere between two days to several weeks, and vehicles carrying goods must often wait in several kilometre-long border queues before entering South Sudan.

**Recruitment problems and labour disputes**

While the GoSS requires that foreign enterprises hire local employees, Chinese enterprises find it difficult to recruit local employees, especially managers and translators, with the required technical capacities. They also lack the time and capacity to offer appropriate training. As a result, many Chinese enterprises recruit skilled workers from Uganda, Kenya, Ethiopia, and other neighbouring countries.

Labour disputes are of serious concern to Chinese companies. South Sudanese labour law makes it very difficult to dismiss local employees. There have also been cases where work-related accidents have led local employees to demand large indemnities. Due to the local protectionism, Chinese enterprises may find themselves in the weaker position when attempting to resolve labour disputes.

**Historical memories**

The history of the civil war has negatively influenced perceptions of China among many South Sudanese, a situation not helped by the often far from positive portrayals of China in the media. Some local interviewees, for example, questioned the name of Juba China Friendship Hospital, claiming that China could not be a 'friend' of Sudan and South Sudan at the same time. In fact the Chinese Government did not favour the North over the South during the civil war. The reason China cooperated with Khartoum is because China only engages with legitimate governments and adheres to the principle of non-interference. It has neither the desire nor experience to involve itself in the internal strife of other countries. In recent years, the Chinese Government has made whatever contributions it can to promoting internal peace in South Sudan and mutual understanding between the two countries at both the official and unofficial levels. Chinese enterprises also make a significant contribution to peace, stability and development of South Sudan by running business there despite the risks.

In addition, some actions by Chinese enterprises and their Chinese employees have had a serious negative impact on local people's perceptions of the Chinese. Firstly, some Chinese enterprises, especially construction companies, rarely provide holiday or welfare benefits to local employees, and their daily working hours are long. They thus are accused of pursuing high efficiency at the cost of human rights. Secondly, some corporate managers and their staff do not use legal instruments when disputes arise and instead resort to pay-offs, which has left a negative impression of the Chinese on the local population. Thirdly, some Chinese employees are rude, dishonest, and do not comply with local customs. Furthermore, some products sold by Chinese traders are fake, which has also had negative effects on the image of Chinese people and products in the eyes of many South Sudanese.



## Relations with local population

The biggest challenge Chinese enterprises face stems from within. Many Chinese company employees lack an understanding of the local language, culture, political and economic environment, religious beliefs, and customs. They do not fully integrate themselves into the local communities in which they work or actively fulfil their CSR. The GoSS has set higher standards for CSR. For example, it signed a five-year transition contract with foreign oil companies in January 2012, which, on the basis of the original agreement, added provisions for more binding environmental standards, rules on the proportion of local employment, social protection norms, and enhanced transparency.

Chinese enterprises face at least two problems in terms of fulfilling their social responsibilities and improving their image. Firstly, companies feel overburdened in delivering CSR projects. While business should benefit local people, enterprises are only enterprises after all; they should focus on development or construction, while other issues like land acquisition and domestic relocation should be managed by the local government. Chinese companies also argue that while they sign contracts with the government and pay various types of expenses, including compensation, it is the government that should decide whether the local communities will benefit from the intended projects. Secondly, Chinese enterprises do not focus enough on public relations. Positive actions are not spoken about, while when the companies are criticised, they are unwilling or unable to defend themselves.

## Recommendations for Chinese companies

1. **Explore conflict-prevention mechanisms.** Chinese enterprises should actively seek to work with civil society and international organisations to build early warning mechanisms. Companies interviewed such as CNPC have said that they have worked with an international consulting company on assessing political risks, to improve their conflict sensitivity and crisis response capabilities, so as to be aware of potential hazards and make early preparations in the face of potential conflicts.
2. **Enhance self-image and actively fulfil social responsibilities.** Chinese enterprises should be fully aware that local communities have high expectations of what their operations will bring. They should thus improve their public relations, to better allow local people to understand what they are doing. They should communicate with the government and communities, learn and understand the local language, customs and culture, and actively promote their own image and soft power. Chinese enterprises should seek mutual development with the local communities, rather than simply flaunting the help that they offer. This is not only the basis of long-term development in South Sudan, but also an effective way to protect their own interests.
3. **Improve treatment of local staff.** Chinese company employees have been victims of robbery and thefts, which is in part the result of the maltreatment of local employees by some Chinese enterprises. Chinese company staff should be friendly, humble, more communicative, disciplined, and treat local staff well by providing more training opportunities and improving their welfare. Chinese enterprises can also try to hire more South Sudanese as corporate managers.

## Recommendations for the Chinese Government

1. **Strengthen consular protection.** Due to limited experience in South Sudan and understaffing, the Chinese Embassy is falling short in protecting Chinese enterprises and citizens and has limited capacity to handle security incidents. The Chinese Government should strengthen consular protection in unstable but diplomatically important countries such as South Sudan.
2. **Improve regulation of overseas enterprises.** Due to weak Chinese regulations, some unqualified Chinese companies are operating in South Sudan, which has negative effects on both the quality of the infrastructure and the image of Chinese companies. The Chinese Government should thus improve its level of regulation.

Specialised agencies should also be established to assist companies when they encounter difficulties. Private organisations like the Chamber of Commerce could play the role of coordinating and protecting the interests of Chinese enterprises.

- 3. Provide more guidance to the private sector.** Private enterprises tend to be more vulnerable due to insufficient governmental management as compared to state owned enterprises. The Chinese Government and its embassy in South Sudan should guide and regulate private enterprises. The embassy should organise trainings for executives of private enterprises, helping them improve knowledge of the host country in which they work. In turn executives could then train their middle managers and front-line staff.
- 4. Increase efforts to support peace and security.** The Chinese Government should be more dedicated to South Sudan's peace and security within the framework of the Forum on China-Africa Cooperation through, for example, improving local livelihoods, promoting reconciliation between South Sudan and Sudan, and encouraging South Sudan to improve its overall investment environment.
- 5. Promote better understanding of China.** The Chinese Government should implement people-to-people educational and cultural exchanges between China and South Sudan, especially for non-governmental actors. They should also consider setting up Confucius Institutes or Chinese teaching centres in colleges or universities, such as the University of Juba, as a way of actively promoting Chinese culture.

## Recommendations for the GoSS

- 1. Develop more stable policies and regulations.** The GoSS should identify the country's most pressing problems and develop the necessary policies and regulations, including a sound monetary and exchange rate policy, a clear tax policy, and an effective labour law. Stable policies will lead to a stable investment environment.
- 2. Protect the legitimate rights and interests of foreign enterprises.** The GoSS should be fully aware of the importance of foreign companies to its national development. Given the serious shortage of infrastructure, the government should value the role of Chinese enterprises in this sector and provide more preferential policies, eliminate local protectionism, and improve the investment environment. Moreover, the GoSS should regulate the behaviour of its law enforcement and regulatory authorities to ensure the legal rights of foreign companies are protected.
- 3. Better manage the effects of foreign investments.** The GoSS should coordinate with all affected parties before allowing new development projects to begin operations. In particular it should resolve land disputes to ensure all parties share the benefits of foreign investment. Attracting foreign investments while simultaneously improving people's livelihoods is conducive not only to national stability and unity, but also to a positive relationship between foreign companies and the local population, thus contributing to a constructive interaction between foreign investment and domestic development.