The Rise of Africa in the International Geopolitical Landscape – a U.S. Energy Perspective

by Dr. Christina Y. Lin

This paper explores the changing U.S. perspective of Africa as a "lost continent" to a land of "strategic opportunity". Due to rising global energy demands, ongoing terrorism in the Middle East and North Africa, and negative externalities of China's activities in Africa such as arms proliferation, environmental degradation, poor governance and human rights abuses, Africa is gaining prominence on the radar screen of U.S. national security interests. With the Pentagon's creation of U.S. Africa Command and the creation of the Shanghai Cooperation Organization's Energy Club this year, the stage is set for a new geopolitical dance of superpower rivalry for resources on the African continent.

However, this resource competition also offers prospects for engagement and cooperation through multilateral fora in the issue of energy security. This paper argues that U.S. Africa Command, in working with NATO and the Shanghai Cooperation Organization, can coordinate with the African Union and United Nations for joint efforts to stabilize the energy sector as well as take constructive steps to help African governments move away from the "resource curse" of the petroleum-state model.

Why the Interest in Africa?

Energy

From an U.S. perspective, historically there has been little interest on the African region and some have termed U.S. policy towards Africa as one of "benign neglect". For example, a 1995 Pentagon report on *US Security Strategy for Sub-Saharan Africa* stated that "Ultimately we see very little traditional strategic interest in Africa". During that time, oil was still $15 per barrel, and people by and large did not give much thought to oil supply, nor to Africa, with news coverage of Africa focusing mainly on famine and genocide. Fast-forward 10 years later however, and Africa is being transformed into a new lucrative source of oil & gas for the global market with increasing investment from not just Europeans, but also China, Russia, India, and the U.S.

There are several reasons for this changing view on the importance of Africa. The first reason is *increasing energy demand from Asia*, especially India and China. In 2005, 40 % of global energy demand came from Asia Pacific region, and this figure is expected to rise. High demand, coupled with consistently elevated prices of oil at $60-$80 per barrel, and fear of peak oil especially in the Middle East, are driving energy consumers to seek alternative suppliers. The second reason is *uncertainty of supply* and continued Middle East conflict.

This prompted a call by President Bush in his 2006 State of the Union Address to diversify Middle East oil dependence by 75 % by the year 2025. Moreover, U.S. efforts to distribute America's energy security portfolio across multiple nodes have taken on new urgency since 9/11. The third reason for Africa's attractiveness is *discovery of reserves with new technological advances*. Deep water drilling (more than 1,000 feet) has freed up reserves in Africa that was hitherto not commercially viable, especially off the coast of West Africa in the Gulf of Guinea.

Admittedly, the skeptic may question the feasability of Africa as an alternative source of energy supplier, given that it only has 10 % of world's proven reserves while the Middle East has 63 %. However, notwithstanding these doubts, there are several reasons that make African oil attracive, mainly its low sulfur content, its reserve location offshore, and favorable production sharing agreement (PSA) contracts. African oil, being light and low in sulfur, translates into lower processing cost of needing little refining, which also meets the U.S. and E.U.'s strict environmental standards.

In contrast, Middle East oil is heavy and high in sulfur content, which is mainly sold to the Asian market with their more laxed environmental standards. Additionally, the location of African oil reserves being offshore reduces transport cost, since there is no need to build expensive pipelines through conflict-ridden zones onshore. New technologies, such as the Floating Production Storage and Offloading Vessel (FPSO), are giant ship-like hulls that contain floating factories the size of several football fields where crude oil extracted from deep waters is brought for processing and production, stored in containers that can hold in excess of 2 million barrels, and then offloaded onto supertankers for transportation to refineries anywhere in the world. Moreover, FPSO has enabled drilling 200 miles-plus off the world's coastlines, so that currently two-thirds of the world's new oil/gas discoveries come from deepwater reserves. This to a large extent has abated peak oil fears.[1]

Finally, African nations grant favorable contracts called PSAs, whereby a foreign oil company is awarded license to look for petroleum (on the condition that it assumes up-front costs of all exploration/production) and will share revenues with the host government if oil is discovered on the block. PSAs are generally offered to impoverished countries that would never be able to amass either technical expertise or billions in capital investment required to drill for oil themselves.

This is attractive for the international oil companies because a relatively small up-front investment can quickly turn into untold billions in profits. Contrast this with Saudi Arabia, where state-owned Saudi Aramco has a monopoly on exploration and production and distribution, the three qualities of African oil being light, has less transport cost, and PSA arrangements indeed render it more attractive to the U.S. and its energy needs. In fact, a 2000 U.S. National Intelligence Council report predicts that US will import 25 % of oil from Africa by 2015.

John Ghazvinian, *Untapped: The Scramble for Africa's Oil* (Orlando, FL: Harcourt, Inc., 2007), pp. 84-87.

Counter-terrorism

Another reason for the focus on Africa is increasing terrorism and violence on the continent. Africa has a large ungoverned area and is rampant with failing and failed states that provide a breeding ground for terrorists. For example, U.S. defense intelligence states that many foreign fighters from Iraq come from Morocco and Algeria. Thus, countering terrorism and improving African security would promote U.S. interests and reduce a source of terrorism against the U.S.

Additionally, U.S. is interested in ensuring maritime security and protection of trade routes from Africa. The U.S. is increasing economic relations with Sub-Saharan Africa via a comprehensive U.S. trade and investment policy for the continent called the African Growth and Opportunity Act (AGOA). Moreover, Nigeria is now the third largest global oil supplier to the U.S., the largest global energy consumer, thus instability in the country will affect world oil prices. For exampe, instability in the Niger Delta regions have resulted in 25 % oil shut-in, and world oil prices rose above $60 per barrel in April 2007 after the country held disputed national elections and above $70 per barrel in May 2007 after attacks on pipelines in the Delta.[2]

Thus, increasing violence in the Niger Delta which contributes to world volatility of oil prices, in conjunction with piracy, illegal fishing and trafficking in the Gulf of Guinea, and the traditional U.S. naval role of guarantor of free sea lanes of communication (SLOC), are key drivers for U.S.' increasing focus on Africa. This culminated in the creation of Pentagon's U.S. Africa Command (US AFRICOM) in February of this year, which is an internal reorganization of parceling off countries divided along the seams of Central Command (CENTCOM), European Command (EUCOM), and Pacific Command (PACOM) into Africa Command to better address rising priorities in Africa.

Countering China's Negative Externalities in Africa

One more reason for the shift in U.S. focus on Africa is China's activities in Africa. The main criticism of China's activities in Africa is its negative externalities of soft loans that undermine international efforts for structural adjustments to alleviate poverty, improve human rights and democracy, instill good governance and improve sustainable development in poor African countries. For example, in Angola, a US$2 billion soft loan in 2005 undermined years of IMF's structural reform efforts. In many ways, it may be argued that China's activities and infrastructure projects have some positive spin-offs of lowering transaction costs and increasing raw material commodity prices that turns into extra cash in Africa's coffers.

However, the downside is that it is inadvertently creating dependency on China rather than utilizing Africa's own domestic resources and people. For example, the ratio of Chinese exports to locals contracted is as high as 70 % Chinese and 30 % local. China imports its own labor, which does not improve unemployment in Africa, nor does it assist Africa's private sector to grow both technically and financially. Moreover, China's development aid to Africa centers on grants and loans with own political condition of the One-China Policy[3], in which any country engaging with China cannot engage with Taiwan, and its own economic

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[2] Lauren Ploch, *Africa Command: U.S. Strategic Interests and the Role of the U.S. Military in Africa*, CRS Report for Congress, 6 July 2007, p. 13.
[3] Moreblessings Chidaushe, "China's Grand Re-entrance into Africa — Mirage or Oasis?" in *African Perspectives on China in Africa,* Firoze Manji and Stephen Marks eds. (Cape Town, South Africa: Fahamu South Africa, 2007), p. 116.

condition of allowing Chinese firms access to natural resources, repatriation of profits, and use of Chinese labor.

Another interesting development is that the Chinese are increasing their military presence and security forces to protect their energy assets. Currently there are an estimated 5,000 Chinese troops on the African continent, with 14 Chinese military attaché offices in the African countries (Algeria, Democratic Republic of Congo, Egypt, Ethiopia, Liberia, Libya, Morocco, Mozambique, Namibia, Nigeria, Sudan, Tunisia, Zambia and Zimbabwe). They regularly conduct military exchanges and training, and supply African nations, especially Sudan, with arms in return to access to oil and natural resources.[4]

When contrasted with the 1,500 combined civilian and military staff at U.S. base in Djibouti, one wonders why no one is raising the alarm of increasing militarization of China-Africa relations and only focusing on current U.S.-Africa relations over US AFRICOM, which is merely a new name for an internal Defense Department reorganization and not a new basing structure with new troops on the continent. Some pundits suggest this may be because China has already established a beachhead on the continent and have standing defense attache offices in various countries. As such, these African countries do not want to upset China and risk losing their no strings aid packages, as well China's UN Security Council vote that would protect African governments from sanctions over human rights abuses.

Africa's Challenges

Cycle of Underdevelopment: Resource Curse and Dutch Disease

Resource-rich countries generally experience the 'resource curse', or 'paradox of plenty', in which they fail to experience wealth from their resource endowments but rather undergo a cycle of persistent underdevelopment. This is what is called the 'Dutch Disease', named after the Netherlands in the 1970s when discovery of natural gas in the North Sea crowded out their manufacturing sector. The sudden increase in value of natural resources led to appreciation of real exchange rates, which made their exports in non-natural resource commodities more expensive and less competitive in the international market. Whereas foreign exchange earned from natural resources could buy internationally traded goods, it is at the expense of domestically manufactured goods. Domestic labor and material shift to the booming resource sector, and the price of resources increase in the domestic market, leading to an increase in cost to producers in other sectors and crowds out previously existing sectors. In the Dutch case their manufacturing sector was crowded out and the country experienced an overall economic decline; in the African case it is their agricultural sector.

Moreover, resource-rich countries are *rentier states* — that is, they receive rents from foreign companies for their resources rather than revenues from domestic taxes. Since the state does not depend on its own citizens for tax revenue, it has little incentive to be accountable for their welfare provision. As such, the governments are extracting rent from foreign companies on their oil assets and end up pocketing the revenues rather than reinvesting the money into the country's infrastructure.

Nigeria is a case in point. Nigeria receives 90 - 95 % of its revenues from oil, yet its citizens have yet to see the outlay of that revenues because of weak public budget and government

[4] Susan M. Puska, "Resources, Security and Influence: The Role of the Military in China's Africa Strategy" in *China Brief, The Jamestown Foundation,* Vol VII, Issue 11, 30 May 2007.

apparatus to distribute the revenues. Also, overexploitation have caused grave environmental damage to the Niger Delta, wiped out previously self-sustaining fishing villages due to oil spillage in rivers, obliterated the people's livelihood while failing to distribute earnings from the oil assets on their land.[5] Human rights abuses by security forces, forced migration and massacre have prompted the citizens to seek redress by holding hostages the producers and production of oil.[6] Such desparate situations have cause the people to form MEND (Movement for the Emancipation of the Niger Delta) to counter exploitation and oppression from African security forces and the government.

This is a formula for almost permanent instability, violence and eventually, civil war and state failure. In many aspects, the result of the 25 % oil shut-in in Nigeria was indirectly the responsibility of international oil companies and Nigerian government's greed in resource exploitation and lack of respect for human rights.

Thus, the combination of Africa's acute structural weakness of its government and China's tied aid conditions (repatriation of profits, access to resources and up to 70 % contracts to Chinese firms) pose development challenges for the African region. These challenges, coupled with China's industrial pre-eminence, mean that African development is unlikely to come from high-volume manufacturing,[7] and this may inadvertently keep the region in a cycle of uneven terms of trade in mainly exporting primary goods.

Potential Conflict Among Energy Players in Africa

Another challenge Africa faces is potential conflict among various energy-hungry states in Africa. China is not the only player in Africa. Africa is also a supplier of resources to Brazil, Russia, India, China, U.S., EU, South Korea and Malaysia.

Three of the main players, China, Russia, and India, are members and observers of the Shanghai Cooperation Organization (SCO), which consists of Russia, China, Kazakhstan, Kyrgystan, Tajikistan, Uzbekistan, and includes four observer members, India, Pakistan, Mongolia and Iran. SCO currently cover an area of over 30 million squared km, or 3/5 of Eurasia, with a population of 1.455 billion, or ¼ of the world's total population.[8] Its working languages are Chinese and Russian, with $1 trillion in reserves.

In July 2007, the SCO founded the 'Energy Club' to coordinate energy policies among its producer, consumer and transit members.[9] This move alarmed the U.S. and E.U., given the recent pattern of Russia's increasing weaponization of energy as a political currency in international relations. Russia's use of interruptions in the supply of natural gas as a political weapon against Poland and Bulgaria in the 1990s, against the Ukraine and Georgia in 2006, as well as an interruption in the supply of Lithuania are evidence of the considerable negotiating power that Russia is determined to wield.[10]

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[5] Macartan Humphreys, Jeffrey D. Sachs & Joseph E. Stiglitz eds., *Escaping the Resource Curse* (New York: Columbia University Press, 2007).
[6] Human Rights Watch 1999, cited in Humphreys, Sachs, Stiglitz, 2007, p. 269.
[7] Nicky Oppenheimer, "No more the 'hopeless continent'" in *International Herald Tribune,* 1 June 2007.
[8] Horace Campbell, "China in Africa: Challenging U.S. Global Hegemony" in *African Perspectives on China in Africa,* p. 125.
[9] Marcel de Haas, S.C.O. Summit Demonstrates its Growing Cohesion" in *Power and Interest News Report,* 14 August 2007.
[10] Friedemann Muller, *Energy Security: Demands Imposed on German and European Foreign Policy by a Changed Configuration in the World Energy Market,* SWP Research Paper, RP2, (Berlin, Germany: Stiftung Wissenschaft und Politik, January 2007), p. 23.

In fact, in August 2007, Russia's Gazprom and Algeria's Sonatrach signed a memorandum of understanding calling for coordinated gas prices.[11] Moreoever, Russia and Iran's desire to form a gas OPEC through the Gas Exporting Countries Forum (GECF),[12] and the U.S.' call to include energy security in Article V of the NATO Charter at the NATO Riga Summit in November 2006, indicate a trend towards increasing intervention in global energy markets and the potential for military conflict as many energy producers and consumers strive for resource access in Africa. [13]

Given these challenges of China's negative externalities, potential conflict among various resource-hungry actors in Africa, and development conundrum of the resource curse, it is important for these various energy consumers and producers to work together within multilateral fora to reduce misperceptions and identify areas for cooperation.

Africa's Opportunities

Perception Management via Multilateral Fora

From the U.S. perspective, various stakeholders in Africa need to increase resources to establish bureaucratic mechanisms to address development and security challenges in Africa, and work in partnership with equity holders such as China, India, Russia and the E.U. The U.S. is beginning to take steps with US AFRICOM, which will have personnel to link security with development issues in the region. US AFRICOM can work within NATO with the African Union (AU) and SCO member/observer countries (e.g., Russia, China and India) to identify areas for mutual cooperation, such as counterterrorism on the continent or fighting piracy and illegal trafficking off coastal waters. US AFRICOM, NATO, and SCO can partner with AU and United Nations and pool their resources together to meet the UN Millennium Development Goals (UNMDGs).[14]

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[11] Pepe Escobar, “Who profits from a gas OPEC?” in *Asia Times*, 11 April 2007.

[12] Gas Exporting Countries Forum consists of 15 countries that control 73 % of the world’s gas reserves.

[13] Under Putin's presidency, there has been 'creeping renationalization' of Russia's energy policy. In 1997, before he was appointed Prime Minister and then elected President, he defended a Candidate of sciences dissertation 'Mining Raw Materials in the Strategy for Development of the Russian Economy' at the St. Petersburg Mining Institute. He views Russia's resource sector and particularly its energy industry as a strong supporter of a 'managed democracy' from above, and sees the demise of the Soviet Union as the 'greatest catastrophe of the 20th century'. See Frank Umbach, 'China and Russia: Implications for European and Transatlantic Security Cooperation' in *Energy & Security,* Politisch-Militaerische Gesellschaft e.V. (pmg) in cooperation with the Center for Strategic & International Studies Conference Report (Berlin: Politisch-Militaerische Gesellschaft e.V. (pmg)), p. 28. His consolidation of internal power in Russia and his re-nationalization policies of Russia's natural resources sectors during the last years are consistent with his views. So his weaponization of the oil & gas sector, ambition of gas OPEC through the GECF and the SCO's Energy Club appear to be on an upward trend as he consolidates more power and control over Russia's internal resources to serve Russia's external ambitions.

[14] UNMDG was established at the Millennium Summit in September 2000, committing a global partnership of nations to reduce extreme poverty and setting out a series of time-bound targets with a deadline of 2015. The eight targets are: (1) Eradicate extreme poverty and hunger; (2) Achieve universal primary education; (3) Promote gender equality and empower women; (4) Reduce child mortality; (5) Improve maternal health; (6) Combat HIV/AIDS, malaria and other diseases; (7) Ensure environmental sustainability; and (8) Develop a global partnership for development. Http://www. Un.org/millenniumgoals.

Moreover, it is important to have multilateral fora for dialogue, because that provides venues for consensus, arbitration, and outlets to diffuse bilateral tensions and misperceptions. It also provides a way to identify mutual areas of interest for cooperation, to prevent redundancy of aids, such as the 2005 US$2 billion soft loan to Angola that was not coordinated with multilateral donor organizations and undermined years of structural reforms to the detriment of Angola's development.

Transparency and Good Governance

Another way forward to resolve Africa's development challenges is to increase transparency of oil companies' dealings with African governments. Oil earnings in low-income countries should be turned into public investments rather than into increased private consumption, and that requires transparency on how much money the government is receiving from oil companies and place that into the public budget.

Generally, oil contracts are often opaque and do not disclose how much the international oil companies are paying the government nor if any portion of the revenues are distributed within the host country. To redress the opacity issues, the international community in 2002 launched a transparency initiative called Publish What You Pay (PWYP) whereby companies publish what they're paid by governments, and this is followed by the 2003 Extractive Industry Transparency Initiative (EITI), in which governments report what they pay oil companies.

While EITI currently operates on a voluntary basis and needs better enforcement mechanism, it nonetheless provides a foundation to work towards the goal of transparency. Africa's newly elevated status on the international radar screen and public consciousness may serve as impetus for subsequent EITI adoption, and it would be in Africa's interest to use this opportunity to leverage the world's current interest in its natural resources to establish adequate policies, laws, regulations, and systems to effectively manage the extractive industries and country revenues.

Some skeptics may view EITI and PWYP as paper tigers with no teeth, but as we've seen in the case of China and international opprobrium over its lax food and health safety standards, China is taking concrete steps to redress this issue. As such, by raising the international profile of development challenges in Africa and China's attendant negative externalities, this may likewise be the first step towards finally meeting these challenges and help Africa escape its resource curse of the current petrol-state dilemma.

Dr. Christina Y. Lin

Remarks:

Opinions expressed in this contribution are those of the author.

Dr. Christina Y. Lin is currently researcher for Jane's Information Group in Surrey, England and was previously director for China affairs in the policy planning office of the U.S. Department of Defense.