CHAPTER - 5

Oil as a Determinant of Sudan’s Foreign Policy

Sudan has currently become one of the upcoming oil producing countries in the world by facilitating participation of foreign oil firms in the exploration and subsequent production of its oil resources. The oil production through transnational partnership has brought about 70 per cent of total export revenues to sustain its foreign trade. The oil industry is, therefore, very critical for its economy. The expansion of oil sector in the 1990s has made Sudan strategically vital for the rest of the world. The international attention is over the years increasingly concentrated on the oil fields of Sudan as an alternative to the traditional oil surplus region. The Sudan Government in turn has started using oil as a major instrument of external negotiation to pursue its foreign policy objectives by means of serving military, economic and politico-diplomatic interests of its regime. The expansion of Sudan’s oil sector coincides with rising Asian interest in African oil. Asian powers have meanwhile acquired extensive knowledge and experience in domestic oil production. The increasing energy demands and post 9/11 geopolitical dynamics have redirected the concentration of Asian oil majors towards oilfields in Africa. Asian quest for African equity oil consequently creates a concrete ground for the current regime in Sudan to diversify the pattern of its transnational production linkage through consolidation of multiple Asian participations in its oil sector. Asian orientation of Sudan’s oil partnership is in fact propelled by the withdrawal of Western oil majors, which were instrumental in initiating the exploration and production activity in its oil fields. Nevertheless, the Sudanese oil sector is not completely free from Western participation.

This chapter begins by identifying the foreign policy priorities and preferences that are pursued by the regime in Sudan while crafting its oil diplomacy. Then it tries to compare as to how oil has determined the country’s relations with industrialised West on the one hand and Asia on the other. The chapter also looks at Sino-Indian interface that is manifested in Sudan’s oil engagement. It finally highlights the constraints that Sudan’s
oil partnership has to encounter in course of reorientation of its trajectory towards Asian participation.

5.1. Sudan’s Foreign Policy Priority: Diplomacy is the implementation of foreign policy, as distinct from the process of policy formulation. Diplomacy has got its two facets. First, it is the vehicle through which a State asserts itself and represents its concerns to the world. Second, it is also a principal means for conciliating competing national interests. In other words, diplomacy aims at achieving the goals of a State whilst preserving ‘international order’. Modern international negotiation does represent a ‘meshing of great systems’. It is commonplace today to observe that the world is becoming more interdependent. One system of this interdependence is the fact that complex political and economic problems are increasingly handled at the level of international negotiation rather than exclusively at the domestic level. The negotiators now a days perform those functions, which are construed as the extension of national policy making processes rather than mere formal diplomatic representation between the two sovereign States. International negotiation is currently becoming a more politicised affair. The distinctions between foreign and domestic affairs are consequently getting blurred.

The domestic politics and international relations are thus ‘entangled’ in some or the other way. Explaining as to how the domestic politics of several countries became entangled via an international negotiation, Katzenstein said, “The main purpose of all strategies of foreign economic policy is to make domestic policies compatible with the international political economy.” He stressed that the central decision-makers i.e. State must be

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3 Ibid.
simultaneously concerned with domestic and international pressures. A more adequate account of the domestic determinants of foreign policy and international relations meanwhile takes into account political parties, social classes, economic and noneconomic interest groups, legislators, and even public opinion and elections, not simply executive officials and institutional arrangements.

The domestic factors influence international affairs and vice versa. At the national level, domestic groups pursue their interests by putting pressure on the Government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national Governments seek to maximise their own ability to satisfy domestic pressures, while minimising the adverse consequences of foreign developments. Glenn Snyder and Paul Diesing stated that prediction of international outcomes is significantly improved by understanding internal bargaining, especially with respect to minimally acceptable compromises.

The central decision-makers strive to reconcile domestic and international imperatives simultaneously. This is more pertinent in case of negotiation on trade and investment partnership. The relationship between foreign investor and the host country, as postulated by Bargaining Theory, is based on the 'problem of joint-maximization'. Each party

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Ibid.

Putnam, op.cit, p. 432; He elucidated in his article that "state-centric" scholars in their more descriptive work are often sensitive to the impact of social and political conflicts, such as those between industry and finance, labor and business, and export-oriented versus import-competing sectors; Katzenstein, Between Power and Plenty, pp. 333-36.


has what the other needs to maximize their mutual benefits. The foreign investor has capital, organisational resources, expertise, international access to express markets, and marketing ability while the host Government has control of natural resources such as ore and crude oil as well as the labor force, and control over taxation, the trade and foreign exchange regime, and other law and regulation.12

There is an assumption that both parties to the bargaining process would act rationally to maximise their benefits from participation in the industry. Due to conditions of 'uncertainty',13 'bargains'14 are, however, struck which do not remain fixed. Changes do occur over time that might alter the relative bargaining strength of the parties and might therefore, usually discretely and discontinuously, alter the (transitory) outcome of the bargaining process. For example, as a host Government acquires experience in dealing with foreign investors and establishes a bureaucracy capable of overseeing and managing its extractive industry, it increases its bargaining power vis-a-vis the foreign investor. Likewise, a sharp decline in the world market price for raw materials, for example, would tend to undermine the bargaining power of the host Government and thereby shift the balance of power in favor of the foreign investor.15

Technology sharing is a major issue of the bargaining process at the present age. The preoccupations of traditional diplomacy were, however, war, sovereignty, territory, and the personal ambitions of rulers. Although these could be painful subjects, they were at least comprehensible through the application of political acumen and common sense. Negotiators today spend more time discussing technology than did their predecessors. The reason lies in the new reality that technology - whether it takes the form of information systems, industrial processes, or nuclear weapons - has a proportionately

12 Ibid, p.726.
13 It refers to the conditions under which the industry operates.
14 It implies the division of benefits.
15 Ronald and James, op.cit.; James Cobbe (1979), Government and Mini Companies in Developing Countries, (Boulder, Col.: Westview Press).
greater impact on human existence now than it had in the past. And technology is in a state of rapid change, often at an exponential rate. 16

Sudan has got its own foreign policy priorities and concerns while using oil as an instrument of external negotiation. The modernisation of the oil sector that is the mainstay of Sudan’s economy has become the primary agenda for the country during the formulation and implementation of its foreign policy. There is an American embargo on Sudan restricting the entry of American products and services into the country. These products and services could be routed through Asian partners, including India and China, which have made their investments in Sudan. Further, the costs of operation of Indian and other Asian oil firms are relatively lower rather than that of their western counterparts. The scale of oil extraction indeed depends on costs of operation of the companies participating in the oil field. 17

What is another source of major concern for Sudan is that it has not yet acquired the requisite exploration and production technology, which is very essential for revamping its oil sector. The acquisition of technology with least political cost has occupied the center stage in the country’s oil related negotiation with the external world. Sudan’s foreign policy is, thus, determined by both domestic and external factors. The oil industry that has become very critical the Sudan’s economy is the domestic determinant of its foreign policy. American sanction and Asian participation are, at the same time, two external factors that have determined Sudan’s foreign policy behaviours.

The domestic priority for modernising oil industry gets clearly reflected in Sudan’s foreign policy preference in terms of making calibrated engagement for transnational production partnership. 18 The Sudan Government uses oil as a major instrument of external negotiation to pursue its foreign policy objectives that are manifested in the military, economic and politico-diplomatic interests of its regime. First, the military

16 Gilbert, op.cit, pp. 89-90.
17 This point is based on an interview with Anupam Mathur, ONGC Videsh Limited, at New Delhi in June 2006.
18 I owe my initial understanding of the linkage between oil industry and foreign policy in Sudan to Prof. Ajay Dubey; I am also indebted to Dr. Vivek Mohan Dubey for sharing his thought on this point.
component of Sudan’s foreign policy calculus indicates the external procurement of arms to strengthen the security apparatus in the midst of prolonged civil war. Second, the economic aspect refers to receiving financial credit and assistance on favourable terms at a time when the country’s economy is severely affected due to massive war expenditure and American sanction. Third, politico-diplomatic interests of the regime imply evoking support for Sudan in the international platforms on the controversial issues of territorial conflict and human rights violation. These regime interests have in fact become subjects of negotiation during the bargains for oil production partnership. That the oil industry is itself embedded in the territorial conflict makes the task of negotiation much more complex for the regime.

5.2. Oil as a Factor in Sudan’s Relations with West: The oil production activity was initiated by Sudan by means of facilitating the participation of western players equipped with effective exploration and production technology. The multinational oil firms from North America and West Europe undertook exploration and development of the oil fields, carried out the oil production, extended their involvement in the building of oil infrastructure, and moreover performed retailing function of the oil business in Sudan. The rise in oil production gradually enabled Sudan to begin oil exports in the year 1999. Thus, Sudan in due course of its oil production got integrated with the expanded world oil regime as an upcoming oil producer by forging partnership with Western oil firms.

The oil industry became very crucial for the economy by contributing maximum share of export revenues to the country’s exchequer. The expansion of Sudan’s oil sector, however, coincided with the resurgence of civil war in the 1980s. The revival of intra-State territorial fight has placed Sudan in an adverse position vis. a. vis. the Western powers. They have accused the regime in Khartoum of using oil revenues for strengthening its security apparatus against the rebels in south. American comprehensive trade sanction was meanwhile a turning point for the Sudanese oil industry.19

A. M. Abdel Zahir, Representative of the Sudapet in the Greater Nile Petroleum Oil Company (GNPOC), said that American sanction was intended to hamper Sudan’s oil industry by denying it the latest technology and equipment. The Deputy Secretary General of the Ministry of Energy and Mining (MEM) of the Sudan Government, Hamed Elneel Abdel Gadier, expressed Sudan’s apprehension about American scramble for oil by saying that oil basins throughout the world are prime targets of the US, which doesn’t care about border of other countries. He went on to say that Americans would not hesitate to redraw the political map of the world according to the oil basins. While speaking on the US’ connection to the Sudanese oil industry, he mentioned that his country has neither requisite technology nor investment for the oil industry, nor does it have the surplus oil to bribe Americans. The US’ hostility towards Sudan is indeed an extension of the latter’s adverse relation with the West that led to the withdrawal of major Western oil firms from its oil industry. The Asian oil majors have simultaneously replaced the Western partnership over several oil fields in Sudan.

5.3. Oil as a Factor in Sudan’s Relations with Asia: There is a coincidence in the expansion of Sudanese oil industry with rising Asian interest in African oil. Asian quest for African equity oil provides a concrete ground for the current regime in Sudan to diversify the pattern of its transnational production linkage through consolidation of multiple Asian participations in its oil sector. The shift that Sudan’s foreign oil policy behavior has undergone is due to the withdrawal of major Western oil firms, which have initiated the exploration and production activity in its oil field. The underlying rationale for such approach, therefore, lies in the intents to ensure that Sudan’s oil production remains less dependent on the partnership with West, and at the same time to foreclose an eventuality where any single Asian player does monopolise its oil sector. Asian orientation has consequently become the dominant trajectory of the transnational production partnership that Sudan is currently forging for its oil industry.

20 Interview with A. M. Abdel Zahir, Manager, Exploration Department, Greater Nile Petroleum Oil Company (GNPOC), at Khartoum in April 2007.
21 Interview with Hamed Elneel Abdel Gadier, Deputy Secretary General, Ministry of Energy and Mining (MEM), Sudan Government, at Khartoum in April 2007.
Asian countries including not only China, India and Malaysia but also Japan, South Korea, Singapore, Indonesia and Taiwan, have come to be the most important investors in Sudan, an increasingly significant source of Sudan’s imports and a dominant feature of Sudan’s export profile, largely through oil. Over the past decade, in Sudan the declining economic role of the West has been counter-posed against an increase in Asian importance. The impact of sanctions on Western companies has been reinforced by the high-profile American-led divestment campaigns initiated during the war in Southern Sudan and reinvigorated over Darfur.\(^{22}\)

The reorientation of Sudanese trade toward Asia can be seen in official Sudanese import and export statistics. In 1994, for example, Asian countries made up 21.9 per cent of Sudan’s exports: China accounted for 6.1; Japan 4.5; Thailand 4.6; South Korea 1.7; and Taiwan 0.1 per cent. In addition, these countries made up 21.4 per cent of imports: Japan supplying 3.7; China 3.2; India 2; Indonesia 2; and South Korea 1.6 per cent. These figures compared with the amounts for industrial countries (US, UK, France, Germany, Italy and Germany), which took a combined share of 37.7 per cent of Sudan’s exports and a 36.9 per cent share of its imports. The Asian share of Sudan’s total imports and exports in particular has increased appreciably since 1999, with China accounting for by far the largest proportion. Asian imports constituted 37 per cent of Sudan’s total imports in 2005 and 2006, and the per cent age of Sudan’s exports going to Asia rose to 85 per cent in 2005 and 2006, largely accounted for by oil.\(^{23}\)

The leading Asian investors in Sudan are marked by a similar combination of political relations facilitating economic links and providing the resources to invest. China and India’s respective import–export banks have been central to this process of underwriting expanding business operations in Sudan. The role of respective national oil companies in

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\(^{23}\) Ibid.
facilitating business expansion not only connected to but also evolving beyond the oil sector can be seen in the cases of Malaysia, India and China.  

China is the foremost external economic actor in Sudan today and leads the strong Asian thrust to Sudan’s foreign economic relations. Sudan was the fourth country on the continent to establish diplomatic ties with the People’s Republic of China (PRC) on February 4 in 1959. Since that time, China has maintained good relations with Sudan’s different parliamentary and military Governments. Premier Zhou Enlai visited Khartoum in January 1964. Though Sudan had supported the entry of China into the UN in 1961, his meeting with President Abbōūd was reported to be not especially successful. However, a shared colonial history and events involving General ‘Chinese’ Gordon provided a symbolic link between China and Sudan.  

The relations improved markedly during President Nimairi’s rule in Sudan (1969-1985), especially during the 1970s, a time when the country enjoyed good relations with the US in the fluctuating context of the Cold War. China’s favourable position was due to the contrasting reactions of the Soviet and the Chinese Governments to the attempted overthrow of Nimairi in 1971. The leadership of the Communist Party of China (CPC) prudently kept silent and was quick to congratulate Nimairi once he was reestablished in power. Furthermore, Beijing’s unequivocal support for Nimairi’s suppression of the communists, contrasting as it did with Soviet protests against the execution of the coup’s ringleaders, won President Nimairi’s favour for the PRC. The Chinese Government offered to help train Sudan’s armed forces and supplied military equipment. Sudan received Chinese economic grants, soft loans and technical expertise. China mounted an aid programme after the 1972 Addis Ababa peace agreement. The Chinese-built

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24 Ibid.
25 Gordon’s career began in China, where he supported the Qing Dynasty against the Taiping rebellion by leading a militia known as the Ever Victorious Army, and ended in Khartoum at the hands of the Mahdist rebellion in 1885.
26 Between 1970 and 1972, for example, the PRC granted Sudan some S$28 million in loans for a variety of projects, including the construction of the Wad Medani–Gedarif road and programmes such as the development of fishing, the modernisation of rice cultivation under the Gezeira scheme, and a survey of chrome resources.
Friendship Hall in Khartoum symbolised the flourishing inter-State relations of the 1970s. Today, many Sudanese remember the Chinese contribution during this period in a positive light. 27

Ali Abdallah Ali has distinguished between two periods in the history of Sudan–China relations: ‘before and after oil’. 28 This division captures the important difference between China’s economic relations with and involvement in Sudan before and after the 1990s: Broadly speaking, China was a less significant economic partner with a much less involved role in Sudan at a different phase of China’s own development. China’s trade with Sudan had not been important, nor had the country developed serious interests in Sudan. China’s economic relations with Sudan during the 1980s were not especially important. Trade continued, and there was a limited business expansion and efforts to increase trade. 29

A very different and consequential politics has, however, developed since the early 1990s and has accelerated through oil cooperation. The historical backdrop before the take-off of relations in the 1990s is thus important in certain respects. It plays a role in framing relations and informing the language of official interaction. However prominent the role of history, the period of substantive Chinese involvement in Sudan is comparatively short and would deepen progressively over the 1990s until the present moment largely because of oil. China’s role in Sudan today is different from that during previous phases of relations as it is more far-reaching and involved than at any period in the past. This underlying trend is one reason why China’s position in Sudan has become more challenging for the Chinese Government. 30

Three trends in the development of relations stand out as factors contributing to the serious entry into and expansion in Sudan by China. First, as for Malaysia and later on India, China’s position in Sudan today has been importantly shaped by the nature of

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29 Ibid.
30 Ibid.
Sudan's foreign relations during the 1990s and the destructive wars in Southern Sudan, as well as its own investment strategy. The coup on June 30 in 1989 that brought the National Islamic Front (NIF) to power in Khartoum came shortly after the Chinese Government had forcibly put down political protests on Tiananmen Square. Beijing appeared to be uncertain about the nature of the new Sudan Government headed by the chairman of the Salvation Command, Brigadier Omar Al-Bashir, who visited China and met the new Chinese President Jiang Zemin in November 1990. Northern Sudan’s new hardline Islamist Government promoted a domestic project of Islamist social transformation and renewed its war on Southern Sudan against the Sudan People’s Liberation Army (SPLA). Islamist support for Iraq and Saddam Hussein over the 1991 Gulf War, notably by Hassan Turabi, caused problems for Khartoum from America and Europe. The NIF was associated with support for terrorism, including the attempted assassination of the Egyptian president in June 1995, which deepened Sudan’s regional isolation in the West Asia, reinforcing the NIF’s need to turn to China. It was the object of UN sanctions from 1996 and US sanctions from 1997, although the European Union (EU) adopted a policy more in line with constructive engagement.  

Second, the Government of Northern Sudan turned to the Chinese Government out of need. As well as political isolation, the NIF faced a crisis of State finance as its war on Southern Sudan continued. The Sudan Government’s turn to China for oil investment might have been debated within ruling circles, and questioned by some, but it was driven by necessity and assisted by China’s own receptiveness to the prospect. Limited efforts had been made to enhance trade in 1993, including a Chinese trade fair in Khartoum. In 1994, the GoS expressed interest in Chinese assistance in oil development, which led to a preliminary survey conducted by the China National Petroleum Corporation (CNPC). Further deals to finance oil development were completed in late 1995 following a visit to Beijing by President Bashir.  

31 Daniel, op.cit.  
33 Daniel, op.cit.
Northern Sudan’s relations with China have exemplified genuine State-level mutual benefit. China officially presents President Bashir’s request for assistance with oil development at this juncture as an overture to which it has responded positively. China, however, had good reasons to be interested in expanding economic relations with Sudan, particularly through ‘energy cooperation’. Established Western corporations controlled other key oil-producing areas on the African continent and beyond. Given the difficult circumstances of China’s own foreign relations after 1989, and like Africa more generally, it viewed Sudan as a political ally. Furthermore, as the largest country in Africa, Sudan was seen as a resource rich State with a market deemed to have high, untapped potential partly because of a lack of business competition.34

The international isolation of Sudan and its vast natural resources provided an opportunity with strong potential to China, even if Sudan’s complex politics and war economy meant that according to China’s calculation, Sudan presented a combination of difficult circumstances entailing investment risks combined with the prospect of benefits to Chinese businesses.35 The CNPC and Petronas stepped up operations as Western companies, notably Talisman, came under pressure to withdraw. Chinese and other Asian oil companies benefited from measures designed to apply pressure on the Government in Khartoum, including economic sanctions on US business with Sudan. The successful development and running of Sudan’s oil sector amidst the civil war in Southern Sudan from the mid-1990s demonstrated the absence of investment constraints and dovetailed with GoS military objectives. Furthermore, CNPC had the benefit of State-directed political support and was not significantly affected by international transparency demands.36

Finally, oil has been central to the development of relations and continues to be so. China’s entry into the Sudanese oil sector came in the wake of a long history of efforts to develop an oil export industry. Oil was fundamental in influencing political developments

34 Ibid, p. 3.
36 Daniel, op. cit.
in Sudan, notably during the breakdown of the 1972 peace accord. Prior to the period of CNPC activity, during a time when the American company Chevron was active, oil was already associated with the dynamics of conflict. While China has never been the sole oil operator in Sudan, its CNPC-led involvement represented a decisive phase in Sudan’s longstanding attempts to become an oil exporter. Chinese companies were at the forefront of a State backed strategy that was successfully implemented during the war to construct the apparatus necessary to extract, process and transport oil from the southern fields to Port Sudan.37

In practice, the development of Sudan’s oil sector entailed risk sharing and technical and other forms of cooperation among a range of oil companies. The major national oil companies took the lead, but they were supported by a string of sub-contractors. All were closely and necessarily connected to the Sudan Government.38 The CNPC shared the investment risk of entering war torn Sudan. If China’s contribution to the development of Sudan’s oil sector was significant, Sudan was important to China’s efforts to develop its oil sector. China’s involvement in Sudan spans an important phase in the restructuring and expansion of its national oil companies overseas. The aim was to build internationally competitive firms and to enhance China’s security in regard to an energy supply. Sudan was important to the process of expanding the Chinese oil sector abroad. CNPC’s success in Sudan in 1999 contributed to the State Council’s endorsing CNPC’s strategy of overseas oil asset shopping.39

China’s politico-diplomatic support to Sudan is meanwhile a major factor that has sustained the oil partnership between the two countries. China has generally vetoed or otherwise opposed UN Security Council measures to hold Sudan accountable. As of September 2006, the Security Council had issued nearly a dozen resolutions on Darfur with negligible effect. China did support Resolution 1706, which authorised UN

37 Ibid.
peacekeepers in Darfur. However, the Resolution required Khartoum’s consent, which was forthcoming. In September 2004, China weakened Resolution 1564, which would have sanctioned Sudan if the Government failed to disarm the Janjaweed (proxy militias). Under Chinese pressure, the final language of that Resolution was that the Council would "consider taking additional measures" instead of directly sanctioning Sudan. In March 2005, it passed Resolution 1591, which banned travel for and froze the assets of perpetrators of human rights violations in Sudan. The US had also proposed sanctions on Sudanese economic resources, including oil, but China had rejected these, arguing that sanctions would make peace negotiations more difficult.\(^\text{40}\) Sanctions also would have halted the shipment of Sudanese oil to China. In early 2006, China sided with Quatar to block the release of a UN report that supported sanctions against individuals believed to be obstructing peace efforts in Darfur.\(^\text{41}\)

The role of Malaysia was similar to that of China in Sudan’s engagement with Asia. Minister for Energy and Mining of Sudan Government Awad Ahmed al-Jaz described Malaysian Government as ‘friends of yesterday, today and tomorrow who came to Sudan during difficult circumstances.’\(^\text{42}\) Petronas is a major player in Sudan’s oil industry. The Sudan Government has maintained political ties with the Malaysian Government in a relationship where Islam has been of primary importance in promoting economic relations.\(^\text{43}\)

Malaysia has supported Sudan on the international stage. It has expressed support for Sudanese President Bashir over the conflict in Darfur and has stood up for Sudan’s sovereignty. Malaysian Prime Minister Badawi, for example, argued against the imposition of sanctions on Sudan during his State visit to Khartoum in April 2007. Malaysia’s position at that point as chair of the Organisation of the Islamic Conference (OIC), which Sudan joined in 1969, meant that the statement attracted wide attention. Sudan’s ruling National Congress Party (NCP) led by President Bashir had looked to the

\(^{40}\) Edith M. Lederer (21 March 2005), “United States propagates U.N. sanctions against Sudan”, AP.
\(^{42}\) Agence France-Presse (AFP) 2005.
\(^{43}\) Daniel, op.cit, pp. 3-4.
OIC for international support. After meeting the Malaysian Prime Minister in April 2007, for example, President al-Bashir called on the OIC to help Sudan ‘confront western pressure to accept international forces in Darfur’. 44

The level of total bilateral trade between Malaysia and Sudan has stood at $51.9 million in 2006 (some $51.7 million being Malaysian exports to Sudan). Malaysian investment in oil remains important through Petronas, which is also involved in the oil retail business in Sudan. Malaysian companies have been urged by the Malaysian and Sudanese Governments to expand investment in Sudan. Malaysian business is already active outside the oil sector. In January 2004, PJI Holdings and Sumatec Resources won a $1.2 billion contract for the 850 km-long Khartoum–Sennar railway. Sithru Sdn Bhd was awarded an exclusive letter of intent by the Government of Southern Sudan (GoSS) in June 2006 to undertake a 5 000 megawatt hydroelectric facility in Southern Sudan, valued at $9.5 billion over 15 years. 45

Malaysian trade delegation visited Sudan in November 2006 brightening the prospects for further business activities. Malaysian Prime Minister Badawi during his 2007 trip made efforts to promote Sudan as an investment opportunity to Malaysian business. Agriculture and food were identified as sectors with particular potential. Sudan was presented as a business bridge for Malaysian companies to the Common Market for Eastern and Southern Africa (COMESA) and the Greater Arab Free Trade Area (GAFTA). 46 Badawi argued that Malaysia and Sudan had much to contribute to bilateral trade expansion, as well as to the OIC. 47

There has also been a lot of cooperation in the field of education and human resource development, especially from the Malaysian side. The number of Sudanese students

44 AFP (2007).
45 Daniel, op.cit, pp. 4-5.
47 Daniel, op.cit.

Malaysia has remained important for the Sudan Government in terms investment and potential military assistance. One of Malaysia's greatest ventures in Sudan, apart from the oil project, has been the management of the country's transportation system. That became an increasingly important sector with the development of the petroleum industry, as tankers were needed to transport huge volumes of oil from storage facilities to ports for export. The Malaysian company Metrobus committed to supply 1500 buses in several stages to Sudan. Following the bilateral commercial accords signed between Sudan and Malaysia in 1998, other projects were initiated such as a Malaysian oil palm plantation project in Sudan and the setting up of power generation plants.  

It was alleged that Malaysian involvement in covert arms transfers to Sudan has won it favour with the Government in Khartoum. According to Human Rights Watch, official documents had allegedly surfaced which detail Malaysia's coordination in concluding arms deals between the Sudan Government and arms dealers in Southeast Asia. According to the former Administrative Attaché at the embassy of Sudan in Kuala Lumpur, Abdel Khattab, heavy armaments including aircraft, tanks and mortars were procured in 1997 from China, Indonesia, and the Russian Mafia. These items were allegedly shipped to Sudan under the guise of Petroleum exploration equipment in the names of Petronas and the CNPC.  

The documents were said to reveal that a Malaysian Government loan of $ 200 million and foods collected by Islamic charity organisations were used to pay for the arms. Khattab defected to the opposition and sought political asylum in the Netherlands. The author of that report was unable to independently confirm the allegations made by Khattab. If the allegations were credible it would have directly implicated the two major

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48 Malaysian Government, Ministry of Education, Department of Private Education.  
50 Ibid.
partners in the Greater Nile Oil Project (GNOP), CNPC and Petronas (together holdings 75 per cent stake), in arms transfers to the NIF. Being State owned companies it was hard to hold them accountable for such actions, particularly when there were no public shareholders to bring pressure to bear on the company executives.\textsuperscript{51}

India has played a more significant role along with its Asian coplayers in Sudan. Its concerted efforts to expand economic relations with Sudan are part of a wider scaling up of business engagement with Africa. India-Sudan bilateral engagement is rooted in their historical ties. An Indian Liaison Office was set up in Khartoum on the eve of Sudan's independence in April 1955. Two episodes in fact stand out. First, Sudan's first parliamentary election was supervised by the Chief Election Commissioner of India Sukumar Sen in 1953. Second, India's first Prime Minister Jawaharlal Nehru made a historic gesture of granting Sudan early independence at the Bandung conference in April 1955 where he is said to have written 'Sudan' on his handkerchief to create an improvised flag of Sudan, thus welcoming the country into the international community before its formal independence on January 1 in 1956.\textsuperscript{52}

Since April 2003, Sudan has been included in India's enlarged Focus Africa programme that was launched in 2002 to expand economic interactions with seven major trading partners headed by Nigeria, South Africa and Mauritius. The visit by the then Indian President Abdul Kalam to Sudan in October 2003 injected momentum into relations. India's engagement is underpinned by economic motivation, and New Delhi's relations with Khartoum have featured the cultivation of mutually beneficial working political relations. The Indian Government has supported the sovereignty and territorial integrity of Sudan amidst debate on intervention in the context of Darfur.\textsuperscript{53}

The two Governments offer mutual support in a number of areas. Sudan supports India's aspirations to become a permanent member of the UN Security Council. In turn, the Indian Government agreed in 2005 to assist Sudan in its aim of World Trade

\textsuperscript{51} Ibid.
\textsuperscript{52} Daniel, op.cit.
\textsuperscript{53} Ibid.
Organisation (WTO) accession. The two Governments present a shared public commitment to South–South cooperation. India was represented as an observer at the March 2006 summit of the League of Arab Nations in Khartoum, where its Union Minister of State for External Affairs delivered a solidarity statement by India’s Prime Minister Manmohan Singh.54

After the Sudanese Foreign Minister’s trip to India in June 2005, the Indian Government restated its support for the sovereignty, unity and territorial integrity of Sudan. Furthermore, it affirmed that Darfur “is an internal crisis” to be resolved by the Sudan Government “in consultation with the AU”; “India was not in favour of sanctions which could be counter-productive”.55 The UK Government sponsored a resolution on human rights in Sudan and Darfur that was not passed in the UN General Assembly Third Committee (Social, Cultural and Humanitarian) after a ‘no action motion’ was tabled by Nigeria and supported by India and Malaysia in 2005. The resolution was, however, passed by 84 votes to 79, with 12 abstentions. India tries to segregate its oil partnership from the Darfur issue that, it says, needs to be dealt at the African Union (AU) level. As Sanjeev Kakran, Vice President of ONGC Videsh Limited, said, “The shadows of Darfur don’t affect us”.56

The bilateral trade between India and Sudan totalled some $621.53 million in 2006. Sudan–India trade is imbalanced in favour of Indian imports. Sudan’s exports to India have been minor: In 2006, they amounted to $22.5 million (0.4 per cent of exports), having been $30.8 million (0.6 per cent) in 2005 with gum arabic being the largest single item. Sudan’s imports from India, however, have increased notably since 2002. The increase was partly due to their initial low starting point, imports having been $115.96 million in 2002. In 2006, however, imports totalled $599.04 million (7.4 per cent of Sudan’s total imports), an 88 per cent increase in 2005. The largest portion was made up

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54 Ibid.
55 Joint Statement of India and Sudan at the end of Visit of Dr. Mustafa Osman Ismail, Foreign Minister of Sudan, 8 June 2005.
of petroleum products ($226 198 million) followed by manufactured goods ($113 015 million) and machinery and equipment ($102 806 million). The increase can be attributed to State-directed efforts to support the expansion of Indian business with Sudan. Between 1996 and 2005, Sudan attracted the fourth-largest share ($964 million) of Indian foreign direct investment (FDI). The ONGC’s participation in oil inducts has led to Indian economic expansion in Sudan. A range of public and private Indian companies have sought to enter Sudan, aided by investment promotion channels such as the India-Sudan Joint Business Council. The Associated Chambers of Commerce and Industry of India sent a 200-member business delegation to Sudan in August 2006. The first Enterprise India Advantage Sudan trade fair was held in Khartoum, featuring some 78 public and private Indian companies and conducting business worth $150 million in an event touted as marking 50 years of diplomatic ties.

The comparatively recent Indian business growth in Sudan has been supported by a Government-sponsored investment framework. India’s economic policy toward Sudan operates on the basis of ‘a nonexclusive five-plus-one policy’: five areas, presented as ‘priority sectors in which India can respond to Sudan’s developmental requirements’ (infrastructure, agriculture, human resource development, information and communications technologies, and small and medium industries) are supplemented by ‘commercially viable investment’ in energy and manufacturing. Opportunities for Indian business are integral to the five-plus-one policy. The Export Import (EXIM) Bank of India has played a key role in financing and promoting Indian exports to Sudan. A major part of the rationale behind credit lines was to ‘provide initial help to kick-start our [Indian] exports’. India had extended Sudan a line of credit of around $50 million four times by February 2007, when it advanced a $48 million package directed toward solar electrification, railways and other projects.

57 Daniel, op.cit, pp. 5-6.
58 Ibid.
59 Sudan Tribune (17 February 2007), “Indian bank to offer US $48 m credit to Sudan”, Sudan Tribune.
In response to the Sudan Government’s request, India offered 20,000 tons of wheat as humanitarian assistance to the people of Darfur in March 2005. In April 2006, Central Electronics Limited of India installed a complete solar electrification system, funded by the Indian Ministry of Nonconventional Energy Sources, in remote Khadarab village in Gezira State, thus bringing light for the first time into the lives of over 2,000 villagers. In November 2006, Sudan became the 18th African country to sign the Pan-African E-Network Country Agreement with India for the establishment of a satellite and fibre-optic network, designed to provide effective communication and connectivity among the 53 members of the AU. Funded by India, the US$ 50 million project is being implemented by Telecommunications Consultants India Limited. When complete, the leaders of Africa would be able to video-conference instantly while the people would benefit greatly from tele-medicine and tele-education.  

Sudan's President In January 2007 inaugurated the country's first solar photo voltaic module manufacturing facility at the Energy Research Institute established by Central Electronics Limited with Indian equipment and technology. In early 2008, in response to an appeal from the Sudan Government, India sent relief supplies for the victims of the worst floods in living memory. Indian companies led by ONGC operating in Sudan have also contributed for developmental purposes.

Sudan is a major beneficiary of the Indian Technical and Economic Cooperation (ITEC) Programme and over 150 Sudanese nationals train in India annually. India trains Sudanese diplomats at the Foreign Service Institute in New Delhi. Other scholarships are also given. About 3,000 Sudanese students study in India each year. Most of them are in Pune, Mumbai, Chennai and Bangalore. Over 30,000 Sudanese have graduated from Indian universities.

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61 Ibid.
62 Ibid.
India, the largest trading partner of Sudan in the seventies, currently sells engineering goods, drugs and pharmaceuticals, agro-chemicals, machinery and instruments, transport equipment and vehicles, textiles, etc. India buys raw hides and skins, gum arabic, cotton, leather and metal scrap. Bilateral economic relations reached an inflection point in 2003 with India’s decision to invest upwards of $ one billion in the oil sector. India is now the second largest exporter to Sudan. The Bajaj auto-rickshaws, scooters, Tata buses and trucks, pumps and pharmaceutical products are found across towns and cities of Sudan. Maruti cars entered the market in mid-2006. Indian Basmati rice was formally launched in November 2006. Indian tractors are in the process of entering Sudan’s market.63

<table>
<thead>
<tr>
<th>Year</th>
<th>India’s Exports</th>
<th>India’s Imports</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>63.36</td>
<td>26.51</td>
<td>(+) 36.85</td>
</tr>
<tr>
<td>1999</td>
<td>63.81</td>
<td>5.46</td>
<td>(+) 57.44</td>
</tr>
<tr>
<td>2000</td>
<td>77.54</td>
<td>5.46</td>
<td>(+) 72.08</td>
</tr>
<tr>
<td>2001</td>
<td>87.72</td>
<td>9.24</td>
<td>(+) 78.48</td>
</tr>
<tr>
<td>2002</td>
<td>104.62</td>
<td>5.93</td>
<td>(+) 98.69</td>
</tr>
<tr>
<td>2003</td>
<td>115.96</td>
<td>33.17</td>
<td>(+) 82.79</td>
</tr>
<tr>
<td>2004</td>
<td>197.10</td>
<td>27.90</td>
<td>(+) 169.20</td>
</tr>
<tr>
<td>2005</td>
<td>317.84</td>
<td>30.77</td>
<td>(+) 287.07</td>
</tr>
<tr>
<td>2006</td>
<td>599.04</td>
<td>25</td>
<td>(+) 574.04</td>
</tr>
</tbody>
</table>

Source: Bank of Sudan

India is the 6th largest exporter of commodities to Sudan after Saudi Arabia, China, UAE, Germany and United Kingdom. The economic relations have witnessed a historic turn after Indian Government’s decision to invest in Sudan’s oil sector. The relations between India and Sudan got a new impetus with the visit of President A.P.J. Abdul Kalam to Sudan in October 2003. During the visit, Bilateral Investment Promotion & Protection Agreement (BIPPA), Double Taxation Avoidance Agreement (DTAA) and a

63 Ibid.
Memorandum of Understanding (MOU) on cooperation in the field of Information Technology were signed and an Indian Government’s line of credit of $ 50 million to Sudan was announced. That line of credit was extended to Sudan for Indian goods and services in power, solar energy, railways and laboratory equipment.

Some Indian companies from public and private sectors are now actively striving to register their presence in Sudan such as Telecommunications Consultants India Limited (TCIL), ITI Limited, RITES Limited, Konkan Railways, IRCON International Limited, Kirloskar Brothers, Kalpataru Power, Mohan Exports, Jaguar Industries, Angelique International, Larsen & Toubro Limited (L&T) and Reliance Industries Limited (RIL). Entities like Mahindra and Mahindra and Eicher are also making efforts to enter the Sudanese markets. After a break of eight years, Tata buses are also likely to troop in shortly after resolution of some of the issues pertaining to past transactions. Maruti cars agency is also expected to be revived. Sudan needs to import a wide range of products, from traditional items of household use to the hi-tech related products. Interest has been shown in Indian vehicles of all kinds and machinery and equipment for small/medium scale industries. Some pharmaceutical companies in India are also exploring possibilities of installing manufacturing units in Sudan.

Though Sudanese economy has shown signs of recovery, country has not acquired sufficient ready liquidity to finance its infrastructure developing programmes. The other impediment in smooth transaction of business is absence of inter-banking arrangements between India and Sudan. Of late, functioning of banking system in Sudan has greatly improved with the improvement of its economy in general and commencement of its crude exports in 1999. Recently, there have been no complaints about LC transactions or default on the part of Sudanese banks in honouring their commitments. Some Indian

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65 The line of credit is the first ever on a Government-to-Government basis.
66 FICCI, India-Sudan, op.cit.
Banks including SBI are in touch with the Sudanese Banks to arrive at some corresponding arrangements.67

The Line of Credit worth INR 120 million from India in 1980 was disbursed by EXIM Bank in 1982 (still to be repaid). EXIM Bank and the Bank of Sudan entered into a formal agreement on January 19 in 2004 for operationalising the line of credit. At the Donors' Conference on Sudan in Oslo in April 2005, India (as its contribution to making unity attractive) announced a grant of $10 million and a concessional Line of Credit of $100 million that are now being utilised. Half the grant is being used to set up a state-of-the-art hospital in Gogrial town of Warrap State in South Sudan68 and half for a vocational training centre in Darfur, supply of hospital equipment and other projects.69

The Bharat Heavy Electricals Ltd. (BHEL) in September 2006 signed a formal contract with the National Electricity Corporation of Sudan for the $457 million Kosti oil-fired 500 mega watt power project, partly funded by a $350 million loan from the EXIM Bank. The Bank has also given $41.9 million for the 200 kilometers 220 kilovolt Singa-Gedaref transmission line being implemented by Angelique International Limited of New Delhi and supplier's credit of $26.44 million for a 2,000 tones per day dry process cement plant. India has also agreed a US$ 150 mn soft loan for a railway project to be done by IRCON as well as an equal amount for the White Nile Sugar Project in Ed Duem. Indian investment in and loans to Sudan are estimated to be around $3 billion.70

The first ever exclusive ‘Enterprise India Advantage Sudan’ trade fair was organised in Khartoum in August 2006. At least 78 Indian companies participated in the trade fair that gave a new thrust to commercial relations, with business worth $150 million reported. Indian companies are also looking for business opportunities in Southern Sudan. Enterprise India Advantage Southern Sudan was planned for 2008 in capital Juba in South Sudan. India opened its Consulate General in Juba in October 2007, the first Asian

67 Ibid.
68 The area is badly ravaged by the civil war.
70 Ibid.
country to do so. To give a sustained focus to India-Sudan trade relations, India has identified five priority sectors - infrastructure, agriculture, human resource development, information & communications technologies, and small & medium industries- to respond to Sudan's developmental requirements. The 'plus-one' is commercially viable investment in the energy and manufacturing sectors including oil, electricity, gas, pharmaceuticals, small and medium industry. To achieve this, the India Embassy in Khartoum has formulated a Target and Introduce Programme (TIP) under which one new Indian product is introduced every semester.71

Thus, Sudan has been able to deepen its engagement with the Asian partners in the wider domain of military linkage, economic exchange and politico-diplomatic relations due to the Asian orientation of its oil production partnership. The multiple Asian participation in its oil industry is the result of a conscious foreign policy decision on the part of the current regime in Sudan. The underlying rationale for such approach lies in the intents to ensure that Sudan's oil production remains less dependent on the partnership with West, and at the same time to avoid a situation where any single Asian player does monopolise its oil sector.

Ahmed Khalid Hamad, an official at Organisation for Exploration and Production Authority (OEP A) in the MEM of Sudan Government, said that while western oil firms especially Talisman operated in an efficient fashion, cost of their manpower was very high and the host county found air of arrogance in the behaviour of the western expatriates. On the other hand, Asians especially Chinese are hardworking and are capable of enduring hardships, he said by adding that Asians are having cheap and skilled man power. To him, Sudan by opening up its oil sector has created opportunities for Asian powers to participate in world oil business. According to his assessment, among Asians, Chinese are good in implementation whereas Malaysians are competent in consultancy.

71 Ibid.
He mentioned that India has technical manpower of high standard and its core competence is information technology.\textsuperscript{72}

The Deputy Secretary General of the MEM of Sudan Government, Hamed Elneel Abdel Gadier, meanwhile ascribed Asian orientation of Sudan’s oil production partnership to its apprehension of Euro-American domination. To him, oil reserves have potential to create conflict with its neighbouring countries. Block 16 for instance is under dispute between Egypt and Sudan. Red Sea is the most unstable water ways that Sudan is exposed to. Therefore, he said, Sudan is opening up its oil sector to Asians so that they can spread across Africa and can stand out as partners alternative to the West.\textsuperscript{73}

5.4. Sino-Indian Interface in Sudan’s Oil Engagement: Sino-Indian interface is a crucial aspect of the Asian orientation of Sudan’s oil engagement. China and India have assumed relatively greater attention among several Asian players operating in Sudan’s oil sector, because of their rising significance in the present world order. Both are oil deficit countries depending extensively on the external acquisition of oil resources. This external dependence makes them look for overseas oil fields to ensure steady supply of energy materials. In their search for energy resources, Africa including Sudan has become a meeting ground for both to negotiate with each other, as they are entrenching themselves as major Asian partners in the region to participate in transnational oil production. The experience in domestic oil production has infact enabled both China and India to negotiate for African equity oil.

The engagement that two Asian partners build up between each other in Sudanese oil sector, as is the case in some other overseas oil fields, is competitive cooperation. They compete because both are located in the extended demand side of the present world regime. On the other hand, they cooperate because they are relatively new players of the globalised world regime where the US and West European powers are already existing.

\textsuperscript{72}Interview with Ahmed Khalid Hamad, Head Section, Organisation for Exploration and Production Authority (OEPA), MEM, Sudan Government, at Khartoum in April 2007.
\textsuperscript{73}Interview with Hamed Elneel Abdel Gadier, Deputy Secretary General, MEM, Sudan Government, at Khartoum in April 2007.
dominant players of the demand zone. Thus, if competitive cooperation is the contour of Sino-Indian interface in the present diversified world regime, then Sudan stands out as a major oil field to facilitate this dynamic aspect of the wider process of globalisation of oil by ensuring joint partnership of both Chinese CNPC and Indain ONGC in its major oil project in Greater Nile.

5.5. Limits to Asian Orientation of Sudan’s Oil Partnership: Asian partnership has not completely replaced Sudan’s linkage with the Western players which have still retained their direct as well as indirect participation in its oil production. The US-based Capital Research & Management Company, Lazard Asset Management Company Limited, and Blackstone Asia Advisors Limited, were among the top 10 largest institutional holders of ONGC shares as of the end of September 2007, according to Reuters Company Views.74 The same data base showed that Capital Research & Management Company, Barclays Global Investors NA and Vanguard Group, Inc were among the top 10 investors in Petro China joined by units of California-based Franklin Templeton Investments and FMR Corporation, better known as Fidelity Investments.75

There has been campaign by the US pressure groups - Save Darfur Coalition and Sudan Divestment Task Force - urging investors to withdraw their funds from companies doing business in Sudan because of violence in its Darfur region. The Save Darfur Coalition, an alliance of more than 180 faith-based, advocacy and human rights organisations, alleged that Sudan Government used up to 70 per cent of its oil revenues, generated mainly through FDI, to give arms and supplies to the Janjaweed militia accused of the killings in Darfur. The Sudan Divestment Task Force, based in Washington, D.C., coordinated much of the activities, providing research on Sudan-linked companies to investors and supporting campaigns at the university, State and local levels. The pressure groups asked

75 Ibid.
investors to divest their holdings in companies such as Petro China, Petronas and ONGC.\textsuperscript{76}

The Senate approved legislation on December 12 in 2007 letting US provincial and local Governments, as well as mutual funds and private pension funds, divest their investments in companies involved in four Sudanese business sectors including its oil industry. The Senate bill permitted divestment from companies involved in Sudan's oil industry, mineral extraction, power production, and the production of military equipment. The bill also denied federal contracts to companies involved in these four industries in Sudan.\textsuperscript{77}

Thus, Sudan’s policy of Asian orientation has yet to ensure the immunity of its oil industry against the vulnerable dependence on the Western partnership.

To sum up, Sudan is one of the upcoming oil producing countries in the world. It has facilitated the participation of foreign oil firms in the exploration and production of its oil resources. The oil production through transnational partnership has brought about 70 per cent of total export revenues to sustain its foreign trade. The oil industry is, therefore, very crucial for its economy. The expansion of oil sector in the 1990s has made Sudan strategically vital for the rest of the world. The international attention is over the years increasingly concentrated on the oil fields of Sudan as an alternative to the traditional oil surplus region. The Sudan Government in turn has used oil as a major instrument of external negotiation to pursue its foreign policy objectives by serving military, economic and politico-diplomatic interests of its regime. Thus, the domestic priority for modernising oil industry has got reflected in Sudan’s foreign policy preferences.

Sudan’s oil sector has expanded in the midst of rising Asian interest in African oil. Asian powers have meanwhile acquired extensive knowledge and experience in domestic oil production. The increasing energy demands and post 9/11 geopolitical dynamics have redirected the concentration of Asian oil majors towards oilfields in Africa. Asian quest for African equity oil consequently creates a concrete ground for the current regime in

\textsuperscript{76} Ibid.
\textsuperscript{77} Ibid.
Sudan to diversify the pattern of its transnational production linkage through consolidation of multiple Asian participations in its oil sector that has facilitated Sino-Indian competitive cooperative interface.

The oil linkage has indeed deepened military, economic and politico-diplomatic engagement between Sudan and its Asian partners in the wider domain. Asian orientation of Sudan’s oil partnership is propelled by the withdrawal of Western oil majors, which were instrumental in initiating the exploration and production activity in its oil fields. Nonetheless, the Sudanese oil industry is not completely bereft of Western partnership thereby retaining elements of vulnerability to the ‘dependency syndrome’.