



### RECOMMENDATIONS

- As a relatively new actor within a more established system of international response hitherto led by France, further consideration should be paid by African policymakers to China's potential role in enhancing regional security.
- With regards to the current oil investment, both parties (the Chadian government and the CNPC) should address their shortcomings more effectively and adopt a proactive attitude. Emphasis needs to be placed on comprehensive communication and involving Chadian civil society further in the decision-making process.
- Even though the Chinese oil project appears to be the first piece of a wider investment pattern, Chad needs to improve its business environment to be able to maximise the wider potential of Rônier and attract additional as well as different sources of investment.
- Although Chad is often portrayed as a margin of China–Africa relations by the media and scholars, more attention should be paid to this specific context, as it highlights a set of current challenges facing the increasing Chinese involvement on the continent.

# Refining Relations: Chad's Growing Links with China

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### EXECUTIVE SUMMARY

Chad's relations with China have developed importantly in a relatively short space of time, which has elevated China's importance in the Chadian economy and domestic politics. The core of the Chinese engagement is driven by the China National Petroleum Corporation's Rônier project, a domestic oil-production unit. Departing from Chad's previous experience of foreign oil investment, this appears to enable new economic opportunities for Chad, even to the point of widening the country's industrial potential. In spite of Chad's challenging business environment, relations look set to deepen as efforts are made to pursue an ambitious set of infrastructure and other ventures.

### INTRODUCTION

The resumption of official ties between N'Djamena and Beijing in August 2006 set the stage for an expansion of the Chinese engagement in Chad. Coming as it did in the midst of a military insurgency aimed at overthrowing the longstanding leader, Idriss Déby, and his government's decision to abandon World Bank conditionalities designed to allocate oil revenues for social development, it seemed an inauspicious foundation for a new relationship. However, despite this controversial beginning, Chad and China have begun to develop strong economic ties. The impact of Chinese investment in the oil sector in particular looks set to become an even more important part of Chad's domestic politics and foreign relations.

### BACKGROUND

Chad abruptly dropped Taiwan and recognised Beijing on 6 August 2006. This move came as a result of various internal pressures facing President Déby. Regime survival compelled a tactical shift: recognising Beijing would bring myriad short- and longer-term advantages. President Déby stood to be empowered by aid, investment and military assistance from

a permanent UN Security Council member. China was also the key international economic partner, political patron and important military ally of Sudan; its support could empower N'Djamena in its then proxy war with Khartoum.

Chad's relations with Beijing subsequently strengthened. N'Djamena participated in the November 2006 third Forum on China–Africa Cooperation. There followed a series of high-level political and military exchanges, and efforts to expand economic ties. These have borne fruit in a number of notable areas, establishing China as an increasingly significant economic partner for Chad.

### CHINA'S REGIONAL SECURITY ENTANGLEMENT

The vulnerability of China's new interests in Chad were first highlighted by the evacuation of over 200 Chinese nationals from N'Djamena in early February 2008, when a rebel attack came extremely close to toppling Déby. In September 2010 security risks were personalised by the abduction of a Chinese engineer working on a water project for the CGCOC Group Chad near the border with Sudan, who was subsequently rescued by joint Sudanese–Chadian forces. Such incidents were surface manifestations of deeper, more complex regional conflicts.

China's special envoy, Liu Guijin, had been appointed with responsibility for Darfur, and was soon travelling between Khartoum and N'Djamena. China's security calculus in the region was changed in August 2006. Beijing engaged in diplomatic–political interventions propelled by its own bilateral interests, seeking to improve Chad–Sudan relations. Although presented as promoting regional peace, such diplomacy was undoubtedly catalysed by threats to Chinese interests. In the aftermath of the February 2008 attack on N'Djamena, Liu Guijin was careful to insist that China would not become involved in mediating proxy conflict between Khartoum and N'Djamena, but conducted shuttle diplomacy of a kind, calling on both to practise 'good neighbourliness'.

Beijing has also enhanced its bilateral military relations with N'Djamena. Security concerns about Chad have continued, as Libya demonstrated most recently. China has benefited indirectly

from the security role led by the French military, while seemingly not having made any substantial contribution of its own to the international security response. Simply put, such a division of security responsibilities allows China to concentrate on the business of investment, while France leads efforts to respond to the security of such business (and the mainly political interests of Paris).

### GROWING ECONOMIC TIES

Economic links between China and Chad have grown since 2006. Oil investment dominates economic ties, and is seen as the outstanding marker of China's different approach in Chad compared with the French or US engagements, which had regarded this investment as unprofitable. Chinese operators offer the possibility of developing Chad's hydrocarbon potential, and for value-added investment. Within a few years, China has developed into a major player, undertaking a distinctive departure from Chad's previous experience of international oil investment, including N'Djamena's previous troubled partnership with the World Bank over the Chad–Cameroon pipeline.

The centrepiece of petro-relations is the Rônier project. This is structured around a 311 km pipeline connecting oilfields in eastern-central Chad to a purpose-built refinery in Djarmaya, some 50 km north of N'Djamena. Through its national oil company, Société des Hydrocarbures du Tchad, the Chadian state is a 40% shareholder of the Société de Raffinage de N'Djamena (N'Djamena Refinery Company), created specifically to manage the refinery, with the remaining 60% going to the China National Petroleum Corporation International Chad (CNPCIC). The cost of the entire project was set at \$1 billion, advanced by the China National Petroleum Corporation (CNPC) and the China Exim Bank (half for the refinery, and half for oilfield and associated transport infrastructure development). The project went into production on time in March 2011, and the refinery was inaugurated not long afterwards in late June.

Although innovative, the scope of the Rônier project remains quite small. At the beginning of production, oilfield capacity amounted to 20 000 barrels a day, with a possible increase of up to

60 000 barrels. The refinery has a production capacity of 40 000 barrels a day, although it was processing only half this amount at the first stage. The crude is supplying a central power plant, expected to produce 40 MW.<sup>2</sup> The refinery uses half this amount of energy; the other half goes to the Société nationale d'électricité, Chad's national electricity company. President Déby publicly forecast Chad's – or at least N'Djamena's – energy independence, but the 20 MW that this power plant provides is clearly insufficient to address the country's energy shortage; N'Djamena alone consumes 100 MW. Nevertheless, this investment will help to alleviate a saturated network. Following the CNPC's oil engagement, Chad and China agreed to develop an industrial park, which may suggest that the oil sector can form the foundation for an expansive, more diverse Chinese business presence.

#### OIL PRICE DISPUTE: SOCIAL AMBITIONS VERSUS ECONOMIC VIABILITY

The Rônier project may have been built on time but has faced tensions since the day the refinery was inaugurated. These have involved a dispute between the CNPC and Chad's Ministry of Oil and Energy about the management and operation of the Rônier project. The context of the falling out between the CNPC and the government relates to Déby's desire to accomplish a set of social promises made during his last presidential campaign in April 2011, including providing more affordable petroleum prices. During the refinery's opening ceremony, and apparently without any prior consultations, Déby announced a unique price of XAF<sup>3</sup> 200 per litre of refined products during a transitional period of three months.<sup>4</sup> The pump price had been fixed at XAF 365 per litre for petrol and XAF 330 for premium liquefied petroleum gas, whereas other refined petroleum products were sold at about XAF 500 per litre in the region.<sup>5</sup> The main impediment was the difficulty in finding a compromise between a market price allowing the CNPC to pay off its investment, and a 'social' price enabling the Chadian authorities to carry out a set of political promises.

At first, the CNPC kept a low profile regarding Déby's ostentatious declaration of holding one

of the cheapest petrol prices in the region. As the end of the transitional period approached without any significant progress towards the establishment of a new price, the Chinese side decided to take action and put the refining process on hold. By the end of September 2011, both sides claimed that negotiations to resolve the dispute were progressing, however, difficulties continued amidst mutual recrimination.

The Djarmaya refinery was shut down on 19 January 2012. Later that month, Déby fired two ministers and, on 6 February 2012, Chad announced that the refinery would be reopened. Other developments suggested that despite such turbulence the CNPC was bent upon a longer-term engagement. In February 2012 the CNPC signed a deal with the government of Cameroon to allow it to start transporting crude oil from Chad through the Chad–Cameroon pipeline by the end of 2012.

This extended period of bargaining raises questions about how links will evolve over time. Rônier has been upheld as the flagship of Sino–Chadian co-operation, but clearly has not been a smooth venture. In addition, the Chadian side seems to have drawn a number of lessons from its economic engagement around the Rônier project. Conceding that certain issues, if managed in advance, could have been avoided, the government decided to create a specific board to supervise future sensitive projects. The objective behind this is not only to broaden and decentralise the management of Chinese investments, but also to be able to foresee problems.

#### CHALLENGES

Chad has been a salient experiment in efforts to promote a progressive agenda for managing the oil industry via the ambitious Chad–Cameroon pipeline. China's oil role appears to depart in its ambition and efforts to promote Chadian capacity via the refinery. It also empowers President Déby's ruling regime, which, since 2006, seems to have incorporated Beijing into its domestic agenda, first through the short-term imperatives related to its conflict with Sudan and more recently through new development ambitions into which China has been more centrally co-opted over a short period of time.

China has benefited from the leading (and self-interested) French role in Chad's security, read as the continuation of Déby's government, while concentrating on enhancing its economic activities. The question of whether this is financially and politically tenable for the West looms as a subject unlikely to go away, amidst quiet interest in China about the security implications of engaging in places like Chad. The implications of this historically inherited de facto division of labour and associated distribution of benefits have yet to be seen; the question of China's security burden sharing in Chad and more generally is unlikely to disappear. For a couple of years there have been frequent, recurring rumours about a possible French withdrawal in the near future. This raises the question of how China may need to revise its development-security calculus in Chad if it is to sustain its investments. The possibility of a swift change of events in Chad that can influence and impact on the long-term viability of Chinese investments persists.

As the recent oil price dispute shows, however, whether there is necessarily a better union of interests between China and Chad than Chad's previous fractious relationship with the World Bank and the international community over the pipeline remains to be seen. Divergences in this partnership are bound to be expected following a period that has hitherto had much to do with establishing relations. Now that more attention appears to be paid to how to deepen ties, closely linked to the sustainability of investments beyond the short term, how these are reconciled is likely to exert much continuing influence on ties.

## CONCLUSION

The elevation of China's importance to Déby from 2006–11 demonstrates an important, ongoing shift in the domestic role of the Chinese engagement in Chad. China's role in Déby's agenda may have initially been a tactical survival imperative but has now become more central in and important to

the longer-term politics of his regime. Effectively resorting to a resource-backed strategy of Chinese assistance, Déby thus campaigned in the April 2011 elections as Chad's social architect-in-chief, an apparent case of the incorporation of China into Déby's domestic political strategies through delivery of a range of development projects to confirm and enhance the legitimacy of his rule.

By investing in a refinery, and dealing with N'Djamena in a different way from the conditionality heavy approach of recent Western engagement, China has embarked on an innovative intervention in Chad whose importance looks set to be growing. This is seen in the appropriation of China by the Chadian leadership under President Déby as a means to promote a range of social goals related to the domestic political objectives of his regime. Tensions remain, however, within the terms of the newly forged partnership. Whether China can follow through on and sustain its present engagement, and enable Chad to escape its historical confinement amidst chronic underdevelopment and protracted insecurity, remains to be seen.

## ENDNOTES

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- 2 Even though the production stage began in late June 2011, it is still unclear how much oil is being produced or being refined.
- 3 XAF is the three-letter currency code for the Central African Franc.
- 4 XAF 499.85 equals \$1.
- 5 Prior to this date, the pump price for gasoil was XAF 750 per litre whereas diesel was sold for XAF 650 per litre.

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