Tuijin Jishu/Journal of Propulsion Technology
ISSN: 1001-4055
Vol. 46 No. 1 (2025)

Undivided Sudan's Oil engagement with Malaysia

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Abstract

The expansion of Undivided Sudan's oil sector coincides with rising Asian interest in the oil fields of Africa that is located in theextended supply zone of the present world oil regime. Asianpowers have over the years acquired extensive knowledge and experience in domestic oil production; yet that failedto meet their constantly rising energy demands triggered by economic globalsiation. The increasing external dependence pushed these countries to enter into transnational oil ventures. The 9/11 terrorist attack has further propelled the oil-seeking countries to diversify theirsupply lines by drifting away from West Asia and getting closer to Africa. Asian quest for African equity oil has consequently concretised the Afro-Asian interdependence that has evolved in the post cold war economic world orderin terms of trade and investment partnership. As an extension of such economic complemtarity, the current regime in Undivided Sudan has diversified the pattern of its transnational production linkage through consolidation of multiple Asian participations in its oil sector. The shift that Undivided Sudan's foreign oil policy behavior has undergone is due tothe 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 Undivided Sudan's oil production remains less dependent on the partnership with West, and at the same time to avoid a situation where any single Asianplayer does monopolise its oil sector. As a result, Asian orientation has become the hallmark of the transnational partnership that Undivided Sudan is currently forging for its oil production. This article devotes to conceptualise the world diplomatic system. The conceptualisation of diplomatic system is followed by conception of the current world oil regime within the wider energy discourse. This article begins with energy supply-demandoutlook in Asia that constitutes the extended demand zone of the world energy regime. It subsequently examines Undivided Sudan's oil engagement with another Asian partner that is Malaysia.

World Diplomatic System

Diplomacy refers to implementation of foreign policy objective of a state through its negotiation with the external world. Thus, diplomacy constitutes the hallmark trajectory of inter-state relationship. Interdependence is viewed by Kal Hosti as "a prominent characteristic of the relations between the industrial countries, and between them and some developing countries" (Holsti., 2009). Interdependencethat is assumed to be a growing pattern of inter-State relationship is yet considered by him to be "neither universal nor symmetrical" (Holsti., 2009). Klaus Knorr became rather much more explicit when he categorically stated, "Power arises from an asymmetrical interdependence" Knorr(1977). There are several viewpoints that have reflected on the nature of environment existing for the inter-state negotiation. Dependency school tries to explain the asymmetrical linkage between industrial and non industrial countries on the basis of "Ricardian law of comparative advantage" and "international specialization", and postulates that power or capabilities, bargaining skills, andidiosyncratic variables are basically irrelevant in diplomacy between the weak and the strong (Holsti., 2009). The main proponents of this approach, among many others, are Ander Gunder Frank (1969), Johan Galtung (1971), and Peter Evans (1979).

Evans characterized the dependence "most simply asa situation in which the rate and direction of [capital] accumulation are externally conditioned…Contemporary dependency theorists see the international division of

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laboras shifting substantially on the surface while continuing to have the same fundamental effect" (Evans, 1979). Dependency theory identified "Imperialism" as the overarchic agency influencing "specific structural features"of development in the South (Smith, 1981). Evans while defining this core concept of the Dependency approach submitted: Simply put, imperialism is a system of capital accumulationbased on the export of capital from advanced countries to lessdeveloped regions (or more precisely, center capital's acquisi-tion of control over the means of the production in those re-gions) accompanied by the utilization of political and militaryresources to protect and maintain the means of production over which control has been acquired. Political empires do not qualify as imperialism in the post-Hobson sense unless theyare designed to foster the accumulation of capital. Extractionof the surplus product of a less developed country by more developed country is not imperialism unless the dominant country has acquired control over the means of production inthe poorer country. The theory of imperialism assumes thatthe system works primarily to the benefit of capital controlledby citizens of the dominant country……. (Evans, 1979).

Dependency as visualised by an alternative school is perceived to be a situation between any pair of states in which, there are asymmetrical vulnerabilities. This Dependency-as-vulnerability view point posits that bargaining skills, personalities, knowledge, world demand,and production pattern determine the degree of vulnerabilities that are faced by the States while getting involved in bilateral and multilateral relationship. It assumesvulnerability for dependency as a pervasive condition in international relations but not being distributed equally. It explains that capacities to harm, to disrupt, and to coerce by economic means are not available with all negotiating States in equal degree (Holsti, 1978). Theodar Moran in his book *Multinational Corporations and the Politics of Dependence*pointed out that the Governments of the developing countries learn how to maximise their bargaining advantages and eventually develop the intellectual, technical, and bureaucratic skills to manage their resourcesin such a way as to avoid exploitation (Moran, 1974).

Interdependence school has, however, put emphasis on mutuality of dependence among the actors engaged in resource transaction. Robert Keohane and Joseph Nye are the most prominent exponents of this approach. They havedescribed interdependence as the mutual sensitivity of onenation to events occurring in another. For them, it is also a function of "vulnerability", a measure of a Government's inability to insulate itself from effects of the transmission ofevents originating elsewhere (Keohane & Nye, 1977). Interdependence is closely linked to the related concept of integration. It is obvious that interdependence is an outcomeof integration. The merger of one or more political or economic sectors across several countries means that eventsin any one country that affect the integrated sector will necessarily affect the integration partners (Tetreault, 1981). Integration makes all participants vulnerable to interference,although the degree of such vulnerability may vary.[1] The economic relationships between countries of wide industrialvariation are often "transnational" rather than "international", and mediated by non-state actors such as Multinational Corporations (MNCs) (Tetreault, 1981). Interdependence model is a way of viewing cooperative relations among such transnational actors. An intense interdependence is a likely result of a very strong "dyadic"relationship, or of several kinds of "triadic" and "systemic relationships", or of both (Tetreault, 1981).

Nevertheless, mutual economic dependence has been interpreted, in many international political economy literatures, as the idea that power is a derivative of asymmetrical interdependence (Wagner, 1988). Albert Hirschman has theorised on economic dependence and its political uses in his book *National Power and the Structure of Foreign Trade* (Hirschman, 1945). He added to the Classical theory of international trade - mutual gains lie in continuation of trade and vice versa- the notion that if all the partners do not value the gains from trade equally, then the one that values them more will be in a weak bargainingposition in case of disruption of the trade (Hirschman, 1945). Responding to such interpretation, Harrison Wagner pointed out that "dependence" means need, and"asymmetry" refers to the fact that one party needs thebenefits derived from a relationship more than the other(Wagner, 1988). Then, he went on to explain,"Asymmetrical economic interdependence does not implythat one bargainer will be able to exercise political influence over another. The use of economic interdependence forpolitical influence requires, instead, that the exchange ofeconomic resources for political concessions make bothparties to a relationship

better off than they would be ifthey bargained over the distribution of the gains from the economic relationship alone" (Wagner, 1988). Wagneragain tried to clarify that the most discussion on"asymmetrical interdependence" involves confusionbetween unexploited market power, and unexploitedopportunities to trade economic resources for politicalconcessions. To him, unexploited bargaining power overthe terms of trade is neither a necessary, nor a sufficientcondition for one government to be able to use threats tointerrupt trade as a means of exercising political influence over another, while the existence of unexploited opportunities to trade economic resources for politicalconcessions is both (Wagner, 1988).[2] Thus, Wagner exploredthe contour of convergence between modern bargainingtheory and interdependence model (Wagner, 1988). Modern bargaining theory maintains that the outcome of bargaining is dependent on the structure of the bargaining situation (Wagner, 1988; Roth, 1985); Binmore & Dasgupta, 1987). To put it simply, three prominent schools have, besides others, tried to characterise the world diplomatic system.Dependency school has contextualised the world diplomacy in and attributed its limitations to the asymmetrical character of the existing economic linkage among countriesbased on their industrial disparity. To Dependency-as- vulnerability school, asymmetrical nature of the diplomaticregime or its vulnerability to asymmetry is also caused by factors other than industrial disparity. Interdependency school, on the contrary, has characterised the world diplomatic system by the mutuality of dependence among actors involved in the negotiation.

Interdependence as explained by Keohane and Nye refers in world politics to situations characterized by reciprocal effects among countries or among actors in different countries (Keohane & Nye, 2001). Though these effects often result from international transactions - flowsof money, goods, people, and messages across international boundaries, yet this interconnectedness is not the same as interdependence. The effects of transactions on interdependence will depend on the constraints, or costs, associated with them. A country that imports all of its oil islikely to be more dependent on a continual flow of petroleum than a country importing furs, jewelry, and perfume (even of equivalent value) will be on these luxury goods. Where there are reciprocal (although not necessarily symmetrical) costly effects of transactions, there is interdependence. Where interactions do not have significant costly effects, there is simply interconnectedness (Keohane & Nye, 2001). In other words, oil by virtue of its sheer strategic value has got the capacity to determine the depth of economic complementarity among the actors engaged in transaction of such resource.

World Oil Regime

The world energy regime largely comprises the oil industry, as oil occupies a dominant place in the global energy basket [petroleum oil 37 percent, coal 27 percent, natural gas 24 percent and hydroelectric 6 percent] (BP, 2004). The global oil industry has undergone fundamental transformation in the post cold war economic world order that has become much more integrated and interdependentin nature. This process can be viewed as 'globalisation of oil' unfolding in two different yet interlinked ways: verticaland horizontal. Vertical globalisation involves exploration, production and transportation of oil on a transnational basis.[3] Horizontal globalization, on the other, implies expansion of oil sector on two sides: supply and demand. On the supply side, apart from Central Asia, Africa comes up as alternative to the traditional oil producing regions – West Asia, certain parts of South America and Russia. On the demand side, Asian countries including China and India emerge as the formidable competitors to the industrialised West and Japan.

Fierce competition among the contending oil firms and States to gain access and manage control over oil has acquired enhanced significance under globalisation. Due to such competition, political processes from local to globallevels are continuously shaping the vibrant and complex interrelationships between the oil firms and States, on one hand, and national as well as international alliances among social movements that are upholding environmental and human rights on the other (Harshe, 2003). Some of thevibrant issues such as exploration of new oil fields in unexplored areas, smooth management of crude oil flow towards refineries through well–guarded pipelines, enhancing profits/revenues through oil extraction and the likely impact of oil extraction on environment, development and governance are at the core of the politics related to the scramble for oil resources. Thus 'oil politics' has gone beyond its function of shaping the power and capabilities of States, and has started determining the new pattern of coalitions of power that are emerging in world politics(Harshe, 2003). A political

analysis of issues relating to oil does warrant a fair amount of understanding of the wider discourse on energy.

Energy Discourse

Energy has remained as a vital area of "high politics", with fundamental issues of economic growth and national security at stake (Keohane, 1978). This was clearly understood by one and all, when energy crisis had virtually epitomised the decade of the 1970s by exposing the world political economy into unprecedented turbulence. Monetaryrelations, arms control, trade exchanges, and other issue- areas had experienced concentrated and politically salient changes resulting in considerable economic wins and losses for different actors in the international system (Wilson III, 1987). Despite being so central to the international patterns of power and economic performance, the subject has eludedconceptual rigor and theoretical development. Corresponding to its immense practical importance, and the interest shown by social scientists, and in light of the potential intellectual pay offs, the existing literature on the subject has been by and large "descriptive", "uncritical", "atheoritical" and "noncumulative" (Wilson III, 1987). There are yet some exceptions including that of Franklin Tugwell (1980), Gerald Garvey (1974), Dermot Gately (1984), and Ernest J. and Ann-Marie Yanarella (1982).

The lacunae associated with majority of literature on a cognitively very complex and diverse subject like energy merits a holistic analysis of the interface between international oil market and politics, to put in Ernst Wilson's framework of "market politicisation" and "petro-political cycle" (Wilson III, 1987).[4] To recap the wide dimension of the subject, energy encompasses flows, stocks, and institutions thereby necessitating a thorough study of social behaviours and institutions across many levels: from the structure of the international oil industry to refinery overcapacity in Western Europe to the gathering and consumption of wood fuels in Africa (Wilson III, 1987).[5] A substantive and sustained policy analysis of such a wide issue has to over come in its wake several constraints. First,understanding technical and institutional details of production and distribution pattern of multiple energy resources is a difficult task. Second, the fundamentals of oilmarket are too volatile and elastic to make risk free summaries, firm conclusions and lasting lessons. Third, right kind of studies produced by private industries and consultancy firms are prohibitively expensive or unavailableto most scholars. On the other hand there is abundance of micro level information from countless company and country reports, sometimes overwhelming the analyst, especially in the absence of clear theoretical guidelines (Wilson III, 1987). Nevertheless, there are certain principal paradigms that already exist in this field: neoclassical paradigm, regime paradigm and public policy-politics paradigm (Wilson III, 1987).

Energy Supply-Demand Outlook in Asia

Asia is set to play an increasingly important role in global economic and energy matters, because of booming economic growth. The world primary energy consumptionis projected to expand at an average annual growth rate of2.1 percent by 2020. About 70 percent of the increase wouldbe accounted for by non – Organisation for Economic Cooperation and Development (OECD) member economies, two thirds of which are from the Asian region. The increase in demand for oil in Asia is going to amplify the dependency on shipments from other regions. The countries and regions of Asia have achieved an overall highrate of economic growth due to the fast-paced expansionof trade and foreign direct investment (FDI), close mutual economies, and industrialisation. There is anticipation for continued strong economic growth at a rate of 5.4 percent in Asia excluding Japan, owing to the presence of economies with enormous markets such as China, the Association of South East Asian Nations (ASEAN), and India, as well as the reinforcement of mutual interdependence in the region and swift technological progress. In the process, they have made the region into the growth centre for the entire world economy. Due to its economic advances, the region has also become a market with tremendous impact on global energy supply and demand. The medium to long term outlook for global energysupply and demand envisions continued strong economic growth in Asia and a rapid rise in its energy demand (Ito, Zhidong & Komiyama, 2005).

On the population front, Asia is going to have a growing trend, albeit at lower rates. It is estimated that the countries of China and India are going to have respective populations of 1.4 and 1.3 billion, and that Asia as a whole is going to account for 53 percent of the world population in 2020. Along with population increase and

economic growth, the share of the world energy consumption accounted for by Asian countries is on increase. Primary energy consumption in Asia is forecast to grow at an averageannual rate of 3.2 percent and reach 4.6 billion oil-equivalenttones in 2020, with a 1.39-fold increase from the corresponding total of 2.4 billion in 2000. Stronger growth is anticipated in countries achieving fast paced economic growth, such as China, India, Vietnam, Thailand, Malaysia and Indonesia. About 50 percent of the consumption increase over the period in question should derive from expanded consumption in China, followed by India at about20 percent, Indonesia and South Korea at about 5 percent each, and Thailand, Malaysia, and the Philippines at about 3 percent each. Japan's share of the increase is expected to hold at about 2 percent, or around the same level as that of Vietnam, which is anticipated to achieve rapid economic growth. The share of primary energy consumption in Asia including China is forecast to expand from 38 percent in 2000 to 45 percent in 2020. The outlook also envisions a corresponding expansion from 13 to 15 percent for India, 4 to 5 percent for Indonesia, and 2 to 3 percent for Thailand. In contrast, the share occupied by Japan is predicted to decline from 22 percent in 2000 to 12 percent in 2020 owingto factors such as economic maturation and populationdecrease, thereby ranking the country third in this connection, behind China and India (Ito, Zhidong & Komiyama, 2005).

The fossil fuels[1] in Asia are expected to continue to have a vital place as sources of energy, and are going to account for about 90 percent of the increase in primary energy consumption over the forecast period, in the world as a whole. Among the fossil fuels, oil is anticipated to havethe largest share of the increase at 36 percent, followed by coal at 35 percent and natural gas at 17 percent. Consumption of natural gas is forecast to undergo a 2.5- fold increase, from 263 billion cubic meters in 2000 to 664 billion cubic meters in 2020, with growth at the highest rate of all fossil fuels having an annual average of 4.7 percent. It is estimated that about 50 percent of the consumption increase will derive from input as fuel in the power sector, and about 20 percent from the expanded demand in the residential / commercial sector along with the spread of urbanisation accompanying economic growth.The natural gas share of Asian primary energy consumption is predicted to rise from 10 percent in 2000 to 13 percent in 2020, but the natural gas shift should be slower than in North America and Europe (Ito, Zhidong & Komiyama, 2005).

The consumption of coal is forecast to rise from the order of 1.049 billion oil-equivalent tones in 2000 to 1.811 billion tonnes in 2020, for an average annual increase rateof 2.8 percent. It is estimated that China will account for about 70 percent of the increase, and India, about 20 percent.By sector, about 90 percent of the increase should derive from power generation, and the remaining 10 percent fromindustry. While its share of the primary energy consumptionis forecast to slip from 43 percent in 2000 to 40 percent in 2020, coal should retain the single-largest share of the primary energy supply in Asia (Ito, Zhidong & Komiyama,2005).

The consumption of oil that was in the order of 19 million barrels per day in 2000 is anticipated to increase by an average annual rate of 3.1 percent and hit 35 million barrels per day in 2020. By region, it is estimated that China will account for about 50 percent of the increase, and India,about 20 percent. By sector, about 60 percent should derivefrom transportation, with the residential/ commercial and industrial sectors accounting for about 20 percent respectively. The oil share of primary energy consumption should stay at roughly the same level; it is expected to dip from 39 percent in 2000 to 38 percent in 2020 (Ito, Zhidong & Komiyama, 2005). Nevertheless, the rising demand for energy materials make Asian companies look for transnational oil ventures. In pursuit of equity oil, they continue to expand their upstream portfolios in Africa (Nicholls, 2007), and Chinese oil firms remain at forefront.

Undivided Sudan's Partnership with Malaysia

The State owned Malaysian oil major, Petronas, is a significant player in Undivided Sudan's oil industry. It is Malaysia's largest corporation, conducting both upstream and downstream operation in the oil and gas industry at home and abroad. Similar to CNPC, Petronas holds extensiveinterests in Undivided Sudan (Patey, 2006). The oil firm originallybecame involved in the country in 1997 when the Undivided Sudan Government awarded it a 30 percent stake in the GNPOC. The OGP Technical Services Sdn Bhd, a 60 percent subsidiary of Petronas, was awarded the management consultancy services contract for a major pipeline project under the Crude Oil Pipeline

Agreement (COPA) that was signed with Undivided Sudan Government on March 1, 1997 (Petronas, 1998). Petronas had meanwhile owned a 28.5percent interest of the Lundin Petroleum operated Block 5A, before it purchased the Swedish firm's share in 2003 (Petronas, 2004).

Petronas was also awarded exploration and production rights to Block 5B in 2002 (Petronas, 2002), and holds interests in Blocks 3, 7, 8 and 15. Petronas is also in the retail business in Undivided Sudan through acquiring service stations and petroleum deports from Mobil Oil Undivided Sudan Limited (Petronas, 2003). Altogether, the company marketspetrol, gas oil, fuel oil, Jet A-1, and lubricants in the country(America's Intelligence Wire, 2003). In 2005, the company negotiated with the Undivided Sudan Government to build an additional oil refinery in Undivided Sudan (Reuters, 2005). Along withits Asian counterparts, Petronas operates an extensive and growing amount of activities in Undivided Sudan (Patey, 2006).

The Malaysian oil major's interest partners in Blocks1, 2 and 4 are CNPC, Oil and Natural Gas Corporation (ONGC) and Sudapet. The production started in June 1999.Interest Partners in Block 5A are OMV and Sudapet, whichundertake exploration and development. Interest Partners in Block 5B are Lundin Petroleum, OMV and Sudapet undertaking exploration. Interest Partners in Blocks 3 & 7 are CNPC, Sudapet, Gulf Petroleum Corporation (GPC) and Al-Thani, which undertake exploration and development through the joint venture company, Petrodar OperatingCompany (PDOC). Interest Partners in Blocks 8 are Sudapetand Hi-Tech Group, which undertake exploration through a joint operatorship by Petronas and Sudapet (Petronas, 2006).

Petronas purchased Lundin Petroleum's 40.375 percent participating interest in Block 5A in 2003 at the cost of $142.5 million. Its interest in the block consequently increased from 28.5 percent to 68.875 percent, while OMV maintained its share of 26.125 percent and Sudapet, 5 percent. The block is located within the Thar Jath field, measuring 54 square kilometres, in the prolific Muglad Basin900 kilometres south of Khartoum. It is adjacent to and south east of Blocks 1, 2 and 4. The block contained the estimated oil reserves of 149.1 million barrels (Petronas, 2003).

The crude oil production was started in June 2006 fromthe Block 5A, operated by White Nile Petroleum Operating Company (WINPOC), which is currently a partnership between Petronas, ONGC and Sudapet.[8] The block's development involves the setting up of new infrastructure to store, treat and transport the oil, and linking this infrastructure to the existing facilities currently owned andoperated by GNPOC. To mark the first oil, a ceremony wasorganised in Khartoum on 26 June in 2006, which wasattended by more than 500 guests, including Sudan's Minister of Energy and Mining Dr. Awad Ahmed Al-Jaz, Minister of Transport Eng. Khual Maniang, State Minister of the Presidential Palace Telary Daeng and Chairman of Energy Committee, Husien Morniot. Other guests includedMalaysian Ambassador to Sudan Dato' Mohd. Zamri Mohd. Kassim and Chairman of Petronas Sudan Encik Hashim Wahir (Petronas, 2006).

Petronas was in August 2003 awarded exploration rights over Block 8 with the signing of the EPSA for the block. The onshore Block 8 covers an area of 65,856 square kilometres within the Blue Nile Basin, northeast of Undivided Sudan'shighly prolific Melut Basin. Petronas has a 77 percent interest in the block, while the remaining equity is shared between Sudapet with 15 percent and Hi- Tech Group with8 percent interests. Petronas and Sudapet jointly operate the block (Petronas, 2003).

The Malaysian oil firm was in August 2005 awarded exploration right over Block 15 with the signing of the EPSA for the block, the first gas EPSA in Undivided Sudan. The signing ceremony, held in Khartoum in conjunction with the sixth anniversary celebrations of Undivided Sudan's Petroleum Day, was officiated by Undivided Sudan's Minister of Energy and Mining Dr Awad Ahmed El-Jaz. Also present was Petronas President and Chief Executive Officer Tan Sri Dato Sri Mohd Hassan Marican. Officials from relevant Government departments and the Malaysian Embassy, as well as Petronas' business partners attended the ceremony. The EPSA marked Petronas' entry into the offshore operation in the country, after being active in the onshore exploration since 1997 (Petronas, 2005).

Block 15 covers an area of 28,655 square kilometers within the Red Sea Basin and about half of the acreage is located in deep waters between 300 to 800 meter water depths. Petronas has a 35 percent interest in the block, while

the remaining equity was shared between CNPC with 35 percent, Sudapet with 15 percent, Express Petroleum with 10 percent and Hi- Tech Group with 5 percent interests. Petronas, CNPC and Sudapet jointly operate the block. Petronas and its partners are committed to acquire a minimum of 3,500 line kilometer of 2 dimensional seismic and 500 square kilometer of 3 dimensional seismic and to drill five wildcat wells with total minimum expenditure of

$ 58 million in three commitment periods over 6 years. Block15 is known to be gas prone. With the award of the Block, Undivided Sudan aimed at realising its first integrated gas project. Under that contract, the investors were given the right to sell the discovered gas jointly with the Government andthe opportunity to jointly invest in the potential downstreamgas, power and petrochemical projects (Petronas, 2005).

Petronas enhanced and strengthened its presence in Undivided Sudan by entering into the downstream refining business, reinforcing its commitment to provide a mutually beneficial contribution to the development of Undivided Sudan's petroleum industry. The company on August 29, 2005 concluded its participation in the new Port Sudan Refinery Project, officially expanding its entry into the downstream businessin the country following its acquisition of the entire retail assets of Mobil Oil Sudan Limited through its wholly ownedsubsidiary Petronas Marketing Sudan Limited (PMSL) in March 2003. An agreement signing ceremony was held in Khartoum in conjunction with the sixth anniversary celebrations of Undivided Sudan's Petroleum Day. The ceremony was officiated by Undivided Sudan's Minister of Energy and Mining Dr Awad Ahmed El-Jaz and Minister of Finance and National Economy Mohammed Hassan El-Zubair. Also present was Petronas President and Chief Executive Officer (CEO) Tan Sri Dato Sri Mohd Hassan Marican. Officials from relevant Government Departments and the Malaysian Embassy, as well as Petronas' business partners attended the ceremony(petronas, 2005).

The new Port Sudan Refinery project, located at Port Sudan, is the only entry port in the country. It is a high technology complex refinery with a total capacity of 100,000 barrels per day. It is an export refinery designed to process high acid crude that would add value to the Dar Blend from Sudan Melut Basin Blocks 3&7 where Petronas has a 40 percent equity interest. The production would meetthe growing demand of petroleum products in Undivided Sudan and neighbouring countries under the Common Market of East and South Africa (COMESA) after being fully operational by early 2009. This state of the art refinery would produce high quality petroleum products meeting Euro 4 specifications. Petronas International Corporation Limited, a wholly-owned Petronas subsidiary, has a 50 percent interest in the refinery project while the remaining 50 percent equity is held by the MEM. Both Petronas and the Ministry would jointly invest, develop and operate the export refinery. Petronas' entry into Undivided Sudan's refining business is testimony to the oil major's long term commitment to the development of the petroleum industryin Undivided Sudan (Petronas, 2005).

As part of its commitment to share its experience and expertise with Sudan, Petronas had signed an agreement on cooperation and technical assistance with the MEM on May 22, 1997. The agreement covered the cooperation on upstream and downstream studies, the development of training programmes and the establishment of a training center and laboratory facilities for the Ministry as well as the enhancement of Sudanese capabilities in managing its petroleum operations. Petronas' subsidiaries, PetronasManagement Training Sdn Bhd and Petronas Research andScientific Services Sdn Bhd, were to assist in these undertakings (Petronas, 1998).

The operations of Petronas in Undivided Sudan are very muchan extension of the Malaysian Government's foreign and economic policy. The relationship between Undivided Sudan and Malaysia is based on trust that has been developed between the two Governments over the years. There has been notableeconomic transaction, and Malaysia has displayed a willingness to invest in Undivided Sudan much the same way China has. It should also be noted that Undivided Sudan's Islamic banks havebeen heavily involved in Malaysia since the NIF took power. Malaysia's commitment to the Undivided Sudan Government was clearly displayed in 1997 when it paid $500 million to the International Monetary Fund (IMF) on behalf of Undivided Sudan, in order to cover some of Sudan's debt payments (Lado, 2000).One of Malaysia's greatest ventures in Undivided Sudan, apart from the oil project, was the management the country's transportation system. That became an increasingly important sector with the development of the petroleumindustry, as tankers were needed to transport huge volumes of oil from storage facilities to ports for export. The Malaysian company Metrobus had committed to supply

1500 buses in several stages to Undivided Sudan. Following the bilateral commercial accords signed between Undivided Sudan and Malaysia in 1998, other projects were initiated such as a Malaysian oil palm plantation project in Undivided Sudan and the setting up of power generation plants (Lado, 2000).

It was alleged that Malaysian involvement in covert arms transfers to Undivided Sudan had also won it favour with the Government in Khartoum. According to Human RightsWatch, official documents had allegedly surfaced which detailed Malaysia's co-ordination in concluding arms dealsbetween the Undivided Sudan Government and arms dealers in Southeast Asia. According to the former Administrative Attaché at the embassy of Undivided Sudan in Kuala Lumpur, Abdel Khattab, heavy armaments including aircraft, tanks andmortars were procured in 1997 from China, Indonesia, and the Russian Mafia. Those items were allegedly shipped to Undivided Sudan under the guise of petroleum exploration equipmentin the names of Petronas and the CNPC (Lado, 2000).

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, however, unable to independently confirm the allegations made by Khattab. If the allegations were credible it would have directly implicated the two major partners in the GNOP, CNPC and Petronas (together holdings 75 percent 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 company executives (Lado, 2000).

Over and above Malaysia's value to the Undivided Sudan Government in terms of potential military assistance and investment, the Petronas plays an important role in the GNOP, and the second largest stakeholder. It also owns a substantial percent age in the oilfield in South Sudan. Petronas has extensive experience in oil exploration andthe development and production of oil and gas overseas. The company has been engaged in exploration and development activities in Vietnam, Syria, the Philippines, Pakistan, Turkmenistan, China and Iran (Lado, 2000).

Petronas while undertaking a wide array of operationsin Undivided Sudan has come across numerous security problems dueto the country's civil war. The oil firm has been indirectly influenced by violence when the operations of Talisman, the GNPOC operator at the time, were slowed down by insecurity (Business Times, 2000). Similarly, in Block 5A and 5B, consistent security issues have stalled exploration activity (Business Times, 2000). In all concessions, Petronascompany personnel had to be escorted by Army troops dueto the proximity of hostile rebels. When Petronas first entered Undivided Sudan several workers were kidnapped by rebel groups and in another incident, a local driver was killed (New Straits Times, 2000). However, since Talisman and Lundin exited there has been little indication of security issues for Petronas, or simply a lack of reporting. More recently, prospects of peace have propelled Petronas tointensify its operations as the security situation improves (Business Times, 2005). Altogether, insecurity has been a factor considered in the decision-making of Petronas, but has not caused the firm to exit Undivided Sudan (Patey, 2006).

Petronas' strategic behaviour can be further explainedby the competitive positioning of firms in the Sudanese oil industry. Several factors demonstrate that Undivided Sudan provided an accessible and lucrative investment for the Malaysianoil company (Patey, 2006). First, while Undivided Sudan has considerable oil reserves, the physical and political hazardsfor potential investors, particularly major Western oil corporations, has meant that only foreign oil firms withthe willingness to take on security threats and the ability toavoid political pressure, from human rights complications, have engaged in the African country (EIU, 2003). Petronas has remained impervious to negative feedback from itsoperations in Undivided Sudan from international human rights organisations as well as civil society groups due to its State-owned nature and has been able to steer clear from the backlash from potential US capital market sanctions becausethe firm does not raise any funds in the US (Wall Street Journal, 2000). Second, Western oil firms such as Talisman and Lundin influenced the operations of Petronas. Despite the deterrent to enter Undivided Sudan by Western oil majors, Westernjuniors did operate in the country and played an essential role in the advancement of the oil industry in the country due to their specific technical expertise (Gagnon & Ryle, 2001). Without such technological capabilities Petronas andthe other less experiences international firms would have taken far longer to produce oil in Undivided Sudan (Patey, 2006).

However, while insecurity and the influence of other oil firms altered Petronas' strategic behaviour in Undivided Sudan, it is the policy of the Malaysian Government that is paramountin explaining the oil company's behaviour. The company has stated that the reasoning for its expansion in Sudan is part of a larger effort to seek new oil and gas sources(Bernama, 2001). Undivided Sudan represents the largest foreign onshore operation for the oil firm (Petronas, 2002) and accounts for a significant proportion of Malaysia's oil reserves (Business Times, 1998). Indeed, Petronas' Malaysianstaff members in Undivided Sudan claim they are doing a national service for Malaysia by working in the difficult and harsh environment of Undivided Sudan (New Straits Times, 2000). Thus, thedesire of the Malaysian Government to expand internationaloil reserves has propelled Petronas to operate in Undivided Sudan andexpand its presence in the country. An expansion is made possible due to the growing relationship between the Governments of Sudan and Malaysia (Patey, 2006).

The Malaysian Government has secured Petronas' prominent position in Undivided Sudan through military and economicrelations with the Undivided Sudan Government. It is claimed that Islamic ties between the two countries as well as an increased access to military arms first prompted the Undivided Sudan Government to bring Petronas into the GNPOC (AfricaConfidential, 1997). Petronas has also given the Undivided Sudan Government the opportunity to develop its own expertise in oil development through its Sudanisation programme

In summary, there is a correlation between the growth of the oil sector in Undivided Sudan and the increasing interest in African oil by Asian countries. Asian nations have accumulated vast knowledge and experience in producing oil domestically over the years, but this hasn't been enough to keep up with their ever-increasing energy needs due to globalization of the economy. These nations were forced to engage in international oil projects due to their growing need on outside assistance. The September 11, 2001 terrorist attacks have incentivized oil-seeking nations to broaden their supply chains by shifting their focus from West Asia to Africa. Afro-Asian interdependence in trade and investment partnerships has developed in the post-Cold War economic world order thanks to Asia's need for African equityoil.
As an extension of Afro-Asian economic complemtarity, the current regime in Undivided Sudan has diversified the pattern of its transnational production linkage through consolidation of multiple Asian participations in its oil sector. The shift that Undivided 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 basic reasoning behind this strategy is to prevent any possibility of an Asian actor monopolizing Undivided Sudan's oil sector while also ensuring that the country's oil production is less dependent on its alliance with the West. As a result, the transnational production partnership that Undivided Sudan is currently forming for its oil industry has a major Asian emphasis. An additional setting for Sino-Indian competitive cooperative engagement has been generated by the Sudanese oil sector, which is thought to be a dynamic part of the larger process of oil globalization.

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