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AERC Scoping Exercise on China-Africa Relations

The Case of Angola

Draft 2

By

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Table of Contents

<u>I) An Introduction to Angola's Economic Context</u>	pg 3
<u>II) A Review of Co-operation Agreements between China and Angola</u>	pg 4
a) China's political profile with Angola	pg 4
b) Education and Cultural Co-operation	pg 6
c) Economic Co-operation and Technical Assistance	pg 6
	pg 10
<u>III) China Investment Profile with Angola</u>	pg 10
<u>IV) China's Trade Profile with Angola</u>	pg 12
a) Angola's exports to China	pg 13
b) Angola's Imports from China	pg 15
<u>V) China's Aid/Financing profile in Angola</u>	pg 18
<u>VI) Summary: Winner and Losers</u>	pg 21
a) The Angolan Political Elite	pg 21
b) Important Foreign Partners	pg 22
c) Civil Society Organisations and Non-governmental Organisations	pg 22
d) Business Groups	pg 23
e) Trade Unions	pg 24
<u>VII) Conclusion</u>	pg 25

I) Introduction to Angola's Economic Context

Angola, a former Portuguese colony, recently emerged from a civil war lasting 27 years which began when the colony was abruptly granted independence in 1975.¹ Following the signing of the Luena Memorandum Peace Accord in 2002, there has been relative political stabilisation, increasing the potential for improvements to Angola's growth trajectory.

Decades of war have however left their mark on the country's socio-economic profile. Angola has a population of approximately 14 million, almost half of which live in the capital city, Luanda. Luanda was a stronghold of the MPLA (*Movimento Popular para a Libertação de Angola*) - now the ruling party - and the city was one of the few enclaves that was relatively sheltered from all-out fighting. Consequently, between 80-90 percent of all economic activity in the country is concentrated in Luanda. Despite only having the infrastructural capacity to support 500,000, the city currently has a population of approximately 6 million, placing strain on what is already an underdeveloped infrastructure for basic public services.²

The Angolan Government, following the end of the war in 2002, intended to enlist the support of the United Nations and the international donor community for humanitarian relief by holding an international donor conference. In order to secure the support for such a conference, the Angolan Government was encouraged by the World Bank and the IMF to develop a Poverty Relief Strategy Paper (PRSP), known in Angola as *Estratégia Contre a Pobreza* (ECP). The ECP was however not accepted by the international donor community as a solid ground from which to launch a donor conference, largely because of a lack of consultation with relevant stakeholders during its formulation.

Despite rising Government revenues due to the commodities boom of recent years, social welfare and pro-poor economic policies remain undeveloped. The situation is exacerbated by the fact that many non-governmental organisations (NGOs) are considering withdrawing from Angola, as its rising oil revenues preclude Angola from being considered for the aid grants awarded to Africa's poorer states. Oil production accounts for 52 percent of the country's US\$24 billion economy, with oil exports accounting for over 80 percent of fiscal receipts in 2005.³ While the oil industry's GDP contribution is expected to have increased by 37.2 percent in 2006 according to the Angolan Ministry of Finance figures, the oil industry itself can provide only a fraction of the jobs in a country where unemployment is widespread.

Sociedade Nacional de Combustiveis de Angola (Sonangol), the state-owned oil company, employs approximately 7 000 Angolans out of a total labour force of 5.1 million people. The

unemployment rate is estimated to be approximately 30.6 percent of the economically active population. Diamond extraction, the second largest contributor to exports, accounts for six percent (compared to oil extraction's 93 percent⁴) and employs only approximately 10 000 workers. Thus, while extractive industries, diamonds and oil, account for 99 percent of Angolan exports and 57 percent of GDP, they employ only 1 percent of the Angolan workforce.⁵

Angola's non-oil economy is expected to grow 19.5 percent in 2008, in comparison to the oil sectors projected 13.3 percent growth, reflecting Angola's efforts to diversify away from oil related activities. Predictions for Angola's 2008 GDP growth have been revised down to 16.2 percent from 31.2 percent.⁶

During Angola's protracted war, there was mass displacement of most of the population to Angola's coastal areas. This resulted in the growing informal economy becoming the mainstay of economic survival.⁷ Five years after the war's end, the informal economy is still a very important means for survival for a large portion of the Angolan population, albeit going unacknowledged by the Angolan Government. The Angolan Government relies heavily on the NGO and donor community to provide the poorer and vulnerable sections of the population with basic services. Indeed, the general opinion is that this kind of service provision has *de facto* been 'outsourced' to the donor community, releasing the Angolan Government from the necessity to find pro-poor growth strategies and the responsibilities inherent in basic universal service provision.⁸

Much of the Angolan population is still in the process of returning to homesteads occupied prior to the war, resulting in rapid *ad hoc* urbanisation as people move to the relatively more developed areas to try to reinsert themselves in to the economy. While there have been attempts to resettle families that moved from the interior provinces to Luanda, in an effort to stem the continued rapid urbanisation of Luanda, these attempts have been largely unsuccessful. Most families state a fear of mine infestation⁹ in their former homelands as a reason for not wanting to return.¹⁰ The recent improvement of major transport arteries between the provinces, while important, has done nothing to encourage internally displaced persons (IDPs) to return home, and has in fact increased the flow to Luanda.

II) A review of Co-operation Agreements between China and Angola

a) China's political profile with Angola

Prior to the establishment of official diplomatic ties between the People's Republic of China and the Republic of Angola in 1983, China and Angola have had a long political association.

During the 1960s and 1970s, when revolutionary China sought to export its 'people's revolution', after initial support of the *Movimento Popular para a Libertação de Angola* (MPLA), China supported rival liberation movement *União Nacional para a Independência Total de Angola* (UNITA), among others during the Angolan civil war. This occurred after USSR-China relations soured and was in an effort to counter the Soviet Union's strong influence and support of the MPLA.

This particular African foray proved somewhat embarrassing for China, as it ended up backing the same side as sworn Cold War enemies, the United States and apartheid South Africa.¹¹ It is likely this led to the delayed establishment of official diplomatic ties between Angola and China.¹² The Joint Communiqué on the Establishment of Diplomatic Relations between the Government of the People's Republic of China and the Government of the Republic of Angola was ratified on 12 January 1983. The Chinese embassy was only opened in late 1980's, and for many years was kept at arm's length by the Angolan Government.

The Angolan Government flirted with establishing diplomatic relations with Taiwan in the early 1990s, sending several ministers to the island, but this did not materialise. This is possibly due in part to Angola's desperation for financing following a dip in global oil prices. Increased diplomatic efforts by the PRC may also have contributed as it was around this time that oil imports became one of China's economic imperatives, having become a net oil importer in 1993. With increased commercial co-operation between Angola and China, Taiwanese diplomatic efforts toward Angola have disappeared.

By contrast, high-level visits between China and Angola have increased. Important visitors to Angola from the Chinese side include: Vice Minister of Foreign Affairs Gong Dafei (May 1983); Foreign Minister Qian Qichen (August 1989); Vice Premier Zhu Rongji (August 1995); Vice Minister of Foreign Ministry Li Zhaoxing (April, 1996); Assistant Minister of Foreign Ministry Ji Peiding (September, 1997); Foreign Minister Tang Jiaxuan (January, 2001); Li Tieying, member of the Political Bureau of the Central Committee of the Communist Party of China (October 2001); Wang Wenyuan, vice chairperson of the National Committee of the Chinese People's Political Consultative Conference (April, 2002); Vice Minister of Foreign Ministry Yang Wenchang (July 2002); Vice Premier Zeng Peiyan (February 2005); Vice Minister of Foreign Ministry Lü Xinhua (July 2005); and Jiang Yaoping, vice minister of information industry (November 2005).

Top leaders of Angola who visited China are: President Dos Santos (October 1988 and October 1998), Speaker of the National Assembly of Angola Vandunem (November 1993), Foreign Minister De Mora (March 1994), General Secretary of the Angolan governing party MPLA Lopo

Do Nascimento (September 1998), Defence Minister Payama (May 2000), General Secretary of the Angolan Governing party MPLA Lourenco (May 2000), and Speaker of the National Assembly of Angola Almeida (May 2001).¹³

These visits, and the seniority of the government official exchanges, illustrate the importance of the relationship. Vice Premier Zeng's visit to Luanda in February 2005 was particularly important as it helped to consolidate various bilateral co-operation and financing agreements concluded at this time.

b) Educational & Cultural co-operation

In 1988 The Governments of China and Angolan signed an agreement on cultural cooperation.¹⁴ Angola is also a recipient of the Chinese Government Scholarships, as are other African countries that recognise the PRC as opposed to Taiwan. As of October 2006, nine Angolan students were studying in China.

China has also increased ties with the other Portuguese-speaking countries, with the creation of the Economic Cooperation and Trade Forum between China and Portuguese-speaking countries, known as Forum Macau. Established in October 2003, the first such Forum was held in 2004. There are eight members of this forum in addition to China: Angola, Portugal, Cape Verde, Mozambique, Brazil, Guinea Bissau and East Timor. The political rationale behind the forum originates in the Chinese special administrative zone of Macau, an area that was historically a Portuguese colony and thus shares cultural and language links with these countries.

The significance of the special economic zone of Macau in strengthening Sino-Angolan relations should not be underestimated, particularly as it may go some way toward resolving cultural and particularly, language barriers. The fact that China is devoting considerable effort to maintaining Forum Macau emphasises the strategic importance of such relationships with Lusophone countries, in particular, Angola.

c) Economic Co-operation and Technical Assistance

Economic Cooperation Agreements¹⁵

1984 - The Governments of China and Angola signed a trade agreement in 1984

1988 - The Governments of China and Angola set up a Mixed Economic and Trade Commission.

2004 – The Government of China extended a US\$ 2 billion loan to the Government of Angola for national reconstruction

2006 – The Government of China relieved all Angola's outstanding due for repayment due end of 1999.

2007 - The Government of China extended a further US\$ 2 billion loan to the Government of Angola for national reconstruction.

On 21 March 2004, China's Exim Bank extended an oil-backed US\$2-billion credit line to the Angolan Government; the first tranche was payable in September 2004 and the second tranche in March 2005.¹⁶ The loan was doubled in to US\$ 4 billion on 20 June 2006¹⁷ and has rendered China the biggest player in Angola's post-war reconstruction process.

In May 2007, an additional US\$500 million was negotiated to assist with 'complementary actions'. This, according to a representative of the Angolan Ministry of Finance, encompasses further incidental expenditures that will facilitate the integration of the newly built infrastructural projects into the national economy. For example, the purchase of school buses to transport schoolchildren to the newly constructed schools is planned for the interior provinces.¹⁸

The loan is intended to assist Angola in the rebuilding of vital infrastructure and is managed by the Angolan Ministry of Finance. In exchange for the loan, payable at Libor¹⁹ + 1.5 percent over 17 years, including a grace period of 5 years, China has secured 10,000 barrels of oil per day from Angola. The loan, which operates like a current account held in China under the name of the Angolan Government, is paid directly to the Chinese companies responsible for the construction work. The loan has placed China in a favourable position with the Angolan Government, especially as a much smaller amount of oil must be put up for collateral, as compared to traditional expensive oil-backed loans.²⁰

This agreement is significant, particularly because Angola had been experiencing difficulties securing capital from the international financial institutions, such as the Paris Club and the International Monetary Fund (IMF). Angola was loath to submit to external pressure regarding good governance and transparency, particularly as the Angolan Government felt that these preconditions for financial assistance were unreasonable. This differs from the early nineties, when oil prices were ebbing and the Dos Santos regime was slightly more vulnerable to external pressure. In contrast, however, in 2004 global oil prices were on the rise, due in part to China's increasing demand. This placed Angola's Government in a stronger position vis-à-vis the International Financial Institutions (IFIs), particularly when the prospect of financing from an alternative source emerged.

Tied to the China Exim Bank loan, is the agreement that the public tenders for the construction and civil engineering contracts tabled for Angola's reconstruction will be awarded primarily (70

percent) to Chinese enterprises approved by the Chinese Government. Of the tenders, 30 percent have been allocated to the Angolan private sector, to encourage Angolan participation in the reconstruction process.

As the loan is not classified as investment, Chinese companies tendering for contracts financed by the China Exim Bank loan do not have to register with the Angolan National Agency for Private Investment (ANIP) according to the Ministry of Finance. Consequently, the regulations framework for private investment in Angola is circumvented. Instead, the projects financed by the loan fall under a Program of Public Investments (PIP) in the sectors of public works, health, energy and water, agriculture, telecommunications, the fishing industry and education.

According to the Angolan Ministry of Finance, the projects allocated to each sector are managed by their respective ministries while the Ministry of Finance co-ordinates the process of fund allocation. Applications for projects to be financed by the loan are submitted by the various ministries, under the guidance of the Presidency. According to the Chinese Economic Counsellor in Angola, Chang Hexi, the money is managed through a co-operation agreement between the Angolan Ministry of Finance and the Chinese Ministry of Foreign and Commercial Affairs (MOFCOM). Projects are determined by the Angolan Government, who must then present a proposal to the joint-committee of MOFCOM and the Angolan Ministry of Finance before it can be put out to tender. According to various observers from civil society, however, the Presidency has the overriding say as to where the money is allocated.

China Exim Bank has increased the amount for the oil-backed loan to Angola several times and the Angolan Ministry of Finance is currently managing US\$ 4.5 billion.²¹ According to the OECD²², US\$1.8 billion of the original US\$2 billion loan from China Exim Bank had been spent by April 2006.

On 21 June 2006, during an official state visit by PRC Premier Wen Jiabao to Angola, the two countries further cemented political and economic relations, issuing a joint communiqué detailing the signing of further agreements and legal documents on bilateral cooperation in the economic, technological, judicial, health and agricultural fields. Premier Wen was accompanied by the president of China Exim Bank, Li Ruogu, in order to discuss the allocation of the loaned funds to review the infrastructural projects already completed by the Chinese companies at the time of Premier Wen's visit.

In September 2007, China Exim Bank President Li Ruogu visited Angola again in order to assess the progress on the projects financed by the China Exim Bank loan. In a meeting with Angolan

President Eduardo dos Santos, the China Exim Bank president concluded a further loan agreement of US\$ 2 billion, to be used in additional large-scale infrastructural projects.²³

Additional loans from China International Fund Ltd, a Hong Kong-based fund management company, have been placed under the auspices of *Gabinete de Reconstrução Nacional* (GRN), Angola's Department for National Reconstruction headed by General Helder Vieira Dias "Kopelipa". Kopelipa is also Minister in Chief of the Presidency and head of the Military House. The GRN was created specially to manage the Chinese credit line and the large construction projects it was to finance. It is an instrument of the executive, as are the various other *gabinetes* created by the executive. The loans managed by GRN are estimated to be in excess of US\$ 9 billion.²⁴ The result of such a structure is that the money from the PRC loan is centrally controlled by the Angolan Government executive. The NGO Global Witness has raised concerns about the transparency of the procurement process of construction tenders managed by the GRN.²⁵

China is increasingly viewed as an important strategic ally, as the credit line, unlike other financing from World Bank and IMF, has no political conditions. The funds from this loan, however, do not enter the Angolan banking system as the credit line remains a current account that the Angolan government holds with China. This further limits the access and participation of other parties to the transactions.

Due to the closed nature of negotiations, it can only be assumed, according to an Angolan political analyst and member of the Angolan political opposition²⁶ that the credit lines are used to finance strategic projects in Angola of China's choosing. The project selection seems to be based on the following criteria:

- 1) The extraction raw materials such as copper, oil
- 2) Transport and logistics infrastructure to facilitate the importation and distribution of Chinese imports;
- 3) Access for Chinese construction companies to the Angolan economy through the credit line; and
- 4) A market for excess Chinese labour and productive capacity.

In terms of additional technical assistance, Angola is also to benefit from the Chinese government programme to send 10 000 agricultural experts to Africa between 2006 and 2010. In April 2007, a delegation was sent to the interior provinces of Moxico, Bié, Huila and Kuando Kubango. Angola has also been promised training for 60 Angolan technicians in this sector.²⁷

III) China's Investment Profile with Angola

The Chinese credit line, despite being the reason for much Chinese commercial activity in Angola, does not constitute direct investment. According to an estimate by a senior official at Angola's National Agency for Private Investment (ANIP), 99 percent of Chinese companies' activity is state-owned and directed by the Chinese credit line. Despite a paucity of real investment, ANIP is confident that private Chinese investment will grow over the short term with private Chinese firms being attracted to the high activity of other Chinese firms in Angola due to the credit line.

Indeed it is already occurring; companies that entered Angola on the Chinese credit line have returned following the completion of their projects, to register formally with ANIP.²⁸ China Jiangsu International, one of only two Chinese companies registered with ANIP, entered the Angolan market on the Chinese credit line. The company, currently engaged in constructing the *Palacio de Justiça* and housing projects in Cabinda through the Chinese credit line, is now looking for private sector contracts. Thus, while the Chinese credit line does not circulate in the Angolan financial system – preventing any knock-on effect for Angolan banks – it is estimated that in time, the credit line that has spearheaded Chinese entry will allow an estimated US\$2 billion of private investment into the Angolan economy.²⁹

The majority of these investment deals, regardless of sector, are facilitated by the Chinese Economic Counsellor's Desk.³⁰

No reliable data was available in terms of the percentage of China's investment in Angola's economy per sector. The details of known Chinese investments, thus unrelated to projects funded by the Chinese oil-backed credit line, are listed in Figure 1.

Figure 1: Cumulative Chinese Investment in Angola by Sector, US\$ millions, (September 2007)

Recipient Sectors	Project	Value	Year invested	Company
1. Manufacturing	Car plant ³¹	undeclared	2007	CSG Automobile
2. Mining				
- Oil and gas	Oil Blocks ³² 15,17,18	2,400	2006	Sinopec Sonangol International (SSI)
3. Telecommunications	Fixed Line ³³ infrastructure	469	2005	ZTE
Total		2,869		

Chinese investment in Angola is primarily located in the telecommunications infrastructure and extractive industry sectors, particularly oil. The most important and tangible form of Sino-Angolan investment co-operation is a joint-venture between Sinopec and Sonangol to form Sonangol-Sinopec International (SSI). The joint-venture holding, announced March 2006, reported that Sonangol's holding was 45 percent and Sinopec 55 percent.

The joint-venture owns 20 percent of Angola's block 15. SSI made the largest bid in May 2006 to develop Angola's oil blocks 17 and 18³⁴, with collective reserves of approximately 4 billion barrels totalling at least US\$2.4 billion, including US\$1.1 billion in signature bonuses for each block and US\$ 100 million in 'social projects'. The size of the signature bonuses was unprecedented

In June 2006, it was announced that SSI had secured stakes in blocks 17 and 18, financed by a consortium of banks which include the Agricultural Bank of China, Bank of China, China Construction Bank and China Exim Bank, Bayerische Landesbank, BNP Paribas, Calyon, ING Groep, KBC Groep, Natexis, Banques Populaires, Societe Generale and Standard Chartered. According to expectations, oil production would be boosted by 100 000 barrels a day after they came on stream in 2007. Through the joint-venture SSI, Sinopec thus acquired the stakes of 27.5 percent, 40 percent and 20 percent in the off-shore blocks 17, 18 and 15 respectively through its joint venture with Sonangol.³⁵

In addition to oil exploration, SSI intended to develop a new refinery at Lobito, requiring a total investment of US\$3.5 billion. Sonangol held 70 percent shares in this project while Sinopec held the remaining 30 percent.

Work on the refinery, Angola's second such refinery, was supposed to begin before the end of 2007. The project, named Sonaref, was estimated to have a total capacity of approximately 240 000 barrels per day when on full stream, almost tripling the capacity of Angola's current refinery. Eighty percent of output would be for the general export market. SSI planned to take on the entire capital of each of the new concessions and proposed to drill 10 test wells. In March 2007, negotiations as regards plans for the Lobito refinery collapsed and Sonangol has since announced that it will develop the refinery alone and has stepped up plans to 'angolanise' the extractive sector by encouraging local companies to become more involved in the oil industry.³⁶

Sociedade Nacional de Combustiveis de Angola (Sonangol), the state-owned oil company, emerges as the clear winner of increased Chinese investment in the oil industry. This is particularly as the size of signature bonuses has soared since Sinopec's emergence as an investor in Angola's oil industry. While increasing the revenue that Sonangol, as the sole concessionaire of Angola's oil fields can expect to accrue, this has negatively affected other

foreign-invested interests in Angola's oil industry, as the cost of providing such structures as signature bonuses to ensure contracts has risen. The benefits to the general populace from Chinese investment in the oil sector are limited, however. Sonangol, employs approximately 7 000 Angolans out of a total labour force of 5.1 million people. Thus, while extractive industries, diamonds and oil, account for 99 percent of Angolan exports and 57 percent of GDP, they employ only 1 percent of the Angolan workforce.³⁷

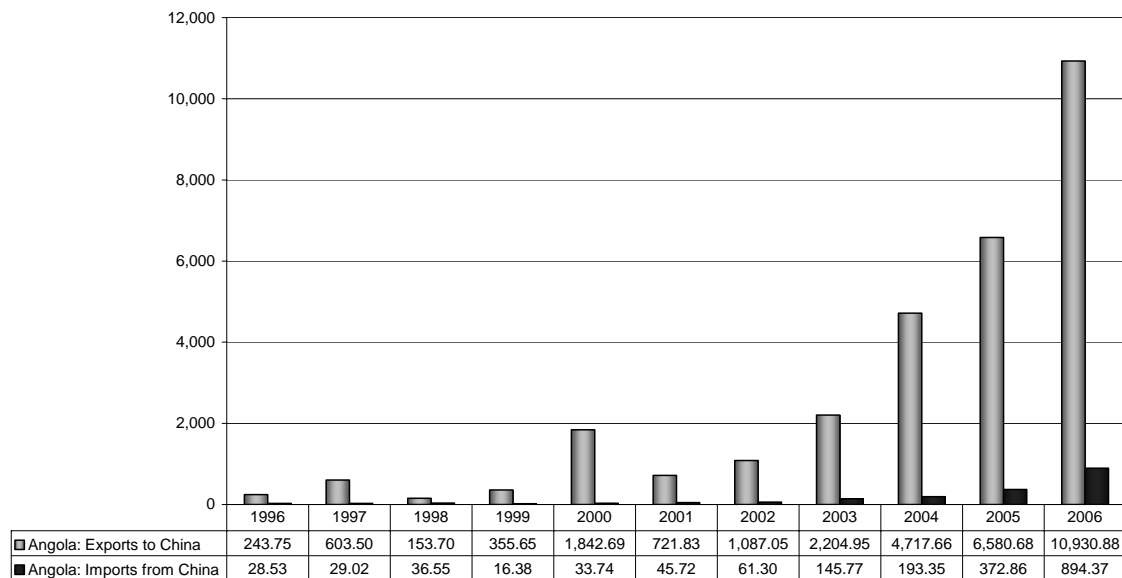
In the telecommunications sector, Mundo Startel, the Angolan fixed line telecommunications utility, has signed a framework agreement with the Chinese company, ZTE Corporation International, for the purchase of telecommunications equipment. The agreement signalled the start of Telecom's new business operations in Angola, as Mundo Startel began constructing the physical infrastructure for its network, launched in 2006. ZTE Corporation is to put US\$400 million into the Angolan telecoms industry. This investment will be used for the construction of Angola Telecom's network; improvements to Angola's military telecommunications system; the construction of a mobile phone factory; the creation of a telecommunications institute for the training of Angolan staff; and the creation of a telecommunications research laboratory.

Despite the reservations of several NGOs about China's presence in Angola, the Chinese activities of Chinese construction companies is recognised as an opportunity to rehabilitate and improve on much-needed telecommunications and other infrastructure to the benefit of the general populace in terms of service provision. It seems however that local Angolan companies are emerging as losers in this scenario. Most of the Chinese construction companies that have won such tenders have yet to carry out their expressed intentions to establish joint-ventures with local partners. It is possible that the current Angolan skills base is too low for joint ventures with Chinese firms and therefore not a viable proposal over the short term. In a few instances well-connected Angolans partner with Chinese companies. These so-called *empresas de confiança* facilitate business transactions within the Angolan commercial environment but ensure that commercial benefit once again remains with the political elite.

IV) China's Trade Profile with Angola

As represented below (see Figure 2), the two countries' bilateral trade has seen a significant increase in recent years. The trade volume between Angola and China in 2006 was US\$11.8 billion; of which China's exports to Angola were US\$894 million, while Angola exported US\$1.9 billion to China, predominantly crude oil. These figures render Angola China's largest trading partner in Africa³⁸, representing roughly one fifth of China's trade with the African continent.

Figure 2: Angola-China Trade, US\$ millions (1996 - 2006)



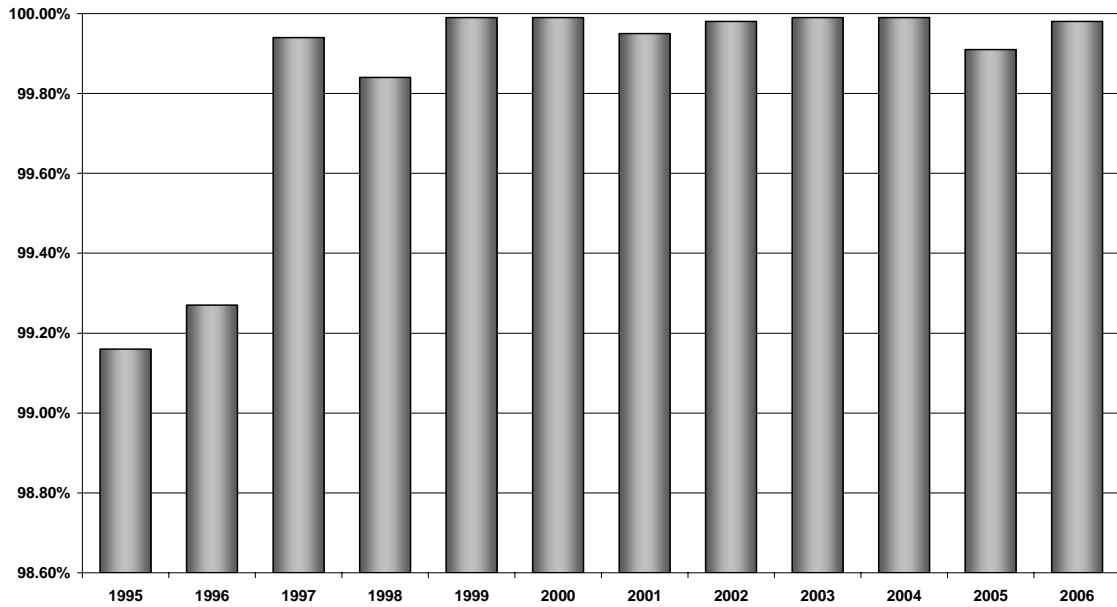
Source: World Trade Atlas Data

a) Angolan Exports to China

China has continued to run a considerable trade deficit with Angola, due to the rapidly rising rate of oil importation from the African country. Angola is one of the few countries in Africa to enjoy a trade surplus with China. As seen in Figure 3, oil comprises almost all Angolan exports to China. The remainder, comprising just 0.1 percent of Angola's total exports to China in 2006, comprise mostly other extractive industry products and crude materials, such as diamonds and granite, as well as scrap metal (see Figure 4 & 5). Further illustrating the consolidation of Sino-Angolan commercial engagement, Angola briefly became the primary source of crude oil imports to China in March 2006, having shipped 2.12 million tons of crude to China in February, surpassing Saudi Arabia, the global leader in crude oil exports.³⁹ Angola again briefly returned to its position as China's main oil producer after its exports increased 40 percent in May 2006.⁴⁰ More than 30 percent of Angola's oil exports are destined for China (see Figure 5), supplying 15 percent of China's total imports. This is on a par with US exports of Angolan oil.⁴¹

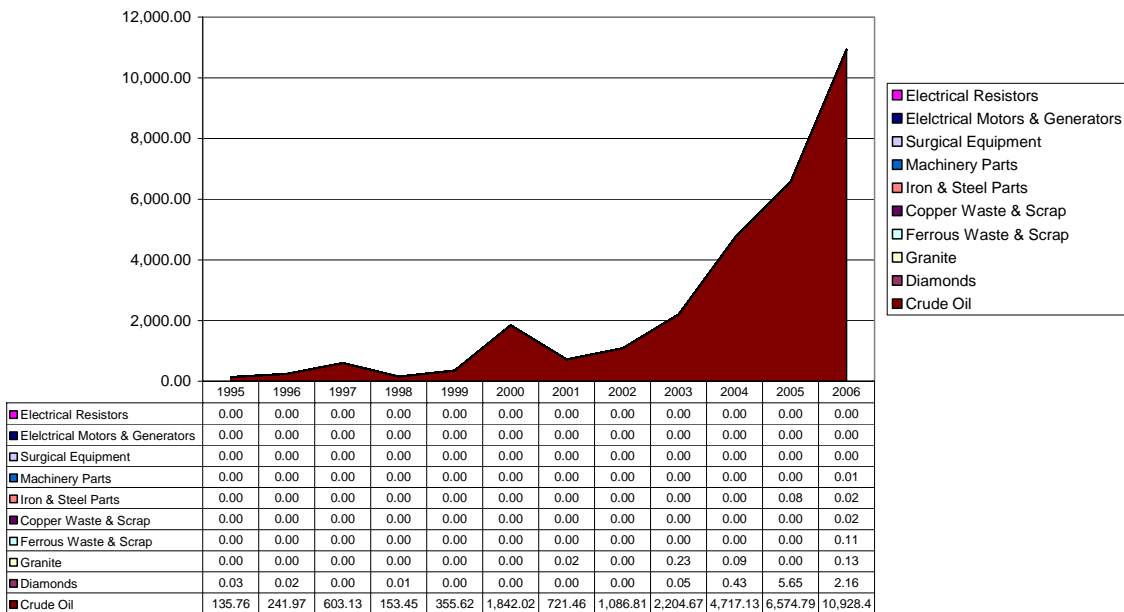
There is thus a direct complementary impact on Angola from trade with China as the latter's increasing demand for oil has encouraged Angolan exports to China to soar. In terms of indirect complementary impact, China's growing demand for oil has contributed to an increase in global oil prices, further benefiting Angolan terms of trade.

Figure 3: Oil as Percentage of Angola's Exports to China, US\$ millions (1995-2006)



Source: World Trade Atlas Data

Figure 4: Angola's Top 10 Exports to China, US\$ millions (1995-2006)



Source: World Trade Atlas Data

Figure 5: Computation of China's % share of Angola's exports by commodity groups, US\$ thousands (2005)

Commodity Groups	China	Total	China share as a % of the total
Food & Live animals (Fish)	35.00	25,885.00	0.14
Beverages & tobacco	N/A	N/A	N/A
Crude materials except food/fuel (timber)	86.00	3,412.00	2.52
Mining			
- Solid minerals	5646.00	671,842.00	0.84
- Oil and gas	6,575,939.00	21,269,244.00	30.92
- Other minerals*	N/A	N/A	N/A
Animal/vegetable oil/fat/wax	N/A	N/A	N/A
Chemical products	N/A	N/A	N/A
Manufactured goods	112.00	2937.00	3.81
Machinery, transport and other equipment	N/A	N/A	N/A
Other manufactured products	N/A	N/A	N/A

Source: Own calculation based on data from UNCTAD, WTO

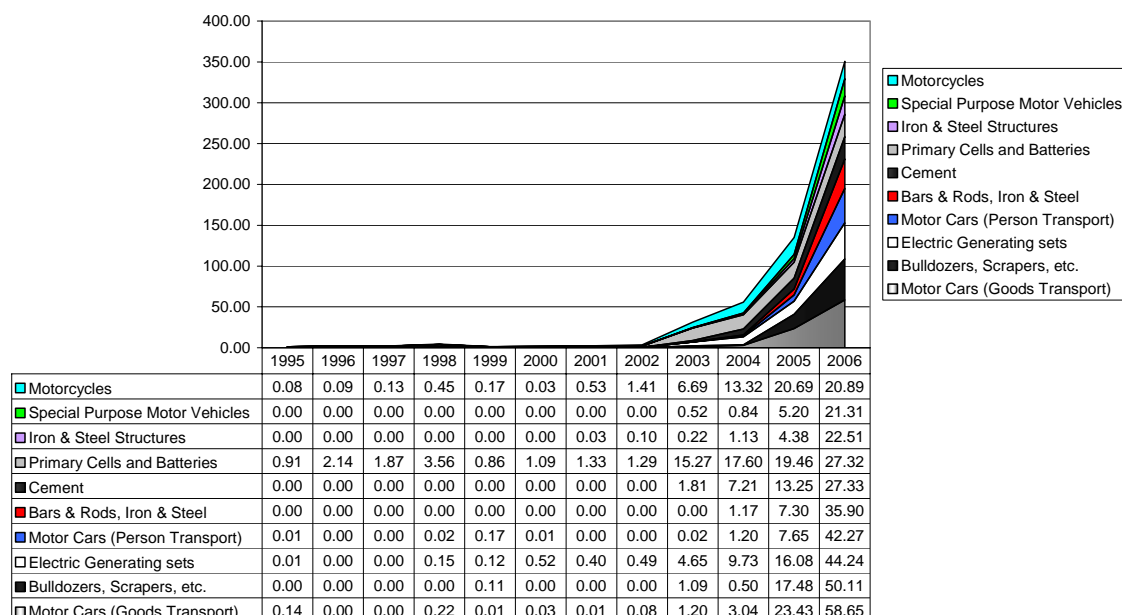
Despite the trade surplus that Angola enjoys with China due to oil, the rising price of oil contributes to increased economic dependence extractive industries, discouraging economic diversification from non-extractive industries, nor industrialization. The narrow concentration on oil exports thus has indirect competitive impact on Angola's non-oil economy, on which the majority of Angola's population ultimately rely on for employment. In addition, a strengthened currency, linked to the high price of oil will have an indirect competitive impact on Angolan importers. Furthermore, while Angola is a crude oil exporter, it must import 70 percent of its derivatives due to a lack of local refining capacity. While high oil prices spurred by China's demand benefit exports, there is an indirect competitive impact on imports of refined oil of which the price has also increased. As petrol is subsidised by the Angolan government, thus does not affect the general population, but drains government budget.

b) Angolan Imports from China

Despite a leap in Chinese exports to Angola in 2004, (see Figure 2), China's share of Angola's total imports remains relatively small, although it is rapidly increasing year on year. Chinese are generally favoured for goods and services, construction, and electronics, according to ANIP.⁴²

Interestingly, Angola's main source of imports is the developed market of European Union, predominantly Portugal whose products are generally more expensive.⁴³ This may illustrate the purchasing preferences of political elites and how their domination of import/export businesses has influenced Angola's source of imports. This occurs despite the relative poverty of the majority of Angolans, and the seeming appropriateness of cheaper imports from developing economies, such as China.

Figure 6: Angola's Top 10 Imports from China, US\$ millions (1995-2006)



Source: World Trade Atlas Data

Only a small percentage of imports originate from China, 8.5 percent, relative to Chinese import levels in other African countries.⁴⁴ From 2007, however, it seems that Asian partners have become increasingly large sources of imports but it is South Korea, and not China, that is a favoured import origin.⁴⁵ Nevertheless, as mentioned previously, while China's absolute share of imports is small, the growth in these imports is considerable. In 2006, imports from China reportedly grew 139 percent from 2006 levels. This may soon render China one of Angola's largest import partners, as and if import growth levels continue at such a rate, they will supersede import growth from Portugal.⁴⁶

Figure 7: Computation of China's % share of imports by commodity groups, US\$ thousands (2005)

Commodity groups	China	Total	China share as a % of the total
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Food & live animals	17,912.00	913,587.00	1.96
Beverages & tobacco	388.00	175,913.00	0.22
Crude materials except food/fuel	23,894.00	86,791.00	27.53
Mining			
- Solid minerals	32,954.00	709,385.00	4.65
- Oil and gas	1.00	100,182.00	0.0009
- Other minerals	N/A	N/A	N/A
Animal/vegetable oil/fat/wax	19,347.00	413,220.00	4.68
Chemical products	15,376.00	273,454.00	5.62
Manufactured goods	63,903.00	487,047.00	13.12
Machinery, transport and other equipment	198,024.00	4,158,068.00	4.76
Other manufactured products	N/A	N/A	N/A

Source: Own calculations based on data from UNCTAD, WTO

Anecdotal evidence suggests that 'under the radar trade' in the informal economy has increased in terms of micro-enterprise Chinese retail stores. This is not regulated. Indeed, official figures do not seem to capture the increase in the quantity of Chinese products. As the Director of ANIP pointed out, there is no data tracing the importation of goods that come from a Chinese original equipment manufacturer (OEM) that have been repackaged as European finished goods. The same is true of goods that have been imported from China by European companies and redirected to Angola, thus possibly distorting the reality of import origins. Thus an increase in Sino-Angolan trade in terms of Chinese imports does not reflect an increase in Chinese imports to Angola. What is evident is an instance of more direct trade, cutting out trading middlemen in Dubai, South Africa or Europe so that Chinese imports come straight from Chinese ports to Angolan markets.

An increase in cheaper imports from China have a direct complementary impact on Angolan consumers as, due to Angola's import-orientated economy, a large proportion of market consumables are imported. . The cheaper Chinese products have benefited the poor sectors of the population in terms of their economic access to such goods In this way, Chinese imports may also have had an indirect complementary effect by helping to mitigate inflation, which the Angolan Ministry of Finance projects to by 10 percent in 2008, down from 12 percent in 2007.⁴⁷

There are also implications for the local fledgling industries attempting to emerge in the wake of Angola's civil war. Chinese imports will also however have a direct competitive impact on local manufacturers and producers. Several years ago, according to a prominent NGO worker, Angola had an embryonic textile industry with two modest textile factories, as it was a major producer of raw cotton. The cheap Chinese textile imports and the artificially maintained low value of the kwanza⁴⁸ disadvantaged domestic production. It must be acknowledged however, that the destruction of arable land during the war and an influx of donations of second-hand clothes from

developed countries to Angola have been the primary causes of the collapse of the Angolan textile industry.

A further example of the same phenomenon is the establishment of a furniture making factory by a well-established local NGO in Huambo province to meet the demand for school equipment and furniture, following the planned construction of several schools across the country. The enterprise was developing well until the arrival of cheaper, and in this case of inferior quality, Chinese imported furniture that was being purchased by government ministries to equip the new schools. Particularly since many of these schools are built with money from the Chinese credit line, at least 50 percent of the procurement materials must originate from China.⁴⁹ This reduces the potential positive spin-offs of private sector development that Chinese engagement in Angola may have.

Local producers are not the only losers however. The rapid and increasing influx of Chinese goods into Angola, as in many parts of West Africa, has had a direct competitive impact on foreign-owned (predominantly Lebanese) businesses that formerly held a monopoly that have over goods distribution networks in Angola.⁵⁰

V) China's Aid Profile in Angola

Between 2002 peace accord and April 2006, Angola received loans totalling US\$5.5 billion of which China has contributed 58 percent.⁵¹ In the specific case of Angola, China continues to dominate aid despite several aid packages that have been granted by countries such as Japan, Russia, Brazil and Portugal, particularly in the light of China's oil-backed loans to the Angolan Government.

According to the Chinese Economic and Commercial Counsellor in Angola, Chang Hexi, China has helped Angola in four primary aspects:

- 1) Short-term training on projects;
- 2) Medical assistance, particularly with cholera;
- 3) Construction of infrastructure in terms of both hospitals and schools, transport infrastructure such as roads
- 4) Improvement of basic services such as water, sanitation, etc, from the experience of its own poverty relief strategies.

The majority of China's aid to Angola has been through the oil-backed loans from China Exim Bank (the sole vehicle for Chinese concessional loans) directed at Angola's national reconstruction, as well as loans from China International Fund Ltd. No reliable statistics were

available regarding China's share of foreign aid according to sector. Figure 8 (below) details the recorded disbursements of projects financed by China Exim Bank and China International Fund Ltd according to sector.

Figure 8: Chinese Loans & Foreign Aid disbursements to Angola by Sector, US\$ millions (cumulative, September 2007)

Recipient Sector	Project	Value	Year awarded	Creditor
1. Agriculture	Kwanza-Sul Cotton production ⁵²	40	2006	China Exim Bank
	Donation of agricultural equipment ⁵³	1	2005	Chinese Government
2. Transport ⁵⁴	Road reconstruction (Luanda province)	258	2005	China Exim Bank
	Road link construction (Cabinda & Zaire provinces)	3,000	2007	China Exim Bank
	Benguela Railway rehabilitation	330	2006	China International Fund Ltd
	Cunene Bridge ⁵⁵	30	2007	China Exim Bank
3. Construction ⁵⁶	Luanda General Hospital	8	2006	China Exim Bank
	Justice Palace	41	2006	China Exim Bank
	Basketball stadiums ⁵⁷	31	2007	China Exim Bank
	Gangelas Dam repair	28	2006	China Exim Bank
	Housing Project	undeclared	2006	China International Fund Ltd
	Health facilities in Huambo province	100	2004	China Exim Bank
	Ministry of Finance Building	undeclared	2005	China Exim Bank
5. Water Infrastructure	Irrigation system in Bengo, Huila, Moxico & Kwanza Sul ⁵⁸	54	2007	China Exim Bank
6. 'Friendship' grant ⁵⁹		220		Chinese Government
Total		4,141		

Source: Reuters, Macauhub, Angop, AllAfrica.com

As the China–Angola financial agreement is in the form of an oil-backed loan, Chinese involvement in the Angolan economy is not direct investment in the traditional sense. However, a representative from the Angolan Chamber of Commerce and Industry suggested that the loan still involves capital risk through the potential for loan defaulting, as it is a sizeable sum that is being made available to a developing African country. China is also the only country to make such amounts of money available to the Angolan Government. Indeed, it is increasingly difficult to differentiate between Chinese foreign aid and Chinese investment, due to the closely coordinated nature of such activities and the strategic nature of Chinese foreign aid.⁶⁰ Due to the developmental focus of the loan, and its preferential conditions, which distinguish it from

commercial loans, for the purposed of this paper, the Chinese oil-backed loans will be considered as aid, as opposed to investment.

The Chinese loan provides the means and momentum for Angola to finance the rebuilding of its infrastructure, which can be seen as a long-term public investment in terms of business facilitation, especially where improvement in transport networks are concerned. The resultant improvement of the roads leading from Luanda to other provinces, which Chinese and other firms are working on has markedly improved internal communication and may prove vital in terms of market access for agricultural goods when this sector is developed. Such improved services will thus have a direct complementary impact on the Angolan population, particularly in the interior of the country. Most large-scale projects were previously undertaken by Portuguese or Brazilian firms. The prerequisite that 70 percent of the contract must be awarded to Chinese firms will have a direct competitive impact these other foreign-invested firms causing them to lose out on market share.

Similarly, there are also concerns that the quality of workmanship of Chinese companies is not sufficient, particularly since the heavy rains experienced in early 2007 washed away many of the newly-built roads. This is not necessarily an indication that Chinese companies cannot produce good quality products, but that the *fiscalização* or supervision is not independent or effective enough. In late 2006 and early 2007, German consultants were contracted to oversee large sections of the roads that Chinese contractors are rehabilitating. This seems to have been an effective way of ensuring quality control. Consequently, this kind of independent oversight should be made policy with regards to the construction contracts.

The co-ordinated means, by which the Chinese government is providing the financing for infrastructural rehabilitation and the companies to undertake the projects, is beginning to have a direct competitive impact on the IFIs' traditional domain of influence and their potential control of domestic policy and affairs of debtor nations, in this case Angola. It is the nature of the loan, with its very low interest rate and policy of domestic non-interference that makes the Chinese attractive lenders. The traditional sources of loans, WB and the IMF, have been less than forthcoming with large-scale long-term loans, as the Angolan Government has not fulfilled their prerequisites in terms of transparency and practices of good governance. Angola, albeit through lack of political will, is still struggling to implement such governance practices that are deemed necessary by Western donors before such loans are granted. The emergence of China as an alternative source of funding has been particularly welcome, considering the paucity of options available to the Angolan Government⁶¹ and the urgency with which such funds are required. Thus, while the Angolan government is a clear beneficiary in this situation, with access to more

favourable financing terms, there are implications for the donor community and the diminishing leverage they have on enforcing policies of governmental transparency. Less pressure on the Angolan government for transparency may have an indirect effect on diminishing the political rights and freedoms of Angolans. Furthermore, the fact the management of the China Exim bank loan precludes it from circulation in the Angolan financial system – resulting in a direct competitive effect on the Angolan banks.

VI) Summary: Winner and Losers

China has been a favoured diplomatic ally in Africa as her loans, in the spirit of China's policy of non-interference, come with few conditions. This is especially attractive for Angola, given that it was a proxy war-zone during the Cold War (albeit that China also played a role during this period). What is concerning however, is that as the credit-line is linked to oil, a non-renewable resource, Angola's leverage to negotiate such credit-lines is finite. This fuels the perception that the Angolan Government has not yet formulated a long-term strategy as regards the operationalisation of the Chinese credit line. The growing relationship between China and Angola are closely observed several groups of stake-holders stand to lose or gain from developments in these countries' bilateral relations.

a) Angolan Political Elite

The role of the executive is pivotal in all major policy development and implementation; engagement with China is no exception. This is especially because all economic sectors of national interest are controlled, political and economically by the presidency. The major thrust behind Chinese engagement in Angola, as previously mentioned, is an oil-backed loan from China Exim Bank of several billion dollars. Disbursement of the initial US\$ 2 billion tranche, despite being officially coordinated by the Ministry of Finance, receives strong guidance from the Presidency, and is not tabled or discussed in the National Assembly, the Angolan Parliament. In addition, ministries that previously had some input in the planning and allocation of reconstruction and rehabilitation projects are now left in the dark as only the Presidency and the GRN seem to be privy to these negotiations. Indeed, according to a well-established NGO which has had some success in informing local government policy, the fact that very often even the Ministers themselves are not informed as to how the Chinese credit line is spent, illustrates the closed-door nature of the negotiations and the lack of consultation, even within the Cabinet.

There is a perception that this tight control by the Presidency is designed to facilitate preferential commercial and subcontracting arrangements between the Chinese companies with access and

Angolan companies in which the political elite have controlling interests. The nature of the management of the Chinese loans thus renders the Angolan the primary beneficiaries of the arrangement.

b) Important Foreign Partners

Brazil and Portugal remain important players in Angola's political economy. Both countries have their own lines of credit extended to the Angolan government, which are used to finance contracts undertaken by their respective native companies. Thus, there is arguably little difference between these arrangements and that of the Chinese credit line, except for the fact that the latter is much larger. A Brazilian diplomatic official⁶² commented however that he did not see the entry of Chinese companies into the Angolan market as a threat to Brazilian interests, as these would effectively be protected by the credit line of approximately US\$ 400 million that Brazil extends to Angola. In his opinion, China was merely widening the market and not accumulating market share at anyone's expense. The Chinese line of credit was, in his opinion, a way of the Angolan Government being able to avoid the conditionalities attached to World Bank (WB) and IMF loans, thus postponing a move to governance transparency.

Nevertheless, it appears that other important trading partners feel they are losing out due to China and Angola's growing relations. The United States has a strategic interest in Angola, currently importing approximately 30 percent of Angolan oil, on par with China, according to a Western diplomat.⁶³ Indeed, US diplomatic and commercial interests are keen to pursue cooperation initiatives with Chinese interests in Angola, but as yet, no progress has been made.⁶⁴ Furthermore, in what can be interpreted as a strategic move, to counter a growing Chinese presence in the region, the US has established a military base (AFRICOM) which will monitor the naval activity on the African West coast.⁶⁵ American policy hawks are thus worried about the expanding sphere of influence China is strategically building around Africa's second largest oil producer.⁶⁶ Angola's other strategic trade partners are thus seen as losers in the face of China's growing commercial and political relationship with Angola.

c) Civil Society Organisations and Non-governmental Organisations

In terms of practical input into domestic Angolan economic policy, particularly as regards China, the international donor community is largely ineffectual. Although most continue with their respective country programs in an effort to improve social welfare conditions, the Angolan Executive rarely consults them and remains by and large suspicious of their activities, particularly if they are foreign-funded.⁶⁷ In addition, there is very little information offered to the international donor community about China's foreign aid to Africa. A Western NGO⁶⁸ sought to conduct a

study in 2004 to map this relationship but was discouraged as access to public sector officials was obstructed.

Particularly since Angola is no longer at war and given healthy public revenue from oil receipts, many donors have left Angola. The aid parcels that the remaining donor organisations offer Angola are fairly modest. The World Bank, for instance, has a maximum fund mobilisation for (fast-tracked) emergency relief of US\$500 000. This pales in comparison not only to the concessional loans China is disposed to give to Angola but also the enormity of the social problems facing the country.

The IFIs have, together with international donors, expressed concern at the lack of transparency of bilateral negotiations between Chinese and Angolan leaders, particularly those that are oil-backed.⁶⁹ The Paris Club and IMF fear that the little leverage they have over Angola would be further eroded by high oil revenues.⁷⁰ Especially as no conditions of good governance are attached to the Chinese government loans, the largest offered to the Angolan Government, they are considered much more attractive than World Bank or IMF packages. As one NGO representative frankly admitted: “If you get into bed with [the] IMF, they will force a globalisation agenda on you. China’s principle of mutual respect for sovereignty is appealing – it is like borrowing from a commercial bank, as long as you repay the loan, they respect your privacy”.⁷¹ This comment reflects the Angolan Government perceptions of the Bretton Woods institutions. NGOs and other civil society organisations are thus losers in the fact of growing relations between Angola and China, as what little leverage and influence they had built up with the Angolan Government is fast being eroded.

d) Business Groups

The Chamber of Commerce for Chinese Companies in Angola (CCCCA) appears to have substantial influence in terms of the contracts that are awarded in Angola. Established in March 2006, following the rapid increase of the Chinese commercial presence in Angola, the CCCCCA is based in Luanda and currently has 26 members. Its leading members include the China National Machinery & Equipment Import & Export Corporation (CMEC), Jiangsu International, China International Water & Electric Corp, ZTE Corporation, Huawei, Sinosteel Corporation, China Petroleum & Chemical Corporation (Sinopec), China National Overseas Engineering Corporation (COVEC) and China State Shipbuilding Corporation (CSSC).

The Chamber, according to a representative⁷² from the PRC Economic Counsellor’s desk, was established to facilitate an interchange of ideas between Chinese and local companies, but any concrete results from the establishment of this Chamber are yet to emerge.

It was found that Angolan government officials and investment agencies generally view Chinese commercial engagement in a very favourable light when compared to the traditional foreign investors. They welcome the fact that China is willing to inject large amounts of capital into the Angolan economy, albeit as a loan and not necessarily as direct investment, whereas other investors were not willing to run the risk of investing such capital. It was found that there is a particular negativity towards the South African corporate investor.

Due to the scale of projects conducted by the Chinese firms, Chinese companies more regularly compete with other foreign-invested firms rather than local companies, which generally lack the capacity to bid for or undertake such projects.⁷³ Particularly as Chinese contractors are guaranteed 70 percent of contracts financed by China Exim Bank, their business competitors, whether foreign or local, are losing out on market share.

e) Trade Unions

Trade Unions do not have much clout as regards policy-making in Angola. Although consulted in terms of wage setting, they are not permitted to organise mass action. Trade Unions have however expressed concerns that there is not enough Angolan participation in the steadily growing number of Chinese government-funded projects. Where Angolan labourers are employed, there are complaints that this is on a casual labour basis to avoid the inflexible labour law regime. According to a source close to the Deputy Minister of Finance⁷⁴, there are also concerns that Chinese companies are not facilitating technology transfer. In addition, it seems that Angolan companies are not accessing their 30 percent quota of contracts, as previously agreed. It is felt that Angolan Government should attempt to reemphasize the need to build local capacity in the construction industry. The leverage afforded them as a major oil supplier to China could be used to strengthen their negotiating position and enforce policies promoting Angolan contractor participation in the Chinese-financed projects.

Interestingly, according to ANIP, it appears that even Angolan companies are keen to import and utilise Chinese labour, because it is considered to be more productive. This is partly due to a lack of skills, caused by the civil war and a lack of education facilities and spending. Angola, however, also has an extremely inflexible labour regime, skewed in favour of the worker. A mandated three days sick leave per month, and an allowance of two weeks off for bereavement, is open to abuse by workers. This has resulted in employers often having to recruit extra workers to complete the tasks of a single worker - especially because dismissing a permanent staff member is extremely difficult. Consequently Chinese labour has a direct competitive impact on the Angolan labourers vying for work on these projects. The current labour regime discourages employers from contracting permanent staff and does nothing to help the high unemployment rate, only protecting

those few who already retain permanent employment. If the Angolan Government modified labour policy, it is possible that this would encourage more local employment.

VII) Conclusions

Angola, for strategic reasons of its own, has no intention of aligning solely with Beijing. Angola is pursuing its own version of non-alignment in favour of its own home grown resource nationalist approach. Indeed in contrast to neighbouring Zimbabwe's "Look East" policy and despite warm relations between Zimbabwe's President Mugabe and Angolan President do Santos, China is seen by Angola as an important ally – albeit not a unitary strategic partner - precisely because it diversifies Angola's source of aid and concessional loans.⁷⁵

In addition, while particularly hostile to foreign agencies such as World Bank and IMF attempting to influence domestic economic and fiscal policy, Angola has no intention of alienating the international community completely. Angola eagerly wants international recognition as a regional and possibly global player.⁷⁶ For this reason, Angola's accession to the OPEC cartel in January 2007 has been particularly significant; it demonstrates Angola's interest in engaging with the global economy in an effort to increase its international standing.

Interestingly, aside from Angola's fundamental reluctance to be beholden to any one foreign partner, there have recently been signs that Sino-Angolan relations are not as cordial as originally presumed. For instance, President Dos Santos did not attend the FOCAC Summit in November 2006 - a minister was sent in his stead.⁷⁷ While this does not necessarily have political overtones, it would undoubtedly have been seen as a snub by the Chinese. It may also however, have been dos Santos's way of avoiding 'paying homage' to the Chinese president as one of 48 African heads of state in attendance at the 2006 FOCAC summit. Notably, President Hu Jintao did not visit Angola on his African tour in February 2007.

Although there have been signs of discontent among Angolan political elites, respondents suggested that this will not mean a permanent souring of relations, merely that the initial headiness of Sino-Angolan commercial engagement has worn off and both countries can get down to business.⁷⁸ China and Angola's respective political elites have undoubtedly recognised complementarities within their economies and national interests. The rapid market entry of Chinese state-owned enterprises into the Angolan economy and a number of high-level co-operative oil deals over a short period of time has borne witness to this.

For Angola, the general development of infrastructure is a national priority to sustain economic growth and encourage investment. Chinese companies have made a broadly positive contribution

in this regard. Of concern, however, are the challenges posed by a lack of institutional framework and Government capacity to monitor and encourage direct investment in terms of local skills development and technology transfer. Linked to this is the issue of whether enough is being done to cultivate and harness the development of the local private sector.

An additional challenge is the question of whether the Angolan Government has ownership of the reconstruction process. This is in view of the fact that at least 70 percent of the contracts funded by the loan money will go to Chinese companies. Furthermore, once these large-scale projects have been completed, the question of their maintenance arises. Either the Chinese companies must be kept on at additional expense or the project is handed over to the local authorities with the risk of it falling into disuse over time through a lack of funds and/or skills and technological know-how. Of key importance is the issue of how the Angolan Government will invest the money it receives from the oil receipts into viable projects which diversify the economy into manufacturing and services. Revenue from Chinese demand for Angola's oil exports provide an excellent opportunity to invest in economic diversification away from extractive industries.

Ironically, however, it must be observed that the so-called "Angola Model" as it is now referred to by Chinese diplomats, whereby low-interest loans are secured with commodities as collateral in a barter arrangement, is readily becoming China's preferred structure of concessional loans to Africa and is not conducive to economic diversification. In Angola's case, the very infrastructure being financed by the Chinese loans will facilitate resource extraction and runs the risk of presents the danger of re-indebting Angola, despite arrangements to settle Angola's Paris Club loans.⁷⁹ The Angolan Government must instead endeavour to harness this opportunity to become a developmental, as opposed to a predatory state apparatus.

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