

1

ANGOLA AND CHINA: A PRAGMATIC PARTNERSHIP

Indira Campos and Alex Vines¹

Introduction

Angola has enjoyed a period of sustained peace since April 2002 and is preparing for legislative elections in 2008—the first since 1992. From having one of the most protracted conflicts in Africa, Angola has within five years become one of the most successful economies in sub-Saharan Africa. Fuelled by record-high international oil prices and robust growth in both the oil and non-oil sector, Angola has experienced exceptionally high growth rates in recent years. In 2006, real GDP reached 18.6 percent, following the already impressive 20.6 percent in 2005. The IMF projects GDP growth to remain high at 23.4 percent in 2007 and 26.6 percent in 2008. Meanwhile, inflation has fallen from over 300 percent in 1999 to 12 percent in 2006, and surging oil revenues have led to large fiscal and external current account surpluses.²

With the war now over, rapid post-conflict reconstruction has become the government's priority. The People's Republic of China (China) has in particular played an important role in assisting these efforts. Chinese financial and technical assistance has kick-started over 100 projects in the areas of energy, water, health, education, telecommunications, fisheries, and public works. On the occasion of Chinese prime minister Wen Jibao's visit to Angola in June 2006, Angolan president Eduardo dos Santos described bilateral relations as being "mutually advantageous" partnerships that were "pragmatic" and had no "political preconditions."³

With 2008 marking the 25th anniversary of the establishment of bilateral relations between the two countries, this paper takes a fresh look at the issue of Angola and China's partnership.⁴ The study benefits from fieldwork carried out in Angola in September 2007 and January 2008

1. Indira Campos and Alex Vines are, respectively, research assistant and head of the Africa Program at Chatham House, London. A longer version of this paper is available at http://www.csis.org/media/csis/pubs/080306_angolachina.pdf.

2. International Monetary Fund (IMF), *Angola: 2007 Article IV Consultation Staff Report*, IMF Country Report No. 07/354 (Washington, D.C.: IMF, October 2007).

3. "PR defende cooperação constitutiva com a China," *Jornal de Angola*, June 21, 2006.

4. See for instance: DFID/Centre for Chinese Studies, *China's Interest and Activity in Africa's Construction and Infrastructure Sectors* (Maitland, South Africa: University of Stellenbosch, 2006); Centre for Chinese Studies, *China's Engagement of Africa: Preliminary Scoping of African Case Studies* (Maitland, South Africa: University of Stellenbosch, November 2007); Sabine Fandrych, "China in Angola—Sustainable Reconstruction, Calculated Election Campaign Support or Global Interest Politics?" *International Politics and Society* 2 (2007); Ian Taylor, *China and Africa: Engagement and Compromise* (London: Routledge, 2006).

and includes numerous interviews with Angolan officials. Chinese embassy personnel in Luanda declined to comment on the report.⁵

Political and Diplomatic Relations

China's involvement in Angola dates back to the early years of the anticolonial struggle through its support for the three major liberation movements in the country: the Movimento Popular de Libertação de Angola (MPLA), União Nacional para a Indêpendencia Total de Angola (UNITA), and the Frente Nacional para Libertação de Angola (FNLA). At that time the Cultural Revolution was raging in China, and relations were defined by Cold War politics. In the early 1960s, the MPLA counted on Chinese political and military assistance,⁶ but following the then–Organization of Africa Unity's recognition of FNLA and UNITA as legitimate liberation movements, that support ceased and China took a special interest in the two rival movements. In 1963, Holden Roberto of FNLA met with Foreign Minister Chen Yi in Nairobi, and China is reported to have agreed to provide most of their armaments. Likewise, in 1964, Jonas Savimbi of UNITA met with Chairman Mao Zedong and Premier Zhou En-lai in China, where he received military training and became a disciple of Maoism.⁷

With the end of the Cultural Revolution in the early 1970s, China provided military training to MPLA commanders and guerrillas. Internal splits within the MPLA but also China's desire to balance the USSR's strong support for the MPLA made this aid short lived.⁸ China's support once again shifted to the two main rival liberation movements. Although UNITA received some sporadic aid, China's attention was mainly targeted at the FNLA. In 1974, the FNLA received a 450-ton shipment of arms and benefited from the assistance of 112 Chinese instructors based in former Zaire.⁹ China's foreign policy of aid to the three rival groups turned out to be a major flop, when in November 1975 the Soviet-backed MPLA came to power and declared Angola independent.

The Chinese initially refused to recognize Angola's independence, and formal diplomatic relations between Beijing and Luanda were only established in 1983. The first trade agreement was signed in 1984, and a Joint Economic and Trade Commission was created in 1988, but its first meeting was held as late as December 1999, with a second meeting in May 2001.¹⁰

In the early 1990s, there were allegations that Chinese weapons had been brought into UNITA-controlled territory from Zaire. In April 1993, the government captured light and medium artillery of Chinese manufacture from UNITA in northern Angola. According to UNITA, these arms had not been procured directly from China.¹¹ A U.S. military intelligence report from 1993

5. The Chinese embassy in Angola permitted two meetings; however it refrained from commenting on any of the issues addressed in the paper. According to Xu Weizhong, director of the Department of African Studies at the China Institutes of Contemporary International Relations in Beijing, each Chinese embassy enjoys significant autonomy in how it operates; interview, Paris, November 22, 2007.

6. In 1962–1963, China stopped being a major supporter of the MPLA because of rivalry with the Soviet Union. In 1963, Viriato de Cruz, then secretary-general of the MPLA and a key intellectual voice, split partly over the China issue and fled to Beijing, where he died in 1973.

7. Taylor, *China and Africa*.

8. Piero Gleijeses, *Conflicting Missions: Havana, Washington, and Africa, 1959–1976* (Chapel Hill: University of North Carolina Press, 2002).

9. Taylor, *China and Africa*.

10. The third meeting of this commission only occurred in March 2007.

11. Interview with UNITA, Luanda, February 28, 2007.

also identified that UNITA used Chinese manufactured Type 72 antipersonnel mines.¹² In May 1993, the Chinese embassy in Luanda denied that it had supplied arms to UNITA.¹³

Relations between Angola and China improved gradually in the 1990s, and Angola became China's second-largest trading partner in Africa (after South Africa) by the end of the decade, mostly because of defense cooperation.¹⁴ For example, in October 1997, Yang Wesheng, Chinese deputy minister of economy, trade, and cooperation, announced while visiting Angola that trade had been increasing significantly over the previous six months. In October 1998, President dos Santos also visited China, seeking to "expand bilateral ties" in meetings with Chinese premier Zhu Rongji and other officials.¹⁵

Following the end of the conflict in 2002, China's relationship with Angola shifted quickly from a defense and security basis to an economic one.¹⁶ Relations between China and Angola reached an even higher level on March 2, 2004, when the Export-Import Bank of China (Exim-Bank) pledged the first \$2-billion oil-backed loan to Angola to fund the reconstruction of shattered infrastructure throughout the country. Since then, cooperation between the two countries has been characterized by frequent bilateral visits of important state officials aimed at strengthening the partnership further. These visits have contributed to the normalization of bilateral relations and have resulted in the signing of various political, diplomatic, economic, cultural, and social agreements.

China currently maintains an embassy in Luanda with 17 officials. Likewise, since 1993, Angola maintains an embassy in Beijing. In April 2007, increasing investments in Hong Kong led Angola to open a consulate there, and in November 2007, an Angolan consulate was also opened in the former Portuguese colony of Macau. A new consulate is to open in Shanghai in 2008.

Financial and Economic Cooperation

Increased political activity between Angola and China has enabled bilateral economic ties to progress quickly. This relationship has often been misunderstood. This section aims to clarify and map out the investment and commercial profile of China in Angola. Although there were difficulties with data collection, the authors have tried to verify this information on the ground.

Financial Cooperation

The bulk of Chinese financial assistance in Angola is reserved for key public investment projects in infrastructure, telecommunications, and agro-businesses under the Angolan government's National Reconstruction Program. The China Construction Bank (CCB) and China's EximBank provided the first funding for infrastructure development in 2002. The Angolan Ministry of Finance had little input in these arrangements since CCB and EximBank funding was provided directly to Chinese firms.

12. U.S. Army Foreign Science and Technology Center, Intelligence Report, "Landmine Warfare – Mines and Engineer Munitions in Southern Africa (U)," May 1993, section 2-2.

13. *Jane's Defense Weekly*, June 18, 1994, p.19; Reuters, May 5, 1993.

14. During the mid-1990s, when low commodity prices put Angola in a tight financial squeeze, Taiwan reportedly tried to encourage Angola to consider switching recognition to Taipei by sending an official to Luanda for a few months to offer significant incentives. In the end, however, nothing resulted from these efforts.

15. Xinhua, October 13, 1998.

16. According to China's submission in September 2007 to the UN Registry on Conventional Arms, no transfers of major military equipment were made in 2006 by China to Angola.

Financial relations between China and Angola grew in late 2003, when a “framework agreement” for new economic and commercial cooperation was formally signed by the Angolan Ministry of Finance and the Chinese Ministry of Trade. On March 21, 2004, the first \$2-billion financing package for public investment projects was approved. The loan is payable over 12 years at a deeply concessional interest rate, Libor plus a spread of 1.5 percent, with a grace period of up to three years. It is divided into two phases, with \$1 billion assigned to each. The first tranche of the loan was released in December 2004, and by the end of 2007 nearly \$837 million had been utilized. In March 2007, the second half of the loan was made available, with the majority as yet unused. As of December 2007, only \$237 million of the second phase had been disbursed.¹⁷

The first phase of this credit line involved 31 contracts on energy, water, health, education, communication, and public works. This corresponds to 50 projects across the whole country, valued at \$1.1 billion. Seven Chinese firms are engaged in this initial phase, and the largest project is the rehabilitation of 371 kilometers of road between Luanda and Uíge. Valued at \$211 million, the China Roads and Bridge Corporation estimates it will complete this contract by June 2008. In the health sector, the priority has been the rehabilitation and enlargement of the provincial and municipal hospitals and various district health centers. In the education sector, the focus is rehabilitation of secondary schools and polytechnics. In agriculture, \$149 million permitted the acquisition of new agricultural machinery as well as the rehabilitation of irrigation systems in the localities of Luena, Caxito, Gandjelas, and Waco-Kungo.

The second phase of this loan will fund implementation of 17 contracts, involving over 52 projects, some of which are unfinished projects of the first phase. Although education remains a priority, the second phase also supports fisheries and telecommunications projects. By the end of 2008, the majority of these projects will be underway. In fisheries, the contract signed with China National Machinery Equipment Import Export Corporation will finance the acquisition of 36 large fishing trawlers and 3,000 boats for industrial and artisanal use, as well as 10 coast guard vessels. This investment of \$267 million envisages the creation of employment for 20,000 people directly and 100,000 indirectly.¹⁸ In telecommunications, approximately \$276 million will be used for the construction of next generation networks, including optical transmission networks, Internet protocol, very small aperture terminals, and intelligent networks across 13 provinces.¹⁹

In May 2007, an extension of \$500 million was negotiated with EximBank to finance “complementary actions” to first phase projects that had not been budgeted for. Under this new financial facility some priority projects include water and energy networks for newly built institutes and schools, the construction of new telecommunication lines, and water treatment plants. To date, no disbursement has been made under this line of credit.

In September 2007, a further oil-backed loan of \$2 billion was signed in Luanda by Angolan finance minister José Pedro de Morais and Chinese EximBank president Li Ruogu. This new credit line will finance an additional 100 projects approved by the Council of Ministers in November 2007.²⁰ According to Minister de Morais, the government will continue to prioritize health and

17. Angolan Ministry of Finance (2008).

18. “Comunicado do Conselho de Ministros,” Angola Press News Agency, February 22, 2006.

19. On a related agreement, China’s ZTE Corporation International also pledged to invest \$400 million in Angola in 2008. \$300 million will be used to modernize and expand Angola Telecom’s fixed-line network, and the remaining \$100 million is to be invested in military communications, the development of a mobile telephone factory, the creation of a telecommunications training institute for Angolan employees, and a telecommunications research laboratory. “China vai investir USD 400 milhões em telecomunicações,” *Jornal de Angola*, November 24, 2005.

20. “Aprovado acordo de crédito com Eximbank,” *Jornal de Angola*, November 29, 2007.

education by carrying on the construction of schools and hospitals throughout the country as well as investing in the energy and water sectors.²¹ In this new financial agreement, the repayment terms were increased to 15 years with a revised interest rate of Libor plus 1.25 percent. Conditions attached to Chinese exports were relaxed, but the local-content rules for reconstruction were tightened to ensure greater local participation.

Project proposals identified as priorities by the respective Angolan ministries are put forward to the *Grupo de Trabalho Conjunto*, a joint committee of the Ministry of Finance and the Chinese Ministry for Foreign and Commercial Affairs (MOFCOM). Having recently emerged from war, the Angolan government considers every project a priority, and therefore there are rarely any disagreements between the two parties regarding the projects being put forward. MOFCOM has in the past suggested further areas of development where it feels China can provide important know-how, such as in telecommunications and fisheries, which were not included in the first phase.

For each project put to tender, the Chinese government proposes three to four Chinese companies. All projects are inspected by third parties not funded by the credit line. A multisectoral technical group, GAT (*Gabinete de apoio tecnico de gestão da linha de crédito da China*) oversees the implementation of projects financed by the EximBank credit line, ensuring fast and efficient completion of the projects. Sectoral ministries are in charge of managing these public works and making certain that sufficient staff (nurses, teachers, etc.) are trained.

The loan operates like a current account. When ordered by the Ministry of Finance, disbursements are made by EximBank directly into the accounts of the contractors. Repayment starts as soon as a project is completed. If a project is not undertaken, no repayment is made. Revenue from oil sold under this arrangement is deposited into an escrow account from which the exact amount toward servicing the debt is then deducted. The government of Angola is free to use the difference at its own discretion.

China International Fund Ltd. In 2005, China International Fund Ltd. (CIF)²², a private Hong Kong-based institution, extended \$2.9 billion to assist Angola's postwar reconstruction effort.²³ This credit facility is managed by Angola's Reconstruction Office, *Gabinete de Reconstrução Nacional* (GRN), which is exclusively accountable to the Angolan presidency. GRN was set up in 2005 to manage large investment projects and ensure rapid infrastructure reconstruction prior to national elections. Headed by a military adviser to the president, General Helder Vieira Dias "Kopelipa," GRN was designed to provide work for demobilized military in order to bring new dynamism to the reconstruction effort. It was also created on the assumption that the ministries would not have the organizational and technical capacity to manage the large inflows of money directed to the GRN. According to a senior government official close to the presidency, GRN projects are valued somewhere around \$10 billion. CIF was meant to provide the funds to undertake these projects. How these funds were to have been allocated across projects however remains unclear.

GRN was designed to kick-start the following projects:

21. "Presidente da República aborda cooperação com Eximbank," *Jornal de Angola*, September 29, 2007.

22. See <http://www.chinainternationalfund.com>.

23. CIF appears to be the construction arm of Beiya International Development Ltd., the parent company of China Angola Oil Stock Holding Ltd., which trades Angolan oil. Hong Kong-based Xu Jinghua is the board chairman of Beiya International Development.

- Rehabilitation of the 497.5-kilometer highway from Luanda to Lobito;
- Rehabilitation of the 1,107-kilometer highway from Malanje to Saurimo, Saurimo to Luena, and Saurimo to Dundo;
- Phase II of the rehabilitation of the Luanda Railway;
- Rehabilitation of the 1,547.2-kilometer Benguela Railway and of the 1,003.1-kilometer Moçâmedes Railway;
- Drainage and improvement works in the city of Luanda;
- Construction of 215,500 residential units in 24 different cities across Angola's 18 provinces;
- Construction of a new Luanda International Airport at Bom Jesus;
- Studies and projects for the new city of Luanda.

As with China's EximBank credit line, disbursements from the credit line are paid on a project-by-project basis to Chinese contractors and suppliers. Financial flows of the GRN officially pass through the Finance Ministry's accounts; however, day-to-day management of projects do not.

In 2007, many GRN projects came to a standstill, drawing a lot of media speculation. Although it was reported that CIF had some difficulties in raising funds to complete the projects, a GRN technician admitted that a lack of planning on the part of the GRN also contributed to many construction projects failing to start. As he explained: "we went ahead with projects pressured by strict time deadline and did not take into account the forward planning that is required in a country like ours... We overlooked crucial elements such as the fact that our ports would not be able to cope with the increased amount of material being imported for these projects."²⁴ Chinese construction firms have also complained about CIF cajoling contractors into taking part in projects in Angola, routinely delaying payment for completed work, and keeping rates as low as possible.²⁵

As a result, some of the funds from the second EximBank loan will be used to continue the major programs of GRN, but the Ministry of Finance was forced to raise \$3.5 billion in domestic funding by issuing treasury bonds. This is a new departure for Angola, as Angolan funds for the first time are being used to finance Chinese firms to ensure completion of these projects.

Behind the CIF loan there is an opaqueness that can be traced back to the first loan in March 2004. According to the Angolan media, the first loan appeared to have contributed a struggle within the Angolan leadership for access and coordination of disbursement of these funds.²⁶ It appears that senior presidential advisers may have been sidelined after the Chinese became concerned at rent seeking. Rumors in Luanda during this period alleged that the Chinese Secret Services had provided President dos Santos with a list of 20 Angolan businesses seeking to benefit illegally from this new arrangement.²⁷ What is certain is that in December 2004, Angola's finance minister visited Beijing, and shortly after that President dos Santos created the GRN to manage the CIF loan. In 2007, CIF's opacity attracted renewed media attention. In March 2007, a Chinese construction company, Hangxiao Steel Structure Company Ltd., came under investigation by the China Securi-

24. Interview, Luanda, October 3, 2007.

25. "China's Stock Bubble Can Be Traced to Angola," *Asia Times Online*, March 27, 2007.

26. "Financiamento Chinês: Lei obriga a subcontratação de empresas angolanas," *Semanário Angolense*, July 1–8, 2006.

27. "José Pedro de Moraes sossega Chineses," *Semanário Angolense*, December 25, 2004; "Toninho versus Feijó: crónica de um duelo anunciado," *Voice of America*, December 10, 2004.

ties Regulatory Commission (CSRC) for suspected stock price rigging in deals related to Angola.²⁸ Suspicion around the company followed a statement in February by Hangxiao that it had signed a \$4.4-billion contract to sell the China International Fund Ltd. construction products and services for its “Residents’ Heaven” public housing projects in Angola. In April of the same year, CSRC fined the Shanghai-listed construction company \$52,000 for failing to follow legal procedures in the release of financial information.²⁹ Hangxiao, however, blamed its Hong Kong–registered partner, CIF, for failing to supply details of contracts with the Angolan government.

Allegations of mismanagement of Chinese funds emerged again during the 2007 trial of Angolan security chief General Fernando Garcia Miala for attempted insurrection. Reportedly, Miala threatened to reveal the names of individuals in senior government positions who had benefited from the diversion of funds from Chinese lines of credit. Miala was dismissed from the army and sentenced on September 20, 2007, to four years in jail for insubordination.

Angolan civil society, some international nongovernmental organizations (NGOs), and international donors have also raised concerns regarding transparency in the use of Chinese funds for some time. Probably partly as a response to General Miala’s allegations and reflective of the tensions between more technocratic government departments and the opaque management procedures of the presidency, the Ministry of Finance, on October 17, 2007, issued in Luanda a statement denying any misuse of Chinese funds. They also published details of the lines of credit managed by the ministry.³⁰

Although, this is a welcome development, more disclosure is needed, especially regarding the GRN, as many of the larger Chinese infrastructure projects are managed out of that office. Unlike projects undertaken by the Ministry of Finance, it is unclear how much money is directly managed by the GRN, how funds are allocated among projects, and how much money so far has been spent.³¹

Bilateral Trade

Commercial trade between China and Angola has grown remarkably in recent years. Throughout the 1990s, bilateral trade between the two countries ranged on average from \$150 million to \$700 million. In 2000, trade exceeded \$1.8 billion, and by the end of 2005, it increased four-fold to \$6.9 billion. Within a year it nearly doubled to \$12 billion, making Angola China’s largest trading partner in Africa.

Crude oil represents over 95 percent of all Angolan exports, and it is also China’s main Angolan import. Over the last six years, China has been the second-largest importer of oil from Angola

28. “Hangxiao Steel Structure defends handling \$4.4b Angola contracts,” Xinhua, March 27, 2007.

29. “Chinese Investors Claim 2.7 Mln Yuan Compensation From Company releasing False Information,” Xinhua, December 26, 2007.

30. “Governo nega mau uso dos créditos da China, Comunicado do Ministério das Finanças,” *Jornal de Angola*, October 18, 2007.

31. The slowdown of GRN projects raised further speculations on chairman General Kopelipa’s future in late December 2007 when Angolan private newspaper *Folha 8* published allegations that General Kopelipa, along with de José Maria, chief of intelligence services of the Angolan Army, were detained by the Angolan Military Judiciary Police. On December 27, 2007, the presidency issued a statement denying the allegations.

behind the United States, representing roughly 9.3 to 30 percent of Angola's total oil exports.³² Despite the U.S. lead in the imports of Angolan oil, since 2002 Angolan oil exports to China have increased seven-fold, compared to only 3.5 times to the United States.³³

Angola's oil exports to China reached \$3.9 billion in 2004, making it a major supplier and ranking it third after Saudi Arabia and Iran. By 2005, Angola had overtaken Iran with exports totaling 17.46 million tons, 45.5 percent of China's African oil imports.³⁴ During the first six months of 2006, Angola temporarily leapfrogged Saudi Arabia as the largest supplier of crude oil to China, with 23.45 million tons of crude shipped from the African nation that year. Angolan oil imports now represent over 18 percent of China's total oil imports, and this proportion is increasing.

In recent years, Chinese imports to Angola have also seen a significant increase.³⁵ In 2004, China became Angola's fourth-largest trading partner at \$194 million, up from being its seventh-largest trading partner the year before. In 2006, China kept its position despite the fact that Chinese exports to Angola quadrupled, with steel and iron bars, batteries, cement, and automobiles as the principal imports.³⁶

In early 2007, China surpassed Brazil and South Africa as the second-largest trading partner behind Portugal. Imports reached \$368 million, an increase of 106 percent from the same period the year before.³⁷

Despite the rise in the value of both imports and exports in the period analyzed, Angola has consistently run a large trade surplus with China, owing to the rapidly rising rate of Chinese oil importation. With the increase of infrastructural projects and the greater competitiveness of Chinese exports compared to European exports in Angola, it is expected that in the next few years the penetration of Chinese products in Angola will rise significantly, equaling the level of Portuguese imports.

Foreign Direct Investment

In addition to trade, China has significantly stepped up its foreign direct investment (FDI) to Angola in recent years. While the largest Chinese operations in Angola are concentrated in oil exploration and construction, there has also been a dramatic increase in non-oil Chinese FDI to Angola overall.

According to Guo Zhen Fu, president of Nissan in China, economic stability in Angola has reduced the risks of investment and provides stability for investors.³⁸ The Angolan government has also encouraged private-sector development through a new investment law that provides equal treatment to foreign and Angolan firms, a new commercial code, and a land tenure law with the aim of clarifying property rights and customary tenure. In addition, the Angolan government through its National Agency for Private Investment (ANIP) actively promotes private investment

32. Data provided by Banco Nacional de Angola, 2007.

33. "Angola exporta 29.9 bilioes de dolares em petroleo," *Portugal News*, August 8, 2007.

34. "Africa accounts for 30 percent of China's oil imports: official," *People's Daily Online*, October 19, 2006.

35. All import figures should be interpreted carefully as official data do not capture the number of products that originate from China and are redirected to Angola via other countries (i.e., Portugal or South Africa), implying a degree of uncertainty regarding the real trade balance.

36. "Angola em Movimento," *Agência para o Investimento e Comércio Externo de Portugal (AICEP)* Nº 35 (August 2007).

37. Data provided by Banco Nacional de Angola, 2007.

38. "Angola garante confiança ao investidor," *Jornal de Angola*, November 21, 2007.

by Angolan and foreign nationals by providing tax incentives in targeted industry sectors and development zones. In the last four years, ANIP has been involved in the launch of over 1,124 projects, totaling more than \$4 billion in investment capital.

As of December 2007, 51 Chinese firms were registered with ANIP. Over 50 percent of these firms were engaged in construction; others are involved retail trade of foodstuff products, manufacturing of rubber products, mineral water bottling, and other light industries.

Between 2005 and 2007, 50 projects, valued at \$73.6 million were approved by ANIP and were underway by Chinese companies. Although this is a significant increase from the 1990s when FDI increased from \$500 thousand to \$1 million, it is still relatively small when compared to other players such as Portugal and South Africa. Nevertheless, Chinese FDI to Angola is predicted to grow in the next few years as new cooperation agreements are signed by the two countries to attract prospective investors, providing credible legal protection and stability to their investment. According to Huang Zequan of the University of Beijing, over 10,000 Chinese businessmen have visited Angola in recent years to get to know the market and identify local opportunities.³⁹ The 2007 Luanda International Fair in particular drew many participants from China who demonstrated a keen interest in investing in Angola. Over the 2006–2007 period, the number of Chinese businessmen requesting visas to Angola increased by 30 percent.⁴⁰

Some Chinese firms engaged in projects tied to Chinese credit lines are establishing themselves in Angola after completion of their projects. China Jiangsu and China Roads and Bridges Cooperation have pledged \$5 million and \$1.1 billion of their own assets respectively, for private-sector projects. Sino Hydro, one of China's largest hydropower engineering firms, has also recently been contracted by the World Bank to build a \$20-million water supply network. The growing participation in construction reflects the urgent need for infrastructure. Local capacity is weak, and the Chinese have a record for quality construction, completed more quickly and cheaply than rivals.

Extractive Industries

China has shown the greatest interest in Angola's extractive industries. Following the opening of China's first credit line to Angola in March 2004, China Petrochemical Corp., better known as Sinopec Group, acquired its first stake in Angola's oil industry, 50 percent of the BP-operated block 18. Sonangol Sinopec International (SSI)—a joint venture between Angolan national oil company Sonangol and Sinopec—was created to explore the stake on the block. Sinopec Group holds a 55 percent stake in the joint venture and Sonangol the remaining 45 percent. Although BP's former license partner Shell had agreed to sell its stake to India's state-owned Oil and Natural Gas Corporation (ONGC), the Chinese on their first involvement in the Angolan oil industry sidelined ONGC with an offer that media sources estimate at \$725 million.⁴¹ The company reportedly spent an additional \$1.5 billion for the development and exploration of the block.⁴²

In March 2005, during Chinese vice premier Zeng Peiyang's visit to Angola, nine cooperation

39. Huang Zequan is an academic at the University of Beijing and adviser to firms wanting to invest in Africa, "Angola atrai milhares de potenciais investidores chineses, diz consultor," Agência Lusa, March 13, 2006.

40. "Milhares de empresarios chineses pretendem investir no pais," *Jornal de Angola*, November 17, 2007.

41. "Sinopec Beats ONGC, Bets Angola Block," *Financial Express*, July 14, 2006, as cited by China Institute, University of Alberta.

42. "China Buys More Angolan Crude than Saudi," *International Herald Tribune*, March 19, 2006.

agreements were signed, most related to energy. Sonangol also entered into on a long-term up-lift agreement to supply oil to China's Sinopec. Additionally, the two parties also signed a memorandum to jointly study plans for the exploration of the shallow offshore blocks 3/05 and 3/05A (previously known as block 3/80) that was withdrawn from the French group Total in late 2004. Later that year, the two parties agreed that China Sonangol International Holding (CSIH), a subsidiary of Sonangol E.P., jointly owned by Beiya International Development Ltd., would explore the 25 percent stake.

In March 2006, the Sino-Angolan joint venture SSI acquired three new Angolan offshore oil blocks with proven reserves of 3.2 billion barrels. It offered \$750 million for 20 percent of ENI-operated block 15 and made a record bid of \$1.1 billion as signature bonus payment for each of the relinquished offshore of block 17/06 (27 percent) and 18/06 (40 percent). In addition to the bids for the rights to prospect for oil, the joint venture earmarked \$200 million for social projects. Both companies also agreed to jointly study plans for a new \$3-billion oil refinery in Lobito (Sonaref) with a capacity of 240,000 barrels per day.⁴³

The Sonaref negotiations collapsed in early 2007 with Sonangol declaring it would manage the project on its own.⁴⁴ Later that year, SSI also renounced its stake on the three newly acquired concessions. The news raised speculations about tension in Sino-Angolan relations, and Portuguese media reported that Galp Energia SGPS of Portugal was to replace China's Sinopec's stake on the blocks, under the instructions of Sonangol.⁴⁵ However, Francisco de Lemos, finance director of Sonangol Holdings, denied these claims stating that genuine commercial factors had led Sinopec to renounce its participation in the blocks. As he explained: "many oil companies have expressed interests on the blocks, but Sonangol has yet to make a decision on who's to replace SSI on the blocks." In the interim period, CSIH has replaced SSI, taking on the blocks temporarily until a permanent equity partner is found.⁴⁶

The Chinese have also shown an interest in Angola's diamonds. On April 6, 2005, the Angolan Council of Ministers accepted a joint venture agreement between Angola's state-owned diamond company, Empresa Nacional de Diamantes de Angola, Exploração e Produção (Endiama, EP), and CIF. It also approved Endiama's participation in the creation of Endiama China International Holding Ltd. (Endiama China) to prospect, produce, and market diamonds, including diamond cutting and production of jewelry in Hong Kong.⁴⁷ In September 2005, Angola's Ministry of Geology and Mining authorized a joint venture between Miracel and Endiama China and approved a prospecting, research, and diamond recognition contract between them.⁴⁸ In March 2007, the

43. "Sonangol rubrica acordo para desenvolvimento da refinaria do Lobito," Angola Press News Agency, March 16, 2006.

44. Manuel Vicente, president of Sonangol, criticized the Chinese in the Angolan media, claiming that "we can't construct a refinery just to make products for China." This would suggest some resistance to the strategy of locking in supplies through long-term contracts, which China has applied elsewhere. However, according to Chang Hexi, the Chinese economic counselor in Luanda, negotiations over the refinery were deliberately obstructed by the Chinese negotiators because they were not genuinely interested in the deal. See Centre for Chinese Studies, *China's Engagement of Africa: Preliminary Scoping of Africa case studies* (Maitland, South Africa: University of Stellenbosch, September 2007).

45. "Galp Declines Comment on Reports of JV with Sonangol, Petrobras, ONGC," AFX News Ltd., November 30, 2007.

46. Interview, Luanda, January 28, 2008.

47. "Comissão Permanente do Conselho de Ministros reuniu sob orientação do Presidente da República," *Angonoticias*, April 6, 2005.

48. "Mining Ministry okays constitution of association in participation," Angola Press News Agency, September 12, 2005.

Angolan media reported that the joint venture agreement between Endiama, EP, and CIF had been annulled by the Council of Ministers.

China and Angola's Special Relationship: A Perfect Marriage?

China's growing role in Angola has generated debate and speculation. From both the Angolan and Chinese perspectives, the relationship is pragmatic and strategic. On the occasion of the Chinese prime minister's visit to Angola in June 2006, President dos Santos stated simply that "China needs natural resources and Angola wants development."⁴⁹

From Angola's perspective, the Chinese provide funding for strategic post-conflict infrastructure projects that Western donors do not fund. Chinese financing offers better conditions than commercial loans, lower interest rates, and longer repayment time. Non-Chinese credit lines that Angola secured in 2004 demanded higher guarantees of oil, with no grace period and with high interest rates.

Chinese financing was provided when concessional funding was not available for Angola. Relations between the international financial institutions and Angola had been poor for years. The recurrent episodes of hyperinflation and stabilization had prevented any lasting accord with the IMF. Relations with the World Bank were also limited to emergency and humanitarian assistance projects in the absence of an agreed framework with the IMF. At the end of the war in 2002, the IMF and many Western donors wanted Angola to negotiate a staff-monitored program (SMP) and show good performance for three trimesters before being eligible to receive financial support. An SMP would give credibility to Angola's economic policies and open the way for a donor conference to raise funds to rebuild the country. However, the Angolan government felt it could not agree to IMF conditionalities, and after multiple rounds of consultations they announced that they would no longer seek to conclude an IMF agreement. This was not the first time: agreement with the IMF had collapsed several times previously during cycles of high commodity prices.⁵⁰

Integral to this renewed cooperation is China's need to access energy resources. Over the last two decades, China's dynamic economic growth has led to a surge in its oil consumption. In 2003, China became the world's second-largest consumer of oil behind the United States. The following year, it became the world's third-largest oil importer after the United States and Japan, with net oil imports accounting for 46 percent of domestic oil consumption. According to projections of the International Energy Agency (IEA), this dependency will rise to 77 percent by 2030.⁵¹

Angola possesses significant oil reserves, is a key player in Africa's oil industry as both a major producer and exporter, and in 2007 joined OPEC. It produces high-quality mid- to light-weight crudes, is the fourth-largest producer in Africa and the second in sub-Saharan Africa after Nigeria. As new oilfields come into operation, oil production is projected to increase to an average of 2.4 million barrels per day (bpd) in 2010—an increase of 90 percent from 2005.⁵²

In the construction sector, Angola is a particularly favorable market for Chinese companies.

49. "Angolan leader addresses OPEC summit in Saudi Arabia," Angola Press News Agency, November 19, 2007.

50. Tony Hodges, *Angola: from Afro-Stalinism to Petro-diamond Capitalism* (Oxford: James Currey, 2001).

51. International Energy Agency (IEA), *World Energy Outlook 2006* (Paris: IEA, 2006), p. 101.

52. IMF, "Angola: 2006 Article IV Consultations, Preliminary Conclusions of the IMF Mission, March 29, 2006," <http://www.imf.org/external/np/ms/2006/032906.htm>.

Angola needs significant outside investment, and there is relatively little competition. As a result, Chinese firms have found profitable deals.

For the Angolan government, this new cooperation brings significant advantages to the country: helping to support economic growth. As a commodity-based economy emerging from 27 years of conflict, Angola was in desperate need of new partners and a new source of FDI. China provides a new model of cooperation, based on credit lines, economy, and commerce, which contrasts with Western efforts of cooperation based on aid attached to conditionality.

China also offers Angola cheap technological transfer opportunities. These tend to be more suitable for Angola than those from Europe or the United States, where the technological gap is bigger and more expensive. Currently, 66 students are benefiting from scholarships from the Chinese government.⁵³ According to the Chinese embassy in Luanda, 23 scholarships were offered to Angolan students in 2007 to pursue undergraduate and postgraduate studies in China. The Chinese government has also offered numerous short-term courses to Angolan employees and government officials in areas such as health, education, fishing, and enterprise management and administration. In 2007 alone, more than 100 Angolans went to China to participate in these courses.

Impact on Poverty Reduction

Although not easily measured, Chinese investment has contributed to poverty reduction in Angola. The construction and rehabilitation of electrical and hydro-electrical infrastructure by the Chinese has expanded electricity access to over 60,000 new clients in Luanda. The rehabilitation of water supply systems across the country has granted thousands of people access to clean water. The rehabilitation of roads, bridges, and rail networks provides access to parts of the country that had been disconnected by the war and facilitates commercial activities. The rehabilitation of the rail system across the country will benefit people commuting into towns and the transport of goods across the whole southern African region. Once new carriages begin operating on the Luanda railroad, 240,000 passengers per month are expected to benefit from the Caminho de Ferro de Luanda.

Lastly, the rehabilitation of hospitals, health centers, schools, and polytechnic institutes will provide access to education and health to many communities that had for years had been deprived of it. The government of China has also agreed to send 18 doctors to Angola. The doctors are to stay in Angola for two years and provide medical assistance as well as training to doctors. Nevertheless, serious human capital challenges remain despite the efforts of the government to train professionals in these fields.

A Geopolitical Strategy

The influence of China in Angola is often overplayed, and there is a growing fatigue among senior Angolan officials about the West's fixation with China's engagement in Angola. For the most part, Angolan officials are open about their cooperation with China and candid about not wanting to depend on any one development or commercial partner. President dos Santos made this point clear in his 2008 New Year's address to the diplomatic corps by stressing that the Angolan gov-

53. "Milhares de empresarios chineses pretendem investir no país," *Jornal de Angola*, November 21, 2007.

ernment plans to reinforce its bilateral and commercial relationships with other countries: “[...] globalization naturally makes us see the need to diversify international relations and to accept the principle of competition, which has in a dynamic manner, replaced the petrified concept of zones of influence that used to characterize the world.”⁵⁴

As rightly noted by Finance Minister José Pedro de Morais, “Angola and China’s growing bilateral ties will by no means exhaust the commercial and investment potential that Angola has to offer to the world... Angola has just recently purchased a fleet of aircraft from the U.S. company Boeing,” he recalled, “and the majority of new cars are still imported from Japan, computers and software from Western countries, and railway material is now being imported from India, etc.”⁵⁵

This pattern is visible when looking at the origin of Angola’s imports over the years. China’s share has increased significantly, but so have the shares of India, South Africa, and Brazil. With the exception of Portugal, the EU’s share has decreased. Rui Miguêns, deputy governor of the Angolan National Bank, explains that “with constant appreciation of the euro, it should not come as surprise that European imports have decreased in the last couple of years.” In fact, the growing relationship with China should not be regarded as a current “phenomenon” but rather as a logical reorientation of trade partners as a response to the expensive products coming from Europe. Angola will increasingly import from China, although some high-quality imports will continue to be imported from Europe and the United States.⁵⁶

Similarly, Angolan exports over the years have significantly diversified. Since Angola started pumping oil in the early 1970s, the United States has been the main importer followed by China. Although the United States remains the number one importer of Angolan oil, its share has significantly decreased in contrast to those of China and South Africa, which have more than doubled.

Although there are signs of growing Chinese FDI to Angola, such investment remains small when compared to Western FDI. Outside the extractive industry, the Portuguese still dominate, with over \$200 million invested in 2006 alone, representing 57 percent of total FDI to Angola. Angola welcomes any investment in the non-oil sectors and the recent trade mission by Japanese, British, Turkish, Indian, and Pakistani businessmen clearly demonstrates this. Likewise, despite China’s efforts to enter the oil sector, production is still dominated by Western companies such as Chevron, Total, BP, and ExxonMobil. With Angola’s increased importance for China’s energy security, one can expect China to be visible in the 2008 bidding round for 10 new blocks.

The scale of the Chinese loans directed to infrastructure reconstruction is large, but Angola’s developmental needs are even larger. In his address to the OPEC summit in November 2007, President dos Santos stated that “Angola needs over \$20 billion to guarantee its reconstruction.”⁵⁷ Not surprisingly, the Angolan government is extending its credit lines to other commercial partners. Traditional partners like Portugal and Brazil remain fully engaged in Angola’s postwar reconstruction. In 2007, both countries announced that they would nearly double their credit lines to Angola in a move to drum up business for their own firms and help Angola rebuild its economy. In addition, Israel’s export credit agency, Israel Export Insurance Corporation, also increased its credit line to \$500 million.

The need to diversify sources of financing further and at the same time sustain existing depen-

54. José Eduardo dos Santos, presentation of New Year’s greetings by diplomatic corps, Luanda, January 10, 2008.

55. Interview with José Pedro de Morais, finance minister, Luanda, October 13, 2007.

56. Interview with Rui Miguêns, deputy governor of Angola’s National Bank (BNA), Luanda, September 26, 2007.

57. José Eduardo dos Santos, OPEC summit, Riyadh, Kingdom of Saudi Arabia, November 17, 2007.

dence on Western technology has triggered the government to strengthen its relationship with the Paris Club. In late 2006 and early 2007, Angola paid the bulk of its principal interest estimated at around \$2.5 billion to Paris Club creditors. In November 2007, the issue of overdue interest arrears of about \$1.8 billion was also resolved with the government pledging to repay the outstanding amount in three tranches by 2010. The agreement with the Paris Club clears the way for the normalization of Angola's relations with the rest of the world. This is already evident with the World Bank doubling its funds to Angola in 2007 and Spain pledging \$600 million for Angola's reconstruction in late November 2007. Other donors such as France, Italy, and Germany have also taken a recent interest in Angola and have shown that they are now ready to expand their credit lines.

Chinese Migration

The number of Chinese residing in Angola has grown significantly over the last three years; nonetheless, reports of a flood of poorly skilled Chinese workers to Angola are overstated. Until 2005, the Portuguese were the principal foreign labor force in Angola. In 2006, the Chinese surpassed the Portuguese with nearly 15,000 residing in Angola with work visas. In 2007, the number reached over 22,000.⁵⁸ Most of these Chinese are low-skilled migrant workers who enter the country under the ambit of the Chinese credit line. They usually come on one- to two-year contracts and return to China on the completion of their contracts. They live in closed compounds, often at the site of the actual construction. There have been few reports of serious social problems, as these workers barely have any contact with local Angolans and language remains a serious challenge for them. According to an independent Chinese entrepreneur in Angola, these workers earn a very low salary and therefore lack the financial ability, language skills, and contacts to establish their own businesses in Angola, where he estimates that setting up a business costs at least \$400,000.⁵⁹ Despite the costs of doing business in Angola there is a growing number of young Chinese entrepreneurs pursuing businesses ventures throughout the country.⁶⁰ They often complain, however, about the language barriers, the lack of infrastructure, and the bureaucracy. Angola has inherited the Portuguese bureaucratic system, which gives Portuguese and Brazilian businessmen cultural and linguistic advantages over others. With talk of establishing a Chinatown in Luanda, and weekly flights linking Beijing to the Angolan capital, the number of professional Chinese venturing into Angola may rise.

Implications and Recommendations

The Chinese seem to be settling in for the long haul in Angola. Although both China and Angola stand to benefit from the increased economic cooperation, the relationship also raises new policy challenges for Angola.

There is an urgent need for better mutual research and understanding. The absence of historical, cultural, and linguistic links between China and Angola leaves both countries ill equipped to do this. Angola does not have a Chinese-language program at present. In late 2007, the Catholic University in Luanda created a small cell to explore the Sino-Africa relationship. Lopo do Nascimento, a former Angolan prime minister, participated in the 2006–2007 Africa-China-U.S.

58. Data provided by the Angolan Ministry of Interior.

59. Interview, Luanda, October 12, 2007.

60. Alec Russel, "The New Colonialists," *Financial Times Magazine*, November 17, 2007.

Trilateral Dialogue, supported by the Brenthurst Foundation, the Chinese Academy of Sciences, the Council on Foreign Relations, and the Leon Sullivan Foundation. He is one of the few Angolan intellectuals thinking about the long-term impact of Africa's relationship with China and its implications for Angola.⁶¹

Likewise, Beijing has very little knowledge of Angola, with only one ex-ambassador acting as an adviser on Angolan issues to Chinese research institutes.⁶² Chinese researchers complain that despite the growing economic importance of Angola to China, China's intellectual capacity to analyze the country has not increased. This highlights a serious sociocultural deficit for promoting a more realistic understanding of nonelite bilateral relations. Both governments need to take more aggressive steps to broaden their bilateral cooperation beyond their narrow elite business dialogue.

Currently, the detailed research is being conducted by Western-funded projects. The UK Department for International Development has supported research by the Centre for Chinese Studies at the University of Stellenbosch and also the South African Institute of International Affairs. The University of Durham is starting a project funded by the UK Economic and Social Research Council in partnership with Luanda's Catholic University. In the United States, foundations have taken the lead, with funding for the University of Stellenbosch, CSIS, and the American Foreign Policy Council to examine China's engagement in Africa, including Angola. Norway, too, is considering support for a link-up between China, Norway, and Angola following a successful project in Nigeria.

Having recently emerged from civil war, Angolan policy is focused on reconstruction. Rebuilding infrastructure quickly and at the lowest possible cost is the top priority. In this regard, the Chinese have made a broadly positive contribution. With well over half of Angola's working-age population jobless, the rapid influx of Chinese workers and businessmen raises both employment and transfer of know-how prospects. Under existing agreements, Chinese companies have access to 70 percent of the contracts, leaving 30 percent for Angolan contractors. However, the Angolan government is finding it difficult to fulfill their contractual obligations. Competent Angolan companies are over-stretched and in much demand, and the Chinese have raised concerns regarding the standards of quality of the services provided by Angolan contractors, as well as time frames for delivery.

Moving quickly toward reconstruction after the war has dictated the current policy of the Angolan government. As the country evolves and the situation changes, the government will pursue policies where local content becomes increasingly a nonnegotiable priority. Nonetheless, Angola should be wary of outsourcing jobs that Angolans could do themselves. According to a senior government official, Angola spends over \$800 million annually on transportation of materials. The government should do more to promote and improve national companies such as Sécil Marítima, the country's maritime shipping company. Angolan contractors should at least be able provide basic services such as the supply and transportation of materials, as well as provision of services like security. Moreover, the absence of local players to enter joint ventures with Chinese multinationals may limit opportunities to achieve real transfer of know-how and technology. The government needs to design policies to consolidate local firms and position them as a matter of policy to partner and learn from Chinese companies.

China's massive credit lines to finance infrastructure development also raise important ques-

61. Lopo de Nascimento, "A Emergência de uma Nova Geografia da Cooperação Económica Internacional," presented at "EU-Africa: A New Common Strategy?," conference by Fundação de Serralves, Porto, September 2007.

62. Interview with Wang Hongyi, deputy director, division for South Asian, Middle East, and African studies, China Institute of International Studies, Beijing, London, April 16, 2007.

tions related to the sustainability of these projects. Without downplaying the importance of the schools, hospitals, dams, roads, and bridges that are being built around the country, there is legitimate concern about the government's capacity to maintain such investments after their completion, taking into account the country's enormous deficiency in human and institutional capacity. Although the government is making efforts to train people, it would be unrealistic to think that they train people as quickly as they build infrastructure. Furthermore, with Angola's low level of technology, there is the threat of long-term dependence on China. This was recently witnessed when the central air conditioner of the newly renovated Ministry of Finance broke down, and spare pieces to fix it had to come from China. The government will need to focus more attention on planning and organization to ensure the sustainability and transfer of know-how—or risk relying on the Portuguese and others returning in the near future to rebuild what the Chinese have just completed.

China's growth into an economic powerhouse has pushed global commodity prices to unprecedented highs, which has contributed to Angola's rapid economic growth in recent years. Although the commodity boom favors the economy—and in particular the reconstruction effort—it poses very severe challenges for economic management. Reliance on oil exports may contribute to real exchange appreciation, preventing diversification into more labor-intensive sectors like manufacturing and agriculture (so-called Dutch disease). This may have implications for the government's effort to diversify the economy beyond oil. Angola needs to take explicit steps to counteract the dangers posed to existing and future capabilities in industry.

The inflow of money and credit lines from China gives Angola's rulers the ability to resist pressure from Western financial institutions about transparency and accountability. Yet this should not be exaggerated, as Angola has said it will continue to work with the IMF on technical assistance. Recently, the government also published substantial new data on the oil sector that goes far beyond what several members of the Extractive Industries Transparency Initiative (EITI) have disclosed.

The investigation and \$52,000 fine in 2007 by the China Securities Regulatory Commission (CSRC) of Hangxiao Steel Structure Company Ltd. for suspected stock price rigging is significant and shows that the Chinese are concerned to limit corrupt practices. However, there does not appear to have been an investigation of its Hong Kong-registered partner, CIF. Nonetheless, Angolan civil society and some international NGOs and Western governments have raised concerns regarding transparency in the use of Chinese funds. The \$2.9 billion extended by CIF and its management through GRN have in particular been opaque.

The Ministry of Finance October 2007 statement about Chinese funds reflects diverse opinion in Luanda. More disclosure is needed, especially regarding the GRN and its relationship to CIF. This would be a good issue for the CSRC to investigate further, especially CIF and its dealings under Chinese law. In Angola, new research efforts—such as the Catholic University's on the Chinese relationship—could also provide more information on such deals, which could then be used by parliamentarians, civil society groups, and the media. It is clear that there is a growing trend in Angola of governmental disclosure. Appraisal of what becomes of the Chinese loans and investment is an important part of Angola's post-conflict development.