15

CHINA IN ANGOLA: JUST A PASSION FOR OIL?

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On account of its scale and political relevance, China's involvement in Angola ranks amongst its most visible in contemporary Africa. However, the assumption shared by most analysts in explaining Chinese motives as exclusively concerned with access to natural resources is simplistic.[1] As Chris Alden notes, 'While the drive to secure energy resources is at the heart of Beijing's renewed engagement with Africa, there is nonetheless a growing depth and complexity to relations that bears closer analysis.'[2] This widespread oversimplification also omits the economic, political and social implications of China's presence within the host state itself.

This chapter seeks to provide a multi-layered analysis of Chinese-Angolan relations and the role of China in Angola today. The first section outlines the principal characteristics of bilateral economic relations with a focus on external trade, foreign direct investment

1 Denis M. Tull, 'China's Engagement in Africa: Scope, Significance and Consequences', *Journal of Modern African Studies*, Vol. 44, No. 3 (2006), pp. 459-79.

2 Chris Alden, 'Leveraging the Dragon: Toward "an Africa That Can Say No"', South African Institute of International Affairs, 2005.

and the proliferation of public works made possible by the opening of Chinese credit lines. Over the past three years, this emphasis on public works has turned Angola into a veritable building site with the potential to transform the infrastructure that is indispensable for national development. While mostly concerned with a description of the Chinese presence, this section places it within the context of Angolan politics and brings out the domestic implications of what is defined as a 'perfect marriage' of convenience for Angolan elites and Chinese investors alike. The second section raises important questions regarding the long-term nature of Angolan-Chinese relations. Through examination of the likely economic, political and social developments in Angola, future challenges concerning the reception and consolidation of a Chinese presence in the country are discussed.

China's entrance into Angola

Although relations between Angola and China can be termed 'excellent' today, this was not always the case. Angola's ruling party, the Movimento Popular de Libertação de Angola (or MPLA), counted on Chinese support throughout the years of anti-colonial struggle.[3] However, by the time of independence in November 1975, and in counterpoint to the Soviet Union's strong support for the MPLA,

3 Mário Pinto de Andrade, the first President of the MPLA, was quoted as saying that 'our [the MPLA's] first money came not from Moscow but from China. This story has never been properly told. In one way or the other this was officially hidden because of the Sino-Soviet schism and the fact that the Soviet Union eventually became our main source of direct support. In 62-63, China, because of the dispute with the Soviets, stopped being our major supporter. It continued [to provide some aid] but not in as substantial a manner as in the beginning' (Michel Laban, *Mário Pinto de Andrade – uma Entrevista*, Lisboa: Sá da Costa, 1997), pp.162-163). In 1963 Mário Pinto de Andrade and Viriato da Cruz, the secretary-general of the MPLA and one of its major intellectual voices, abandoned their respective party positions as a result of internal tensions that culminated in the future Angolan President Agostinho Neto's takeover. Viriato da Cruz was ostracized to Beijing where he would die in 1973, his name and ideological outlook for long a taboo within the MPLA. For more on China-Angola relations, see Ian Taylor, *China and Africa: Engagement and Compromise* (London: Routledge, 2006), pp. 75-92.

Chinese assistance concentrated on two rival rebel groups, the FNLA and UNITA. On account of this, there were many harsh words from the MPLA leadership about China in the ensuing period. This did not prevent the establishment of diplomatic relations in 1983, but relations would only gain momentum at a later stage. A China-Angola Joint Economic and Trade Commission was created in October 1988. Its first meeting occurred only in December 1999, the second in May 2001, and curiously, in view of the growing bilateral economic involvement after this meeting, the third meeting would not occur until March 2007.

Bilateral visits by important state officials have become more frequent in recent years. High-level Chinese visits are now common, geared towards maintaining influence over the application of Chinese lines of credit, and the presence of Angolan members of government in Beijing has also been noted. In March 2004, when China's first credit line to Angola was opened, Manuel Vicente, the CEO of Sonangol, Angola's national oil company, went to China. This resulted in the establishment of two joint ventures between Sonangol and the China National Petroleum Corporation (CNPC), China's biggest oil company. One focused on oil and gas production in Angola, and the other on industrial, petroleum and infrastructure investment not only in Angola but also in other countries including Argentina and Venezuela.[4] In late May 2004 the Angolan Foreign Minister was invited to Beijing by his Chinese counterpart.[5] In September 2004 the President of China's Exim Bank, Yang Zilin, visited Luanda to discuss the application of the first Chinese credit line with the ministers of Finance and Petroleum, the head of Sonangol and the Governor of the National Bank of Angola. Also in 2004, following a scandal about alleged attempts to siphon off Chinese credit line funds, the Angolan Finance Minister went to Beijing to reassure the Chinese government about Angolan intentions reharding those funds.

In 2005 the Chinese Deputy Prime Minister Zeng Peiyan and the Deputy Foreign Minister came to Luanda on separate occasions.

4 'Angola: a bola de neve das relações com a China', *ÁfricaMonitor Intelligence*, 1, 22 June 2005.

5 'Chinese, Angolan FMs hold talks', *Xinhua*, 26 May 2004.

The commander of the Angolan Armed Forces, General Sanjar, visited Beijing in June 2005. Premier Wen Jiabao visited Angola and announced a third Chinese loan in the value of US$2 billion in June 2006. This happened shortly after the signing of a Sinopec-Sonangol partnership for the construction of a large refinery in Lobito. While the initial Chinese credit line in March 2004 had elicited from the Angolans the concession of an oil block to CNPC, the refinery deal in turn led the Chinese to extend their financial assistance to the Angolans. The Angolan Minister of Commerce and the Deputy Minister of Foreign Affairs were present in Macau in September 2006 for the Second Ministerial conference of the Forum of Economic and Commercial Cooperation between China and the Portuguese-Speaking Countries, and at the end of October the Angolan Prime Minister made a 'working visit' to Beijing that was extended so that he could represent the Angolan President at the third Forum for China-Africa Cooperation. The President's was a much-noted absence among the 42 African heads of state present on this occasion.[6]

In 2007, however, the enthusiasm of Chinese leaders about travelling to Angola appeared to wane. The Chinese Minister of Foreign Affairs, Li Zhaoxing, visited seven African countries in January. Later that month, President Hu Jintao made stopovers in eight African countries in his third major visit to the continent.[7] Angola was left out of the itinerary in both instances, something that caused concern in Luanda. (Perhaps not unrelated to this was the reactivation of the Joint Economic and Trade Commission, which had not reconvened for six years.)

The end of the civil war and Chinese financing of reconstruction

The reasons behind the sea-change in the Angolan government's policy towards China must be understood in the context of post-war reconstruction. Faced with the obstacles that Angola's main

6 'China aims to increase its clout in Africa; Unsaid goal: redraw world's strategic map', *New York Times,* 2 November 2006.

7 'The Chinese People's Republic of Africa: will Chinese peacekeepers soon embark on a conquest of the Black Continent?', *Kommersant*, 31 January 2007.

partners and the international financial institutions (principally the IMF) continued to pose in regard to the extension of credit, in the absence of structural reforms, the MPLA government turned to China.[8] Ironically, this is reminiscent of the way in which the MPLA had sought out Chinese support during the anti-colonial struggle when faced with the lack of assistance from Western countries.[9] China has substantial financial resources, state-owned corporations that benefit from the state's activist policies, an entrepreneurial class strongly supported by the state[10] and an overriding need for natural resources, especially petroleum.[11] Angola possesses some of these natural resources in great abundance, especially petroleum. This is, in a certain way, a perfect 'marriage of convenience'. As President Eduardo dos Santos noted: 'China needs natural resources and Angola needs to develop its economy. That is why the two countries have engaged in constructive cooperation.'[12] During Premier Wen Jiabao's visit in mid-2006, he also affirmed that bilateral relations are based on the establishment of 'mutually advantageous' partnerships with no 'political preconditions'[13] and a 'pragmatic posture' on both sides.[14]

When faced with the void left by the international community, the sense of timing on both sides was noteworthy. The first credit

8 'Silêncio da comunidade internacional ditou recurso ao empréstimo chinês', statement by the Angolan Deputy Minister of Planning, *Jornal de Angola*, 31 August 2006.

9 Manuel Ennes Ferreira, 'Realeconomie e Realpolitik nos Recursos Naturais em Angola', *Relações Internacionais*, 6 (2005), pp. 73-89.

10 Chris Alden and Martyn Davies, 'A Profile of the Operations of Chinese Multinationals in Africa', *South African Journal of International Affairs*, 13, 1 (2006), pp. 83-96.

11 Ian Taylor, 'Unpacking China's Resource Diplomacy in Africa', Center on China's Transnational Relations, Working Paper 19, Hong Kong University of Science and Technology, 2006.

12 'Angola gives Chinese PM full backing for Africa policy', statement of the Angolan President during the Chinese Prime Minister's visit to Angola, *AFP*, 20 June 2006.

13 'JES considera compreensão e diálogo chave do equilíbrio nas relações internacionais', *Voz da América*, 21 June 2006.

14 'PR defende cooperação construtiva com a China', *Jornal de Angola* , 21 June 2006.

line of US$2 billion was agreed on 2 March 2004. The conditions attached to this loan are seen by the Angolan government as advantageous despite the fact that it is an oil-backed loan, a 'benchmark according to which any future loans will be measured'.[15] Contracted by China's Exim Bank,[16] the loan is for repayment in two tranches of US$1 billion each over a period of 12 years with a grace period of five years, which in practice means 17 years, at a market-based interest rate of 1.7 per cent. The agreement makes room for the hiring of local companies for up to 60 per cent of each contract.[17] It is the responsibility of the Chinese authorities to decide which Chinese company gets allocated specific contracts in tenders open only to Chinese companies, with payment made directly by the Exim Bank. The agreement states that the minimum value for individual projects is US$10 million.[18]

In January 2005, the first tranche of the US$1 billion was made available; the second tranche was released later, with the interest rate reportedly revised downwards to 0.25 per cent.[19] Shortly after the visit of the Chinese Deputy Premier, a new interest-free loan of US$6.3 million was also announced in 2005.[20] A further oil-backed loan of US$1 billion was agreed in March 2006.[21] At this stage, according to the Angolan Deputy Minister of Finance, Severim de Morais, Chinese credit to Angola was worth US$3.2 billion, or 58 per cent of the total credit Angola had obtained after the end

15 'Crédito chinês flexibiliza bancos', interview with the Angolan Minister of Finance, 4 October 2005.

16 'Chinese financing already deployed', *Angola Peace Monitor*, Vol. 10, 7, 21 April 2004.

17 'Acordo histórico: invasão chinesa', *Semanário Angolense*, Vol. 1, 53 (March 2004), pp. 20-7.

18 'Assinados primeiros 12 acordos de financiamento com o Eximbank da China', *Notícias Lusófonas*, 16 May 2005.

19 'Angola flexes newfound muscle', *BusinessDay*, 23 March 2007.

20 'Governo chinês anuncia concessão de novo financiamento a Angola', *Angop*, 26 February 2005.

21 'China turns to Angola for bulk of oil imports', *Lloyd's List International*, 30 March 2006.

of the civil war in 2002.[22] A third major credit line of US$2 billion was announced in June 2006 when Wen Jiabao visited Luanda.[23] On this occasion, the two parties signed a Memorandum of Understanding on additional credit[24] as well as seven agreements for financing in the telecommunications and fisheries sectors.[25] An additional loan obtained outside the context of the credit lines made available by Exim Bank was brought to public attention in October 2005. According to the media, Sonangol raised a US$2 billion syndicated oil-backed loan priced at 250 basis points over Libor,[26] and meant for financing of oil production and gas projects and to repay a previous oil-backed loan. Management of this loan is led by France's Calyon Bank, which acts as banker to both Sinochem and Unipec in China[27] and as the long-term purchaser of Sonangol's oil.[28] Furthermore, a China International Fund, described as a 'private entity, based in Hong Kong, whose purpose is the financing of projects defined by the Office of National Reconstruction' in the amount of US$2.9 billion, was created in 2005.[29] In sum, the total of credit obtained by Angola from both private and public Chinese sources amounts to at least US$7 billion at the time of writing.[30]

22 'Angola recebe empréstimos de USD 5,5 biliões (desde 2002)', *Jornal de Angola*, 17 April 2006. See also Minister of Finance statement, 'Angola: China entrenches position in booming economy', *IRIN*, 17 April 2006.

23 'Governo aprova Acordo de Crédito do Eximbank da China', *AngoNotícias*, 28 November 2007.

24 'China concede crédito adicional de dois biliões de dólares a Angola', *Angop*, 21 June 2006.

25 'Áreas de Telecomunicações e Pescas incluídas na cooperação chinesa', *Angop*, 21 June 2006.

26 The widely used benchmark for short-term interest rates.

27 'Angola to raise another $2 billion oil-backed loan', *Energy Compass*, 14 October 2005.

28 'Angolan oil loan likely to raise transparency issues', *Financial Times*, 11 October 2005.

29 'Ministério das Finanças descarta irregularidades na utilização da linha de crédito da China', *Angop*, 18 October 2007. This includes the financing of projects such as the new international airport in Luanda, the railways, roads between provincial capitals and infrastructural works in Luanda.

30 Ibid.

Economic relations

From an economic viewpoint, there are three major areas of Chinese involvement in Angola: external trade, foreign direct investment and public works financed by Chinese credit lines.

External trade. Throughout the 1990s, Angolan exports to China ranged from US$136 million to US$600 million. Only in 2000 did they exceed US$1 billion (reaching $1.842bn) for the first time.[31] In anticipation of the closer relationship that was about to develop, Angolan oil exports already took up 20 per cent of China's African oil imports by 2002. At this stage, Angola became China's main African supplier. In 2004, Angolan oil exports to China reached US$4.7 billion, or 33 per cent of all oil imported from Africa by China and 20 per cent of China's total oil imports. This made Angola China's third most important supplier worldwide after Saudi Arabia and Iran, with 25 per cent of Angola's oil production exported there.[32] In 2005, Angolan oil represented 45.5 per cent of China's African oil imports[33] and Angola became its second most important worldwide supplier after Saudi Arabia.[34] In the first nine months of 2006, Angola became China's leading oil supplier at 500,000 bpd, supplanting Saudi Arabia. This represented 16.6 per cent of total Chinese oil imports during the first half of 2006, and about 70 per cent of all Africa-derived oil.[35] In the same period in 2007, Angola fell to the second position, but was still responsible for 14.1 per cent and 60 per cent of Chinese world and Africa imports respectively.[36]

31 Centre for Chinese Studies, 'China's Interest and Activity in Africa's Construction and Infrastructure Sectors' (South Africa: Stellenbosch University, 2007).

32 Carlota Garcia Encima, 'La Política Africana de Pekin: Oportunidad o Amenaza?', *Ari,* 27 (Madrid: Real Instituto Elcano, 2006), pp. 3-4.

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

34 Ibid.

35 'Saudi Arabia tops China's Sep crude imports list with 2.49mil mt', http://www.platts.com; 'Angola já é o maior parceiro da China em África', *Diário Digital*, 26 October 2007.

36 Ibid.

			2003		2004		2005		2006	
	Value	Rank Africa	Value	Rank Africa	Value	Rank Africa	Value	Rank Africa	Value	Rank Africa
Imports % from Africa	1,087 19.6		2,231 26.7	1º	4,717 34.8	1º	6,578 32.9	1º	11,050 38.8	1º
Exports to	61		145		190		372		894	
Total	1,148	5º	2,376	2º	4,907	2º	6,950	1º	11,944	1º

Table 1 – China-Angola External Trade (US$ millions)[37]

Although there was an increase in the value of both imports and exports in bilateral trade between 2002 and 2006, in absolute terms the difference between the two has expanded. The Chinese trade deficit has increased from US$1 billion to US$11 billion (Table 1).

From the Angolan perspective, during the 1990s imported Chinese products ran at the very low level of between US$10 and US$30 million.[38] However, as shown in Table 2, in 2005 China had become Angola's fourth largest supplier at US$372 million with a quota of 4.5 per cent, up from being its seventh trade partner the year before (Portugal was its main supplier at 20 per cent).[39] In 2006, China became the third supplier, surpassing South Africa and increasing its market share to 9.3 per cent, or US$894 million.[40] China became a

37 Sources: 'China´s trade with major partners in 2004', *Business Daily Update*, 23 February 2005; 'Prospecting for oil, Hu kicks off Africa tour in Morocco', *Agence France Presse*, 24 April 2006; 'Companhias chinesas em Angola criam câmara de comércio', *Diário Económico*, 21 March 2006; 'Angola: China entrenches position in booming economy', *IRIN*, 17 April 2006; 'The trouble with putting energy first', *South China Morning Post*, 16 June 2006; 'Angola and China hold Third Meeting in Beijing', *Africa Files*, 13 March 2007; 'Chinese businessman in Portugal wants to make use of Portugal's position for China-Angola trade', *MacauHub*, 19 March 2007; 'Angola em Movimento', ICEP, 32, May, Luanda, 2007; CCS, 'China's Interest and Activity in Africa's Construction and Infrastructure Sectors'; 'China encourages African imports', *Chinadaily*, 17 January 2007.

38 CCS, 'China's Interest and Activity in Africa's Construction and Infrastructure Sectors'.

39 'Angola: China climbed to fourth-largest exporter in 2004', *Lusa*, 3 June 2005.

40 'Angola importou 1,21 bilião de euros em mercadorias diversas de Portugal em 2006', *Jornal de Angola*, 5 March 2007; Banco de Portugal (2007).

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Imports	1.3	1.5	1.4	1.8	1.3	nd	nd	1.6	2.3	3.3	4.5	9.3
Exports	3.8	5.0	13.2	4.0	7.3	22.8	10.6	13.6	23.6	35.7	29.6	35,6

Table 2 – Chinese Market Shares in Angolan External Trade (%)

Source: Banco de Portugal (2003, 2006, 2007); 'Angola importou 1,21 bilião de euros em mercadorias diversas de Portugal em 2006', *Jornal de Angola,* 5 March 2007.

major destination of Angolan exports, taking a 22.8 per cent share (mostly petroleum) in 2000 and a 35.6 per cent share in 2006. It is expected that in the next few years the penetration of Chinese products in Angola will be considerably reinforced to the point of reaching the level of Portuguese imports.[41] To prevent this growth from taking place in an un-coordinated manner, the Chamber of Commerce for Chinese Companies in Angola was recently created, bringing together 26 leading Chinese firms operating in Angola.[42]

Chinese investment. Data from the Angolan National Agency of Private Investment (ANIP) from 2005 show a total of 290 foreign investment-approved projects valued at US$2.5 billion, of which 86 per cent is FDI. China is placed fourth behind Portugal, South Africa and Brazil, and ahead of the UK and the US.[43] Data on FDI outside the petroleum sector for 2006 shows a decrease (to US$650 million, with only US$163 million in industrial development). The three main investors were Portugal, South Africa and the US, the latter investing only US$23 million.[44] From this one can deduce

41 This is on account of both the general competitiveness of Chinese exports in the world market and the materials imported for use in the infrastructure projects made possible by Chinese credit. See 'Angola em Movimento', no. 38, November 2007, AICEP, Luanda.

42 Among others this includes the China National Machinery and Equipment Import and Export Corporation (CMEC), Jiangsu International, the China International Water & Electric Corporation, ZTE Corporation, Huawei, the Sinosteel Corporation, China Petroleum and Chemical Corporation (Sinopec), the China National Overseas Engineering Corporation (COVEC), and the China State Shipbuilding Corporation (CSSC). See *Macauhu*b, quoted in 'Companhias chinesas em Angola criam câmara de comércio', *op. cit.*

43 *ANIP Bulletin News*, Vol.3, 4, 27 January 2006.

44 'Volume de investimento no país atinge USD 650 milhões em 2006', *Angop*, 20 January 2007.

that Chinese FDI in Angola has been extremely small. Perhaps this situation may change when the US$5 billion development fund announced during the third FOCAC as a means to 'encourage Chinese companies to invest in Africa' becomes operational.[45]

For now, apart from the petroleum sector, few Chinese investments can be clearly identified. There are signs of growing Chinese investment in small-scale retail trade and restaurants. Beyond this, there is also Chinese involvement in cement production and the iron and steel industry. The Chinese Jasan Corporation wants to invest an estimated US$50 million in a cement factory in the Kicombo Commune in the Province of Kwanza Sul in the second semester of 2006.[46] Chung Fong Holding has signed a 15-year management contract with the Angolan government to repair the Luanda-based iron and steel producer Siderurgia Nacional, which came to a standstill in 2000. The re-launching of production presupposes investment of US$28 million and the Chinese company has acquired a controlling stake (51 per cent).[47] In other circumstances, this could become an opportunity for some of the existing Angolan industrial operators which could conceivably furnish some of the needs of this project. However, this will not occur because of the conditions underpinning the Chinese credit line. For instance, in March 2007, Hangxiao Steel Structure signed two contracts to supply construction materials including 'the installation of the steel structures, which will be produced in the company's factory'.[48] These could eventually have been produced with the modernization and diversification of the Siderurgia Nacional company's plant. Finally, the opening of CSG Automóvel Angola, a US$30 million investment by the China Inter-

45 'China-Africa co-op to break "products-for-resources" doctrine', *China View*, 6 January 2007.

46 'Chineses investem USD 50 milhões em fábrica de cimento', *Jornal de Angola*, 9 January 2004.

47 'Relançamento do sector industrial à vista, investimentos não petrolíferos', *Expresso on-line*, 6 October 2005 and 'País vai reduzir importação de ferro', *Jornal de Angola*, 5 October 2005.

48 Vol. 4, 12, 'Chinese Company Signs Contracts for Two Construction Projects', *ANIP News Bulletin*, 23 March 2007.

national Fund designed to assemble Japanese Nissan cars in Luanda, is expected in late 2007.[49]

These smaller investments aside, clearly Chinese companies are keener to get involved in extractive industries. For the diamond sector, the Angolan Council of Ministers accepted a joint venture agreement between Endiama EP (the Angola state player in the diamond sector) and China International Fund Limited on 6 April 2005. It also authorized Endiama EP to participate in the creation of a Hong Kong-based company called Endiama China International Holding Limited. This company will aim to prospect, produce and market diamonds, including diamond-cutting and production of jewellery, and other legal activities in Hong Kong.[50] In September 2005, the Minister of Geology and Mines allowed the establishment of a partnership between Endiama EP, MIRACEL and Endiama-China, as well as approving its contract for prospecting of diamonds.[51]

The petroleum sector has attracted the lion's share of Chinese investment. In the aftermath of the first Chinese-Angolan agreement in March 2004, Sinopec acquired 50 per cent of Block 18, which is operated by BP, having set up the Sonangol Sinopec International (SSI) joint venture to take that stake in the block. Sinopec holds a 75 per cent stake in SSI and this investment was around US$1.5 billion. This first Chinese involvement in Angolan oil took dramatic proportions on account of the last minute sidelining of ONGC, the Indian national oil company, which had been set to take this stake.

In 2005 the Angolan government did not renew the contract for Block 3/80, which had been held since 1982 by the French company Total. Instead, in an example of Angolan *Realpolitik* in the use of oil as a diplomatic weapon, it handed this to Sinopec.[52] Later that year,

49 *Jornal de Angola*, 'Fábrica de carros em Luanda começa a produzir em Outubro', 10 July 2007; 'Primeiros carros fabricados no país chegam ao mercado ainda este ano', 15 October 2007; and 'Angola garante confiança ao investidor', 21 November 2007.

50 'Comissão Permanente do Conselho de Ministros reuniu sob orientação do Presidente da República', *Angonotícias*, 6 April 2005.

51 'Mining Ministry Okays Constitution of Association in Participation', *Angola Press Agency*, 12 September 2005.

52 Manuel Ennes Ferreira, 'Realeconomik e realpolitik nos recursos naturais em Angola', *Relações Internacionais* 6 (2005).

the two parties agreed on the first participation of China Sonangol International Limited, a 25 per cent share of blocks 3/05 and 3/05-A in the Angolan offshore.[53] In April 2006, the Italian company ENI won the public tender for the deepwater block 15, with Sonangol Sinopec offering US$750 million for a 20 per cent share. By May, SSI had cornered 27.5 per cent and 40 per cent of the remaining areas of Blocks 17 and 18, in the process establishing a world record for signature bonuses by putting forward US$1.1 billion for *each* concession.[54] In tandem with this decision, Sonangol reached an agreement with Sinopec to the effect that SSI would undertake to build the Lobito Refinery, a US$3 billion project with 200,000 bpd capacity long pursued by the Angolan government.[55] Somewhat surprisingly, the Angolan government announced in February 2007 that it was pursuing the Lobito Refinery project alone 'because there was no agreement with the Chinese company on the products that would be produced' once the refinery is operational.[56] The Chinese government reacted quite un-dramatically to this, explaining the end of the partnership in terms of the normal functioning of the free market.[57]

Lastly, in order to be able to act in external markets, China Sonangol International Holding (CSIH), a subsidiary of Sonangol EP, signed a 2004 Memorandum of Understanding with Energia Argentina SA (Enarsa) that was expected to result in the investment of more than US$5 billion over the next five years (this amount would

53 'China assume participação em dois blocos de exploração petrolífera em Angola', *Lusa* , 5 October 2005. The consortium exploiting these two blocks (which are 25 per cent owned by Angola's NOC Sonangol) also includes Japanese, Italian, Serbian and Croatian investors.

54 'Blocos proporcionam bónus de USD 2,2 biliões', *Jornal de Angola*, 23 May 2006. According to the results of this bidding round, Total will be the operator of Block 17 (40 per cent) and Petrobrás of Block 18 (30 per cent).

55 'Bónus constitui recorde mundial em Angola', *Apostolado*, 10 May 2006.

56 'Sonangol compra refinaria de Luanda', *Jornal de Angola*, 24 February 2007.

57 'Pequim desvaloriza fim de parceria entre Sonangol e Sinopec', *Jornal de Negócios*, 8 March 2007. See also 'Angola flexes newfound muscle', *Business Day*, 23 March 2007. However, it is noteworthy that later on China did not (or perhaps was advised not to) make bids for blocks 15, 17 and 18 which are expected to be picked up by Galp (Portugal), ONGC (India) and Petrobras (Brazil). This seems to point towards an Angolan strategy of diversification of foreing partners identifiable elsewhere. See, for instance, 'Analistas aplaudem nova investida da Galp em Angola', 30 November 2007

not be made available by the Sino-Angolan company alone).[58] This Argentine excursion became clearer during the visit of President Hu Jintao to Buenos Aires, during which he signed an agreement to invest US$5 billion in oil exploration through CSIH, underwriting the previous Sino-Angolan commitment 'as part of a larger US$19.7 billion Chinese package for possible investments ranging from construction to railroad expansion'.[59]

Recent developments also point to growing Chinese interest in Angola's copper reserves. In November 2004 a joint statement by the Ministries of Geology and Mines, Transports, and Energy and Water created a Technical Multisectoral Commission to study the project of exploiting the Mavoio Tetelo e Bembe copper mine in the municipality of Maquela do Zombo in Uíge Province. This measure is based on the fact that the initial studies recommended that the project would only be viable if a railway, road and electricity infrastructure were also built. The China National Electric Equipment Corporation is currently conducting these works.[60]

Public works. The financial needs for the reconstruction of Angola are immense and the Angolan government has shown considerable gratitude to China for making this available. What follows is a survey of the sectors to which the Chinese credit has been applied. The 'building site' that is Angola today now includes an estimated 30,000 Chinese workers, with 80,000 expected by 2008.[61]

In the roads sector, the China Roads and Bridges Corporation and the China International Fund are rebuilding numerous road and bridge connections. The basic sanitation sector (water supply

58 'Sonangol entra em negócio de USD 5 biliões na Argentina', *VOA*, 20 November 2004.

59 'Angola will be part of a Chinese-Argentine oil-exploration deal', *The Miami Herald*, 23 November 2004.

60 'Criada comissão para estudar projecto de exploração de mina no Uíge', *Angop*, 5 January 2005.

61 *Agora*, quoted in http://www.club-k.net, 'Revista da imprensa: sucessão de JES, bolo chinês e palancas negras', 23 June 2006. For a more detailed view on public works see the CCS, 'China's Interest and Activity in Africa's Construction and Infrastructure Sectors'.

networks, public water taps, fill pipes for water trucks, and electrical energy payment centres) is led by the China International Fund Ltd and the China Export Corporation.[62] In the area of housing and public buildings, the China International Fund and Jiangsu International play a leading role. In the railway sector, a consortium of three companies chosen by the Chinese government—the China National Machinery Import and Export Corporation (CMEC), Transtech Engineering Corporation (TEC) and Kenwo International Development Limited (KIDL)—is operating. Through a state-owned enterprise, CLIC, China collaborates with Raids-Indian in the rehabilitation of CFM-Caminho de Ferro de Moçâmedes, the railway connecting the port of Namibe to Menongue (a four-year total investment of US$1.2 billion starting in March 2006). For the main national railway, the Caminho de Ferro de Benguela (CFB), the Chinese consortium, China International Fund Limited, has a 20-month deadline to complete rehabilitation (August 2007), which does not seem possible. Finally, the Congo railway (CFC) project, initially expected in 2008, is now a priority and is being studied.

In the air transport sector, the new Luanda airport project at Bom Jesus, a €9 billion investment, will be led by Chinese companies hired directly by the Angolan government[63] and under the direct control of the Office of National Reconstruction.[64] In the agricultural sector, the supply of tools and equipment to Mecanang EP is made by the China National Machinery and Equipment Import and Export Corporation. In the health sector, several Chinese-built hospitals have already been inaugurated, including one in Luanda built by the Chinese Construction Company (COVEC).[65] In telecommunications, the Angolan Council of Ministers discussed in February 2005 the plan by the Chinese ZTE Corporation International that aims to invest US$400 million. On another occasion, the Angolan company MundoSartel (56 per cent privately owned by Angolan investors and

62 *ANIP Bulletin News*, Vol. 3, 17, 5 May 2006.

63 *ANIP Bulletin News*, Vol. 3, 23, 23 June 2006.

64 'Angola: novo aeroporto de Luanda', *ÁfricaMonitor Intelligence*, 114, 15 June 2006.

65 *ANIP Bulletin News*, Vol. 3, 6, 10 February 2006.

44 per cent by Telecom Namibia) and ZTE Corporation signed a US$69 million agreement to develop phone networks throughout Angola.[66] In 2006 the Angolan Council of Ministers approved contracts for the provision of equipment between Angola-Telecom, EP and a consortium of Chinese companies led by CMEC and involving Alcatel Shanghai Bell and Huawei, for a total of US$273 million.[67]

Finally, in the context of the Sino-Angolan Memorandum of Understanding signed on the occasion of the additional credit line of June 2006, telecommunications and fisheries were considered priority areas. On technology for the electoral process, the Angolan government approved a contract between Angola Telecom and ZTE. In the security sector, Jiangsu International is building new installations and providing equipment for the BATOP (Brigade for Tactical-Operational Support), which is expected to be a technologically sophisticated centre covering Southern Africa and parts of Central Africa. In maritime transport, a 2005 agreement on merchant shipping was signed between Angola's Sécil Marítima and a group of Chinese companies, Pan Asian Oasis Inc.[68] In 2006, Sécil Marítima and China's Shipping Logistics, the biggest state-owned Chinese company in this sector, signed a similar agreement. The China National Machinery and Equipment Import-Export Corporation has also come to an understanding about investment in Angola, selling fishing vessels which, it is hoped, will come to employ 20,000 people directly and 100,000 indirectly.[69]

The future

Several questions remain unanswered about the future of the Sino-Angolan bilateral relationship. One concerns the consolidation of Chinese companies in the Angolan market beyond the execution of the Chinese credit line-supported public projects, themselves based

66 'China, Angola sign cooperation agreements', *Afro News,* 7 March 2005.

67 'Decisões económicas na agenda do Conselho de Ministros', *Angonotícias*, 3 April 2006 and *ANIP Bulletin News*, vol. 3, 21, 9 June 2006.

68 'Relançamento do sector industrial à vista: Investimentos não petrolíferos', *Expresso on-line*, 6 October 2005.

69 'Comunicado do Conselho de Ministros', *Angonotícias*, 22 February 2006.

on imported materials manufactured in China. At present the transition towards a new operating mode, away from the traditional forms of 'tied financing', does not seem to be occurring. There seems to be every intention to continue connecting Chinese loans with contracts to Chinese state-owned companies, despite the recently voiced views of the Chinese Deputy Minister of Foreign Affairs.[70] While investment opportunities in the Angolan market are considerable, there must be reasons why Chinese investors shun the prospect of substantial investment outside the extractive industries. Perceptions of risk, or perhaps high opportunity costs when compared to other markets, are factors that play a role here. This has greatly disappointed Angolan businessmen keen on joint venture arrangements as well as the Angolan authorities who regularly call for Chinese investment outside natural resources.[71] This is despite the Chinese Deputy Foreign Minister's pleas to the effect that China is 'encouraging not only its SOEs but also its private sector to invest in Angola, especially in infrastructure'[72] and his references to 'more than 10000 Chinese businessmen who have already visited Angola to get to know the market and search for local opportunities'.[73] As Sino-Angolan economic relations deepen, it is to be expected that Chinese companies seeking to seize the moment, both private and state-owned, will be active in Angola independently from the credit lines made available

70 'Empresas privadas chinesas de construção vão investir no país', *Jornal de Angola,* 22 July 2005.

71 According to a statement in Macau by Irene Neto, the Angolan Deputy Foreign Minister for Cooperation: 'Angola aposta na diversificação do investimento directo chinês' and 'Empresários chineses encorajados a investirem em Angola', *Angop*, 25 September 2006. See also the statement by the Angolan Deputy Minister of Commerce Manuel da Cruz Neto, 'Vice-ministro do Comércio convida empresários chineses a investir em Angola', *Angop*, 20 October 2007.

72 'Empresas privadas chinesas de construção vão investir no país', *Jornal de Angola*, 22 July 2005.

73 'China: Angola atrai milhares de potenciais investidores chineses', *Lusa on-line*, 15 March 2006, Statement by Huang Zequan, business consultant for firms wanting to invest in Africa and an academic at the University of Beijing.

by the Chinese government.[74] This is likely to occur across several sectors of the economy. When a cooperation agreement was signed between the Chinese business group Asian Oasis Inc and the Angolan company Sécil Marítima in October 2005, the Chinese CEO, Edmond Y. Yao, declared that about fifty Hong Kong-based firms aimed to invest US$8 billion in Angolan industry, construction and iron and steel production from 2006 to 2008.[75]

This leads to a second question, the expectation by the Angolan authorities of growth and development in Angola's private sector through partnerships with Chinese companies, especially through the legal requirement to sub-contract Angolan companies in Chinese credit line-related projects. The obligatory Angolan share of 30 per cent of such contracts has not been fully respected, and numerous instances of dissatisfaction and protest have resulted. The process whereby Angolan companies are chosen for the existing partnerships is also perceived as wholly un-transparent.[76] Furthermore, the implications of the credit line-derived partnerships go beyond mere economics. The political repercussions are evident, as shown by the dispute within the current Angolan leadership for access to, and coordination of, the disbursement of these funds. While in many ways predating the advent of Chinese credit lines, the flames of intra-elite enmity were decidedly fanned by the prospect of access to them. Immediately after the first loan was granted in March 2004, frenzied political machinations burst into the open. With some hyperbole, the Angolan press reported fears that this might create a new 'civil war'.[77]

The problems started with the sidelining of Carlos Feijó, a long-serving top adviser to the President, and of António ('Toninho') Van

74 As the CEO of a Chinese company, stated, 'This is private investment by Chinese companies and not state-to-state investment': 'Mais USD 8 biliões para investimentos', *Jornal de Angola*, 5 October 2005.

75 Ibid. See also 'China & Hong Kong Firms Invest $8 Billion', 14 October 2005.

76 *Semanário Angolense*, 'Financiamento chinês: Lei obriga a subcontratação de empresas angolanas', *ANIP Bulletin News*, Vol. 2, 41, 179, 1-8 July 2006.

77 'Toninho versus Feijó: crónica de um duelo anunciado', *Voz da América*, 10 December 2004.

Dúnem, the Secretary of the Council of Ministers and one of the main negotiators of the Chinese loan, because of alleged profits they were seeking to extract from the process. Rumours surfaced that it was the Chinese secret services, the TEWU, that warned the Angolan Presidency, going as far as providing President Dos Santos with a list of twenty businesses connected with elite Angolans said to be illicitly benefiting from the newly available resources.[78] This took such proportions that by December 2004 the Angolan Finance Minister was sent to Beijing to reassure the Chinese authorities about the proper use of the credit line.[79] Subsequently, President Dos Santos created an Office for National Reconstruction (GRN), headed by General Kopelipa, the Presidency's Military Adviser.[80] This has the task of direct administration and disbursement of the Chinese loans. This robust reinforcement of the Presidency as the centre of political and economic gravity marks a permanent sidelining of the Government and the National Assembly, as evidenced in the fact that no less than four cabinet ministers must report directly to General Kopelipa.[81]

A third question concerns the sort of complaints that have been raised by the methods of Chinese companies, which are by no means unique to Angola. These include instances of cultural misunderstanding and racism,[82] the scant use made of the Angolan labour force,[83] and the disparities in Chinese pay-scales, all of which have

78 'José Pedro de Morais sossega chineses', *Semanário Angolense*, 25 December 2004. According to *Semanário Angolense*, 'Chineses disseram a verdade mas ainda guardam preciosos triunfos', the case of António Van-Dúnem 'was the most blatant one. He had ambitions to control, amongst others businesses, the Caminhos de Ferro de Luanda e de Benguela [the national railroad company]': *Semanário Angolense*, 95, 15-21 January 2005.

79 Ibid.

80 'PR tira da cartola um Gabinete de Reconstrução Nacional', *Semanário Angolense*, 85, 30 October-6 November 2004.

81 http://www.club-k.net, 23 June 2006.

82 'Inclui despedimentos anáquicos: gestão chinesa da Siderurgia Nacional acusada de racismo e outros insultos', *Semanário Angolense*, 157, 1-7 April 2006.

83 See, for instances, *Público*, 'Em Angola foi chegar e vencer', 31 January 2007. For the president of the Liga dos Jovens Empresários Angolanos, Artur Almeida, 'The rules of Chinese investment (that is, the Chinese loans)

contributed to a certain malaise in Angolan perceptions of China.[84] In the medium term, this could acquire very problematic dimensions if it is not handled properly. While Chinese assistance may have been welcomed by the elite and the population alike in the initial post-civil war stages, this was not the case some four years afterwards. The political benefits and economic gains reaped by the elite currently are not matched in the lives of average Angolans, and this may lead to an increase of tensions between the latter and Chinese expatriates. In this context, rumours about the Angolan government's intentions to settle a very large number of Chinese citizens in the Central Plateau, Angola's richest agricultural region, could be a dangerous time-bomb,[85] because this region is politically very sensitive, with traditional heavy support for the defeated UNITA rebels and a historic sense of marginalization by Luanda. In addition, there are issues pertaining to land access that have recently created serious friction between local people and essentially speculative and politically connected new landowners. The trauma of the civil war and the lack of local grassroots organization may be interpreted by some as showing popular complacency or even tolerance towards such settler projects. But there is no guarantee, should such ambitious ideas come to pass, that the current popular passiveness vis-à-vis the Chinese will continue.

A fourth question concerns the economic and political impact of Chinese construction of public works. Beyond the positive economic externalities which these projects encompass, there is an important political issue associated with them: the holding of presidential and legislative elections. At this stage, it is clear that the government and the ruling MPLA are betting on the rehabilitation of Angola's infrastructure as a key element in their electoral strategy. However, expec-

should be revised to include more Angolan workers in the projects.' See also Centre for Chinese Studies, 'China's Interest and Activity in Africa's Construction and Infrastructure Sectors'.

84 See http://desabafosangolanos.blogspot.com, 'Angolanos escravizados: chineses reconstroem e ditam as regras', 24 July 2006.

85 This may well be a strategic goal for China, as evidenced in recent discussions at the National People's Conference of March 2007 of a law 'On Assisted Employment'. Its goal would be the reinforcement of China's presence around the world through institutional support for Chinese citizens wanting to work abroad.

tations about meeting deadlines have not been met, and the resulting disappointment has been made clear by the Angolan authorities on numerous occasions.[86] Many important works will not be completed any time soon, as is especially evident in the case of railways. The case of Hangxiao Steel Structure which, having won a March 2007 US$3.3 billion contract from the China International Fund, declared itself incapable of fulfilling outstanding commitments and is under investigation by the Shanghai Stock Exchange, is one of the most serious setbacks in the timing of Angola's reconstruction. It has also raised considerable suspicions over how the financing is managed, to the extent that the government had to publicly confront rumours of supposed malfeasance.[87] The delay in starting certain infrastructure projects and significant delays in finishing others may explain why elections have been repeatedly postponed. Does the resulting discontent explain the cancellation of Sinopec's involvement in the Lobito refinery[88] or the cancellation of a protocol between Endiama EP, China International Fund and the Future Pensions Fund?[89] Is the investigation into Hangxiao Steel Structure, regarding the sale of products and service provision in house building for Angola—an operation mediated by the China International Fund—[90] connected with President Hu Jintao's avoidance of Angola during his 2007 visit to Africa?

86 'Roberto de Almeida defende qualidade nas obras de reconstrução', *Angop*, 15 July 2007; *VOA*, 'Chineses podem ser afastado do CFB', 13 September 2007

87 'Atraso em projecto chinês coloca negócio milionário em Angola em risco', *Lusa*, 8 August 2007; 'Angolan loan casts light on ties with China', *Financial Times*, 19 October 2007; 'Siphoned off funds may be starving Chinese construction projects', *Southscan*, 19 October 2007; 'Ministério das Finanças descarta irregularidades na utilização da linha de crédito da China', *Angop*, 18 October 2007.

88 The semi-official version for the termination of this project refers to the incompatibility between Chinese intentions of having the refinery produce for its internal market and the Angolan intention to use it to service other markets.

89 'Conselho de Ministros', *Angop*, 2 March 2007.

90 'China: suspeitas de corrupção em negócio milionário com Angola', *Diário Digital/Lusa*, 26 March 2007.

The final question concerns the role that Chinese authorities believe Angola can fulfil, especially as it is currently very clear what role Angola expects China to perform vis-à-vis its own interests. Is China in Angola following a 'strictly business' approach? If this were so it would amount to a modest objective given the ambitious role that China wants to play in the international sphere. In view of the multifaceted potential of Angola in Africa, an ally like Angola can prove to be of unquestionable usefulness. If this were so, what would the consequences be for Angola, not only for the elite, but in terms of domestic politics? The same should be asked of repercussions at the regional level.

Conclusion

The momentum behind China's success in Angola is partly explained by a 'happy conjuncture' of mutual interests, but the preeminent factor is certainly the great sense of timing on both sides in what amounts to a 'perfect marriage'—for the time being. This also provides further illustration of the Angolan government's seemingly perennial capacity to play off different external interests to suit its own purposes.[91]

The Angolan civil war ended in February 2002 with the death of the rebel leader Jonas Savimbi, not so long after the end of the first FOCAC Summit in October 2000. Angola's pressing need for physical reconstruction, especially in infrastructure, found the right source of financing in the Chinese. In turn, this was made available as a bargaining chip to allow China secure energy supply and equity oil production. The Chinese *modus operandi* fitted perfectly with Angola's needs at a time when the Angolan government seemed unable either to attract non-oil investment into the country or to ensure the holding of a international donors' conference. It also resolved its longstanding difficulty in accessing international financing without political conditionalities. In particular, the Chinese involvement allowed Angola to bypass the IMF. While the relationship between Angola and the Fund has always been notoriously difficult (Angola never went through an IMF reform programme and negotiations

91 See Ferreira, 'Realeconomik e realpolitik nos recursos naturais em Angola', *Relações Internacionais* 6 (2005).

have broken down countless times in the recent past), China's provision of an alternative source of funding was well-timed to allow Angola to disengage. The lack of Chinese conditionality is one of the reasons why, despite the fact that current oil prices and the exponential increase in Angolan oil production allow the government some additional breathing space, Chinese assistance and its 'no moral harassment' underpinnings continue to play a pivotal role.

In this way, economic objectives (rebuilding the Angolan economy) and political objectives (holding elections only after the effects of reconstruction start being felt) seem like a 'perfect marriage of convenience'. Moreover, and no less important, this strategy permits power holders to argue that the civil war, and not poor governance by the MPLA, was mainly to blame for the chaotic state in which the country has found itself since independence. Lastly, the implications of the Chinese loans are visible well beyond the realm of economics. The internal political struggle remains intense, reflecting among other things the fight for appropriation of rents emanating from the joint ventures allowed by the Chinese loans.