

China and Angola

Strategic partnership or marriage of convenience?



In 2004 Angola's Ministry of Finance and China's Ministry of Trade signed the first of several financing packages for public investment projects in Angola. These packages provided for oil-backed concessional loans from Chinese banks. This brief takes stock of the achievements after six years. What is the nature of the partnership between the Angola and China? Is a strategic partnership being built around shared goals? Or are we witnessing an uneasy marriage of convenience?

THE AUTHOR

Lucy Corkin is a Research Associate at the Africa-Asia Centre, School of Oriental and African Studies in London where she is also pursuing her PhD on China's role in Angola. She was previously a Projects Director at the Centre for Chinese Studies at Stellenbosch University in South Africa. She is the author of numerous reports and studies on China in Africa.

China's official bilateral relations with Angola are of recent origin. China supported all three liberation movements during the anti-colonial struggle, yet it refused to recognize the MPLA government and continued to support UNITA after 1975. Diplomatic relations between Beijing and Luanda were only established in 1983. Relations during the 1990s were largely related to defence cooperation and purchase of Chinese arms. Following the end of the Angolan conflict in 2002 the relations between the two countries shifted to economic collaboration, with a particular focus on Angola's reconstruction and development programme and on Angola's oil. Angola is currently China's largest African trading partner. In 2009 39 percent of Angola's crude exports go

to China. This accounts for 15.7 percent of China's total oil imports, rendering Angola one of the largest sources of China's oil imports. Chinese construction companies are major players in rebuilding Angola's infrastructure. Officially more than 30 000 Chinese nationals are working in Angola, mostly as low-skilled contract labourers for Chinese companies, but included are also a growing number of Chinese micro-entrepreneurs and small business operators. There are also frequent bilateral visits of state officials. Direct air flights between the countries have also been established.

CHINA EXIM BANK ENTERS ANGOLA

The Chinese Exim Bank has been a key instrument in facilitating the expanding economic cooperation between China and Angola. Between 2004 and 2010, China's Exim Bank has extended a total of US\$ 10.5 billion in oil-backed credit lines to the Angolan Government. These loans were targeted specifically towards facilitating public investment in Angola. According to the terms of the loans, Chinese companies are largely contracted to undertake required projects and are paid directly by China Exim Bank, which writes down the contract amount against oil sales made to the Chinese government. The loans are provided on generous terms compared to European and American Banks' oil-backed financing. Generally it was provided with an interest rate of 1.5 percent over the London Inter-Bank Offered Rate (LIBOR, the benchmark interest rate for international finance) and was repayable over 17 years, including a grace period of five years.

China Exim Bank

The Export-Import Bank of China is one of China's three policy banks established in 1994. The others are the China Development Bank and the China Agricultural Development Bank. They remain tools of the government and allow Beijing to allocate preferential or targeted finance through a hybrid of planning and market means. Exim Bank and the Development Bank are key instruments in China's foreign economic policy and co-operation with Africa. The Exim Bank provides concessional finance and loans for infrastructure development in the majority of Africa's countries.

Tied to the China Exim Bank loan, is the agreement that the public tenders, for the construction and civil engineering contracts tabled for Angola's reconstruction, will be awarded primarily (70 percent) to Chinese enterprises approved by the Chinese Government. Of the tenders, 30 percent have reportedly been allocated to the Angolan private sector to encourage Angolan participation in the reconstruction process although this may only extend as far as ensuring that 30 percent of contracted labour is Angolan.

FINANCING ACCESS TO OIL, YET LITTLE PRIVILEGE FOR CHINESE OIL COMPANIES

The Chinese loans initially helped facilitate access to Angola's oil. Chinese interests first entered the oil sector in 2004 when China Petroleum and Chemical Corporation (Sinopec) bought a 50 percent stake of Block 18 for the reported sum of US\$ 725 million coinciding with the disbursement of the first tranche of China Exim Bank's financing. Sinopec's entry into Angola's oil blocks was marred by controversy, as it appears that Shell, the former owner of the 50 percent stake had several months previously signed a purchase agreement with Indian oil company ONGC Videsh. This deal was however refused approval by Angola's national state-owned oil company Sonangol. The stake was instead awarded to Sinopec. In late 2004/early 2005, Sinopec acquired Block 3/80, owned previously by Total, after Sonangol did not renew

the French company's contract. Sinopec's entry into Angola also coincided with the announcement of China Exim Bank's US\$ 2 billion loan facility to the Angolan government to finance infrastructure reconstruction.

Particularly as this was the first entry of a Chinese national oil company into what was considered a strategic African country, China Exim Bank is believed to have indirectly supported Sinopec's oil acquisition through the provision of a loan facility. However, while these loans may have assisted Sinopec's early bids, this has not continued to be the case. Chinese national oil companies are still very junior partners in the Angolan oil industry.

It initially appeared that Sinopec had made rapid inroads into Angola's oil industry. After forming a joint venture Sinopec-Sonangol International (SSI) with company Sonangol, Sinopec (75 percent shareholder in the joint-venture) acquired equity in several other Angola oil blocks, attaining 27.5 percent, 40 percent and 20 percent in the off-shore blocks 17, 18 and 15 respectively. The signature bonuses of US\$ 1.1 billion for the concessions in block 17 & 18 were the highest ever offered in the history of Angola's oil industry. Sinopec had also been in negotiations with the Angolan Government to develop a 200,000 barrels-per-day oil refinery, Sonaref, at Lobito.

Despite a promising start, Sinopec has now largely retreated. The refinery deal was called off in March 2007, reportedly due to a lack of consensus as to the intended destination of the refined product, although it is unclear which side imposed the deal-breaker. It emerged in late 2008 that US engineering firm KBR had been awarded the contract for construction of the refinery, then estimated to have a cost of US\$ 8 billion. Almost immediately after announcing an end to negotiations regarding Sonaref, Sinopec also withdrew from its stakes in blocs 15, 17 and 18. Amid much controversy as to who would assume Sinopec's shares, it appears that China Sonangol International Holding (CSHI), a subsidiary of Sonangol, had as of late 2007, as well as taking on the exploring rights to block 3/80, assumed control of the blocks before a more permanent equity partner had been secured. In October 2008, Sinopec and China National Offshore Oil Corporation (CNOOC) negotiated with Marathon Oil Corporation the purchase of a 20 percent stake in Bloc 32 for US\$ 1.8 billion. By October 2009, Sonangol, as an existing equity holder, had exercised its right of first refusal, blocking the Chinese purchase by announcing its own intention to buy it.

Despite speculations of a link between China Exim Bank's inaugural loan and Sinopec's first successful bid for equity in block 18, there is little evidence to support continued preferential treatment at the bidding table for Chinese oil companies. Indeed, Chinese companies do not possess the technology to

exploit Angola's deep and ultra-deep blocks in the Gulf of Guinea, and have as such been sidelined since 2006.

Any aspirations the Chinese Government may have had of smoothing the entry of national oil companies have thus been thwarted. Exim Bank has so far had far more success in facilitating the entry of Chinese construction companies into the Angolan market.

ANGOLA'S BID TO DIVERSIFY FINANCE PARTNERS

Since 2004 Luanda has approved an increasing number of credit lines from a number of countries. Aside from the material assistance that China's Exim Bank loans have provided, the provision of funds seems to have acted as a kind of financial catalyst for other flows of financing. In 2007, Spain alone provided US\$ 600 million in construction aid. Furthermore Canada's Export Development Bank has signed an agreement with Angola's Banco de Poupança e Crédito for US\$ 1 billion this year to finance government infrastructure projects and US\$ 16 million for private enterprise projects. Brazil's Banco Nacional de Desenvolvimento Econômico e Social (BNDES) has already disbursed US\$1.5 billion to fund the purchase of Brazilian construction equipment in Angola in the first five months of the 2009 and is also offering US\$250 million to fund projects in Angola.

Such developments point to a considerable thawing of relations between Angola and the international financial institutions. An agreement is also in place for the Angolan Government to service its Paris Club debt.

Credit lines with the goal of export promotion from Western countries, while forthcoming, may not be comparable in size to those of China although some are fairly large. The rates and conditions from Exim Bank tend, however, to be slightly more generous. The Chinese focus on infrastructure has also created a hope that some of Angola's riches might actually be translated directly into development projects.

Beyond this there appears to be little difference between the Chinese credit lines and those of other countries. All the credit lines are contingent on their use to purchase products and services from their own companies respectively. Thus far from allowing China preferential treatment as a trading or investment partner, Chinese financing seems to have encouraged other countries to extend credit lines in order to allow their own companies and products to compete on a similar footing. This has been strongly promoted by Luanda. Angola is arguably one of the African countries most jealous of its sovereignty. The Angolan Government is careful not to let any singular foreign trade partner dominate the domestic political or economic arena. Angola, despite international concerns, particularly in the context of strengthening China-Angola relations, is strongly resisting

becoming or being perceived as a client state of any other country.

AN EVOLVING PARTNERSHIP

Given that Angola has been China's top African trading partner since 2007, there is a marked disparity in the level of China-Angola trade and the corresponding level of China-Angola investment, relative to other resource-rich African countries. With US\$ 68.89 million, Angola ranked 18th in Africa in terms of its Chinese FDI stock in 2008. It is estimated that in 2008, Chinese FDI accounted for 0.25 percent of Angola's total FDI stock. This seems to infer that while Angola is considered an important source of oil, Chinese companies do not regard Angola as a strategic location for investment, beyond acquisitions in the oil industry. Other countries, from DR Congo to South Africa, are considered to more important destinations for Chinese investments.

The Angolan government has been less open to Chinese investment in the oil industry than originally expected. Several blocks that various Chinese national oil companies had shown a keen interest in purchasing were denied them. This may well be for pragmatic reasons; Chinese companies have yet to develop the technology required to exploit deep and ultra-deep water oil resources, indeed, they have been looking to learn such techniques in partnership with Western oil majors in Angola. Nevertheless, it sends a strong political message to Beijing and points to shrewd management of the oil industry on the part of the Angolan government.

Angola for its part has leveraged its growing relationship with China on several levels: the international; the national; and the regional. In the past few years Luanda has acquired access to various lines of credit from a variety of different partners. This points to the Angolan government's successful strategy of diversification. The Angolan government has always been fiercely protective of its sovereignty, eschewing an IMF structural adjustment package in 2004 for China's less conditional financing. Considered a 'quick-fix' at the time, the Angolan Government seems wary of allowing Chinese interests to hold too much sway in the economy. Nevertheless, Chinese financing has been important. It is viewed in some quarters as having acted like a kind of catalyst to attracting financing from other countries.

Similarly, on the domestic front, in the early years following the end of the civil war, China Exim Bank's loans provided the MPLA government with the means to kick-start the national reconstruction project in infrastructure development and expansion of state capacity. MPLA's landslide victory in the legislative elections of 2008 may also be interpreted as an indication of the success of this approach.

The Angola Brief series is an output of the CEIC-CMI Cooperation Programme for research in social and economic issues concerning Angola. The series aims to contribute research findings and policy recommendations to enhance public debate in and about Angola.

Editors: Alves da Rocha & Aslak Orre

Author: Lucy Corkin

CONCLUSIONS

Angola's relationship with China seems to be maturing from a heady embrace of mutual convenience to a reassessment of each other's strategic significance as partners.

From the perspective of Beijing, the question has been raised as to whether such relations are sustainable. Far from serving as a kind of 'model' for other resource rich countries' relations with China, it has been suggested that the strategic partnership forged between Luanda and Beijing was done so at an opportune moment of equal need, for financing and oil resources respectively.

Furthermore, the Chinese Ministry of Foreign Affairs in view of previous involvement in Angola's history, may have felt it was politically expedient to conclude a deal, overruling any reservations that Exim Bank may have harboured. The outcome of the arrangement, has, contrary to the expectations of some, not rendered Chinese oil companies greater access to Angola oil blocks, although supply of oil as collateral has been secured.

Angola's relationship with China is maturing from a heady embrace of mutual convenience to a reassessment of each other's strategic significance as partners. Hearty political posturing indicates that both China and Angola see each other as necessary strategic allies for the foreseeable future, but this may mask an uneasy marriage of convenience.

For Angola, China remains an important trading partner, whose demand for Angolan crude and willingness to provide credit lines have taken on increasing significance following the oil price fluctuations in the wake of the financial crisis. Angola is balancing the need to retain China Exim Bank as a financing partner with denying the less experienced Chinese national oil companies access to exploration blocks that they cannot operate. If China entered Angola to oil equity, it has not been hugely successful. Consequently, that the relationship hinges largely on oil, despite its importance, does not bode well for its sustainability. Hearty political posturing indicates that both China and Angola see each other as necessary strategic allies for the foreseeable future, but this may mask an uneasy marriage of convenience.

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