

Africa and China: At a crossroads in Angola

As we continue our series looking at the future of Sino-Africa relations, LSE's Ana Cristina Alves gives us the view from Angola.

The close relationship between China and Angola in the post-conflict era is mostly explained by the emergence of their growing mutual economic interests. China's "going out" policy, driven by its expanding financial might and growing thirst for markets and resources, coincided with the end of the civil war in Angola in 2002, the need for national reconstruction and its rising crude oil output. This set the stage for the dramatic increase of economic interaction between China and Angola in recent years.



This convergence of interests is at the very foundation of the current China-Angola relationship. At an early stage, Beijing correctly identified infrastructure development as a critical need of post-conflict Angola and offered to fund the government's reconstruction project in exchange for favoured access to oil equity/assets and long-term oil supply.

Structured around this "infrastructure-for-oil" formula, China's engagement with Angola has become most apparent in the sectors that have been driving Angola's rapid economic growth in recent years: infrastructure construction and the oil industry.

Looking back at the recent history of the relationship and taking into consideration their current dealings, a few trends can be deduced as I attempt to offer an insight into the future of the relationship.

1) As things stand, it is likely that China will remain a major player in the country's reconstruction due to its unmatched financial resources and quick delivery capacity against the massive scale of Angola's reconstruction needs. There are, however, a number of challenges affecting this dimension of the relationship. These are the poor quality of the infrastructure provided by Chinese companies, the lack of maintenance procedures and a large share of Chinese content (equipment, labour and services).

The Angolan side must also bear some responsibility, namely, for failing to provide a solid regulatory framework for the industry and an efficient supervision system. Tackling these issues will surely lead to changes in the way China engages with Angola's construction sector. ^

As I write, new loans are currently being negotiated for further development of the country's infrastructure (US\$10bn under discussion with EXIM Bank) and the terms of the loans will allegedly include a larger share of local participation in terms of services, equipment and labour.

2) It is unlikely that China will make significant inroads into the oil sector in the near future. China may have the necessary capital, but unlike the construction sector, it falls short when it comes to technology and expertise critical to exploring Angola's ultra-deep water reservoirs.

In recent years, Luanda has successfully restrained Sinopec's ambitions by systematically curtailing its attempts to acquire more assets in the Angolan oil industry outside its joint venture with Sonangol (Sonangol Sinopec International).

Moreover, the new loans are unlikely to produce more oil assets for Chinese companies as collateral since Luanda seems determined to separate the two. Sinopec will have little alternative other than to pursue its interests in Angola's oil industry through the partnership with Sonangol.

In this context, while China is expected to reinforce its position as Angola's largest oil export destination, Angola's oil industry will remain dominated by major western oil companies.

3) China's presence in Angola is likely to diversify in the medium term not only in regards to the economic sector, but also in terms of the players. As of now, most Chinese investment in Angola has been channelled through Chinese state-owned enterprises (SOEs) to construction and oil sectors.

As the country's transportation networks become operational, Chinese private investment is expected to make inroads into retail, manufacturing, mining and other services such as tourism, financing and transportation. Unlike Chinese SOE's, however, its growth will be much more reliant on risk perception, particularly the investment environment and political stability.

Political change might, in fact, be looming in the short to medium term for Angola. Current president, José Eduardo Dos Santos seems keen to retire and nominate a successor as he wishes to avoid the fate of his North African peers.

There are four possible scenarios to be considered:

- a. Dos Santos remains in power
- b. he nominates a successor and retires
- c. the opposition wins the elections in 2012
- d. the regime is ousted.

If the opposition were to win the upcoming elections in 2012 (very unlikely due to Angola's weak opposition) and provided that the transition is peaceful, it is highly unlikely that Chinese interests will be greatly affected since their role in the country is largely uncontroversial (both in oil and construction).

However, the regime being ousted would present greater challenges for China's interests in Angola due to the ensuing uncertainty and instability along with the possible evacuation of its citizens (estimated at 100,000).

Nevertheless, this is an improbable scenario due to Angola's very weak civil society and collective memory of recent past turmoil. Therefore, the first two scenarios remain the most plausible and China-Angola ties are likely to go from strength to strength in the near future as both countries become more acquainted with each other and further explore their mutual economic interests.

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