2015

Source: MACAUHUB

Angola and China-Bilateral Economic Strategy

FLORINDO CHIVUCUTE

Introduction

After a 27-year of civil war, Angola is still facing enormous challenges ahead to meet the Millennium Development Goals (MDGs). Despite the exceptionally high rapid economic growth that Angola has experienced after the end of the civil war in 2002, the country is still facing high unemployment (in particular among youth and women), extreme poverty, lack a of quality education, adequate health services and environmental degradation. Corruption within the government is also a problem. Angola is the second largest producer of oil and the third producer of diamonds in sub-Saharan Africa, but it has a Human Development Index (HDI) of 0, 446, according to 2007 and 2008 Human Development Report. In addition to that, it is among the low human development countries ranked 162nd out of 177 countries (UNDAF, 2009). The primary school enrollment is still low at 54% and life expectancy is 41.7 years. In addition, maternal mortality remains high (1.700 per 100, 000) and infant mortality rates is also extremely high (134 per 1000). Only 31% of the population has access to sanitation and 53% to clean water. Clearly, Angola faces enormous economic and social challenges ahead. Thus, in order to achieve the Millennium Development Goals (MDGs), the government will need to work with civil society, private organizations and with local and international Non-governmental organizations (NGOs) to implement profound reforms (i.e., diversify its oil economy, tackle the endemic corruption...) in order to translate this high rapid economic growth into human development.

The question then becomes: How will the government fund these reforms to reduce poverty and meet the Millennium development Goals? In this paper, I will first examine the economic relation between Angola and the People's Republic of China by looking at oil export to China and development aid from China to Angola in order to help us better understand Angolan paradox. Then, I will analyze some key Challenges aspects that Angola is facing from its bilateral trade relation with China. From there, I will provide some policy advice as to how Angola may be able to maximize the economic benefits and minimize the costs of the trade relations with China. Finally, I will briefly examine what type of reforms is needed within the government in order to have a functional and capable government to implement these reforms.

The bilateral economic trade relation between Angola and the People's Republic of China

China's political and diplomatic relationship with Angola can be traced back to the Angolans anticolonial struggle. After the end of Angola's civil war in 2002 that lasted almost three decades, China's relationship with Angola shifted from military and security to economic trade. In order to fuel its rapid industrialization and economic growth, China adopted a new economic trade relationship with Angola. It is important to note that Angola "ranks within the top-20 oil reserves globally" (Ron Sandrey, 2009 p.9) and it is the fourth-largest producer of oil in Africa and the second in sub-Saharan Africa after Nigeria (Indira Campos and Alex Vines, 2008 p19). As a result, China became a major trading partner with Angola. China imports from Angola are dominated mainly by oil imports. As Ron Sandrey (2009) put it, Chinese imports from Angola are almost exclusively dominated by oil imports. Oil's share in these imports has not dropped below 99.9 percent of the total imports from Angola since 1998 (when it was 99.8 percent).

[Please see figure 1 for more information]. Clearly, China has become the major destination of Angola's natural resources exports.

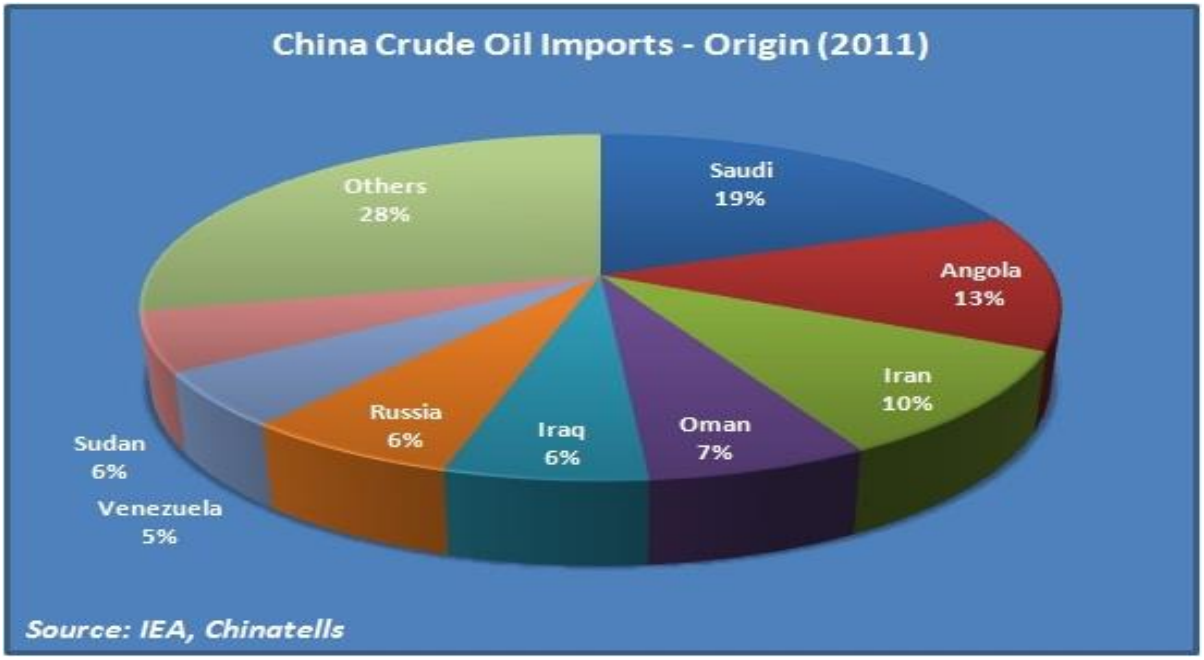
Figure 1: Angola Exports

Angolan Exports, 2010	
Major exports, 2010	**% of total**
Crude oil	95.9
Diamonds	1.8
Refined petroleum	0.7
Liquefied natural gas	0.6
Leading markets, 2010	**% of total**
China	43.8
United States	23.6
India	8.3
France	4.1

Source: EIU Angola Fact Sheet

As the figure 1 shows us, crude oil and diamonds account for the majority of Angola's GDP. This figure also tells us that while US and Europe oil import from Angola is decreasing, China's import continue to rise.

Figure 2: China crude oil import



As a result of Angola's oil, diamond and gas export, the GDP per capita has increased significantly. As Sandrey (2009, p. 10) reports, "the Economist Intelligence Unit (EIU) provides data on GDP per capita expressed as [Purchasing power parity] PPP from the actual of $3,340 in 2004 to estimates of $4,802 and forecasts of $6,117 by 2010." It is worthwhile to note that although the data above indicates an exceptionally high economic growth in Angola, it does not translate into people's lives due to chronic corruption and lack of good governance. This leads us to our next topic- What are the gains Angola is making in this bilateral trade with China?

Development aid from China to Angola

Angola has experienced a high growth rate since the end of the conflict as noted above. The International Monetary Fund (IMF) projected 23.4 percent GDP growth in 2007 and 26.6 percent in 2008 (Campos and Vines 2008 p.1). According to Campos and Vina (ibid), as a result of the rapid growth, inflation has fallen from over 300 percent in 1999 to 12 percents in 2006. Angola's government attributes this economic success to its bilateral trade agreement with China. The economic relation between Angola and China grew significantly in 2003 when both countries signed a new economic and commercial cooperation. As a result, a $2-billion financing package for public investment project was approved on March 21, 2004 (Campos and Vine 2008, p.6). This loan was divided into two phases and "payable over 12 years at a deeply concessional interest rate, labor plus a spread of 1.5 percent, with a grace period of up to three years" Campos and Vine, ibid). According to Angola's government, the interest rates are lower than the IMF and unlike the IMF, the Chinese government does not require good human rights and transparence records to obtain the loans. However, the government of Angola had "little input in these arrangements" because both China's Construction Bank (CCB) and EximBank gave the funds directly to Chinese firms. In other words, the money never left China. Worse, the Chinese firms that received the loans to invest in infrastructure, telecommunications, and agro-businesses in Angola, brought and continue to bring most of its work force from China. Therefore, the loans are not benefiting local businesses or are they providing new work opportunities for Angolans. As stated above, Angola has a high unemployment rate. If the government does not change the present trend, the National Reconstruction Program will be a source for another cycle of conflict rather than to improve people's lives and consolidate peace in Angola. The Reconstruction Program has to be inclusive and not exclusive. The majority of the society has to benefit from the Reconstruction program, in particular the most vulnerable groups (youth and women). Another issue is quality of the infrastructures that are been built in Angola by Chinese companies. Roads and several buildings were damaged few months after they were reconstructed, including the main International Airport located in Luanda (the capital of Angola). The poor quality of the infrastructures built by the Chinese companies is causing enormous problems within a society and is raising many questions in regard to the trade benefits between Angola and China.

Challenges facing Angola from its bilateral trade relation with China

De-industrialization as a result of cheap imports from China is one the most important issues that Angola is facing. As stated before, Angola export to China mainly oil, gas and diamonds. On the other hand, Chines exports to Angola are cheap and non-quality "consumer goods." Due to the technology, the oil sector employs a small number of people. Thus, Angola must promote industrialization outside the oil sector in order to create more jobs. The cheap consumer goods from China do not help to create new industries because local businesses are unable to compete. As Ron Sandrey (2009, p52) writes, "the challenges of dealing with the risk of China's cheap imports are building up to de-industrialization, increased unemployment and discourage economic diversification." Indeed, the cheap imports from China are an obstacle for local private businesses community. As Sandrey (2009, p53) argues, this is also a result "in part from Dutch disease whereby the strong currency (one is reluctant to use that value-laden and misleading term 'overvalued' currency) is one of the factors attributing to the 'curse of oil' label…" Although Angola does not have a considerable industrialization sector outside the oil, small companies cannot compete with Chinese cheap good.

Angola must diversify its economy by using the oil revenues to invest on its agriculture, agro-processing and fisheries sector. Angola has enough land that many poor farmers could benefit from agriculture investments. Angola could also export fish products to its neighbors in Africa and around the world. Angola should learn from China's experience of transforming its economy from agricultural economy to industrialized economy. As Sandrey (2009, p53) writes, "Angola's challenge is to redistribute oil and wealth to the poor, and given that most of these poor are peasant farmers in a land-rich but technologically backward agricultural economy, the lessons from how China transformed its rural economy from such a situation are extremely relevant to Angola." Indeed, Angola must use its oil revenues to promote industrialization rather than depending solely on oil exports funds.

The quality of the Chinese goods exported to Angola is also a reason for concern. Angola does not have institutions capable of verifying the quality of the products coming from China. As Sandrey (2009, p47) reports, "The quality of goods imported into Angola from China (mainly construction material and equipment but also some consumer goods including clothing and textiles) cannot be ascertained from the trade data." It is important to note that Angola is not the only country that has expressed concerns regarding Chinese imports. One may argue that the lower quality products exported to lower-income nations from China is the only option that consumers can afford. In some instances it can be true, but consumers in many lower-income nations do not have enough information to make choices. Assuming that Angolans prefer cheap goods with lower quality is not the reality that many express on the ground. As stated before, there are not institutions equipped to verify the quality of the products and to provide enough information to consumers. Angola's government must create an institution to control and quality of the products coming outside the country because it not just an economy problem, but also a health issue.

Some policy advice to government of Angola

Good policy strategies need to be on the center of the government economic relation with China. Human capital is crucial to developing a new grand strategy capable to deliver a beneficial outcome. To start, the government has to begin to recruit people based on their degree and their skills and not on family, friendship or party affiliation. More importantly, someone with great knowledge has to lead this program. The goal and objectives has to be clear to all involved in this endeavor: maximize economic benefits and minimize the costs of the trade relations with China as well as ensure the quality of the products. China needs oil to fuel its rapid economy and with unstable Middle East and North Africa, Angola's government has enough space to maneuver. Thus, two main issues need to be addressed. First, the development aid has to go to Angola local companies and hire local citizens to rebuild the country and reduce the unemployment rate. It may take more time, but the long-term benefits will be far greater to Angolan society. As noted before, local companies will employ local citizens and it will reduce the number of unemployment, in particular among women and youth. Of course, companies may have to hire people on the international market with exceptional skills to work and train Angolans. Giving opportunities to local companies will create a new middle class which will be crucial for the economy on the long term. Second, national and International contractors have to guarantee long-term quality of infrastructures to prevent the present problems (infrastructure that do not last). In other words, the roads and buildings must pass certain quality standards. Of course, the government has to create institutions capable to perform this task as stated before. As Sandrey (2009, p47) put it, Research of the Centre for Chinese Studies (2007) in Angola has revealed concerns of the quality of imported construction goods and materials especially as some of the Chinese built roads in Angola were washed away by heavy rains shortly after completion thereof." The author goes further by stating that "the report argues that this phenomenon [quality of the roads] is perhaps not an indication of poor quality of equipment imports but rather a lack of quality control and supervision of the projects," (Sandrey, ibid). In reality, it is difficult to know if the problem is only the lack of quality control and supervision of the projects because the Angola's government does not have capable institutions to verify the quality of the equipment imported from China nor the quality of the infrastructures built by Chinese companies.

Reforms within the Government

Corruption and nepotism are the two main issues that the government needs to tackle. According to Transparency International-the global coalition against corruption, Angola ranks 157 out of 176 on the Corruption Perception Index (2012). Indeed, corruption remains an issue in Angola. Many local anti-corruption organizations argue that corruption is a problem at all levels of the society. For instance, Rafael Marques de Morais who is a journalist and Human Rights activist argues that Angolan presidency (which is led by Jose Eduardo dos Santos who has been in power for 33 years) is the "epicentre of corruption." As Morais writes, "this report shows how the Presidency of the Republic of Angola has become the site of shady business deals, a fact that has consequences for citizens' freedom and development, as well as for the country's political and economic stability." Thus, corruption is a major obstacle for Angolan development. The government must implement new policies to end or minimize corruption within the government. Perhaps, the low-quality of the roads can be associated to corruption issue as well. The Human

Rights Watch report of 2010-2015, “Transparency and Accountability in Angola,” illustrates significant lack of transparency and accountability from Angola’s government:

> The scale of corruption and mismanagement in Angola has been immense. Human Rights Watch and others have previously documented how, while Angola’s development indicators remained among the worst in the world, billions of dollars in oil revenues illegally bypassed Angola’s central bank and disappeared without explanation. For example, from 1997 to 2002, approximately US$4.2 billion disappeared from government coffers, roughly equal to all foreign and domestic social and humanitarian spending in Angola over that same period. While millions of impoverished and war-ravaged Angolans went without access to hospitals or schools, billions of dollars were squandered that could have gone to providing necessary social services (Rights Watch report: 2010-2015)

Indeed, due to widespread corruption, many Angolans still live in extremely poverty without access to basic needs such as water, electricity, education and health services.

Nepotism is also another issue within the government that needs to be tackled in order to prevent future conflicts. The President’s family and main supporters are the group who are benefiting most from the reconstruction process. They hold key government offices and have a life style far different from the majority of the population. On Forbes’ published- #736 Forbes Billionaires (2013), Isabel dos Santos, the oldest daughter of Angola’s president, “is Angola's first billionaire and the richest woman in Africa with a fortune estimated at a minimum of $2 billion.” As noted above, Angola is among the low human development countries (ranked 162^{nd} out of 177 countries) (UNDAF, 2009). The primary school enrolment is still low (54%) and life expectancy is 41.7 years. Maternal mortality remains high (1.700 per 100, 000) and infant mortality rates is also extremely high (134 per 1000). Only 31% of the population has access to sanitation and 53% to clean water. The unemployment rate is extremely high, in particular among youth and women as stated before. Yet the president was accused to have several bank accounts around the world with hundreds of millions of dollars as well as his family and friends.

Conclusion

In summary, in this paper, first I examined the economic relations between Angola and the People's Republic of China by looking at oil export to China and development aid from China to Angola in order to help us better understand Angolan paradox. Then, I analyzed some key Challenging aspects that Angola is facing from its bilateral trade relation with China. From there, I provided policy advice as to how Angola may be able to maximize the economic benefits and minimize the costs of the trade relations with China. Finally, I examined what type of reforms is needed within the government in order to have a functional and capable government to implement these reforms. The reconstruction process has to be inclusive and transparent in order to prevent new cycle of conflicts. Angola's government must have a strategy to maximize economic benefits from its bilateral relation with China. Most important, Angola government has to tackle corruption and nepotism in order transform the rapid economic growth into people's lives. Transparency is without a doubt crucial to combat the endemic corruption that Angola is facing.

References

Campos, Indira and Alex Vines (2008). *Angola and China a Pragmatic Partnership*. Working Paper Presented at a CSIS Conference, "Prospect for Improving U.S.-China-Africa Cooperation," December 5, 2007. Retrieved from: http://csis.org/files/media/csis/pubs/ _______080306_angolachina.pdf.

Forbes (2013). *Isabel Dos Santos, Daughter Of Angola's President, Is Africa's First Woman Billionaire.* Retrieved from: http://www.forbes.com/profile/isabel-dos-santos.

Human Rights Watch (2010). *Transparency and Accountability in Angola*. Retrieved from: http://www.hrw.org/sites/default/files/reports/angola0410webwcover_1.pdf.

Transparency International (2010). *Corruption Measurement Tools*. Retrieved from: http://www.transparency.org/country#AGO_Data Research_SurveysIndices.

Rafael Marques de Morais. *The Angolan Presidency: The Epicentre of Corruption* Retrieved from: http://makaangola.org/wp-content/uploads/2012/01/PresidencyCorruption.pdf.

Sandrey, Ron (2009). *The impact of China-Africa Trade relations: The Case of Angola. Associate Trade law Centre of Southern Africa*. Retrieved from:http://www.africaportal.org/dspace/articles/impact-china-africa-trade-relations-case-angola.

United Nations Development Assistance Framework in Angola (2009). *UNDAF Angola (2009-2013)*. Retrieved from: http://web.undp.org/africa/programmedocs/angola-CPD-2009-2013.pdf.

Transparency International (2010). *Corruption Measurement Tools*. Retrieved from: http://www.transparency.org/country#AGO_Data Research_SurveysIndices.