The Impact of China-Africa Investment Relations: The Case of Angola

By Carine Kiala and Lucy Corkin

Problem Statement

Bilateral relations between China and African countries have intensified exponentially of late. Their cooperation has fuelled much contention over the potential ramifications of China’s emerging economy for its African partners. While the respective parties insist their engagement is founded on a win-win model of mutual benefit, critics warn that the trend emulates a potential re-colonisation of Africa for its mineral resources.

Angola increasingly finds itself at the centre of debate surrounding Chinese activity on the African continent. Although Angola is the continent’s second largest oil exporting country, poverty remains rampant. Its economic growth is dependent on oil exports, which have in turn made it China’s largest African trade partner and the second largest source of China’s oil imports after Saudi Arabia. Adjacent to this is China’s emerging role as a development partner in the reconstruction and development of post-conflict Angola.

The primary purpose of this research project is to undertake a comprehensive analysis of the key features and patterns of the past, current and future evolution of the economic relations between China and African countries. The study allows a more comprehensive understanding of the impact of China-Angola investment relations, the associated opportunities and challenges for Angola’s development prospects, as well as articulates the overall and sector-specific policy measures that Angola may wish to undertake in order to advance its national interests in light of the impacts experienced and the challenges faced.

Method of Analysis

This study makes use of both quantitative and qualitative methods of analysis, employing theories of international political economy and social studies to assess the impact of China-Angola investment relations on Angola’s political system and its socio-economy. The paper utilises a holistic body of data sources comprising personal interviews, primary sources, official documentation, policy documents, theoretical literature, as well as critiques and discussion papers from the media.

The author conducted field research in Luanda between March 2 – 13, 2009, during which she interviewed representatives from various entities including the Angolan Ministries of Planning, of Agriculture and Rural Development, and of External Relations, the National Private Investment Agency, the National Institute for Scholarships, the Chinese Embassy, the Chinese Economic Counsel’s Office, China
Railway 20, and CITIC Construction. Field research was also performed in Beijing between April 22 – May 2, 2009 where the author met various stakeholders, including the Africa Department of the Chinese Ministry of Foreign Affairs (MOFA), the Chinese Academy of International Trade and Economic Cooperation (CAITEC) in the Department of Aid Studies of the Ministry of Commerce (MOFCOM), and the China-Africa Development Fund.

Key Findings

Angola appears to have a sound investment policy in place to attract prospective investors. However, the country’s investment climate is as much of a deterrent in some instances. Although this has never been much of an issue for resource-seeking investors, the case is different for market-seeking investors. Since its independence, Angola has attracted some of the world’s renowned oil companies. However, as the country has embarked on diversifying the economy since the end of civil war, there is ample spread of foreign investment in other sectors of the economy. US firms may dominate the country’s oil sector, but Portuguese firms lead a lot of the activity in other sectors.

The first contribution made by this study is an empirical analysis of the impact of China-Angola investment relations. The paper acknowledges that the overwhelming bulk of China’s investment is directed towards the extractive sector, primarily in oil and diamonds. This paper also examined the other cases of Chinese investment in Angola, with particular emphasis on the impact of the investments on the position of local enterprises and human resource development. The Angolanisation campaign and the country’s private investment law make an effort to encourage the recruitment of locals to ensure skills development and technology transfer. However, the bilateral agreement made with China, particularly applied in the construction sector, contravenes the interests of Angolan workers. Therefore, it could be argued in this instance that the Chinese construction firms receive preferential treatment in Angola. This poses severe implications for Angola, considering China’s dominant role in infrastructure development projects across the country.

The second contribution is a quantitative estimation of the impact of China-Angola investment relations. This paper has provided a narrative account of Chinese ventures to Angola, as well as discussed the implications of the various operations on the socio-economy. The media pays a lot of attention to China’s interests in Angola’s extractive industry, particularly its investments in the oil and diamond sectors. However, Chinese ventures in both sectors have not been smooth. Therefore, contrary to popular belief, Chinese investors do not receive preferential treatment in Angola. On the other hand, the auto assembly plant of ZNNissan has instigated the launch of new industrial activity in the country. ZTE assumed the management of Movitel after it entered the market, and is currently also a wholesale trader of cellular phones and informatics appliances.

The third contribution of the study is the critical observation of Angola’s prospects for investment in China. Although, Angola’s outward indirect investment has traditionally targeted Portugal and other traditional markets, there is growing interest to diversify into the Chinese market.

In summary, Angola’s inward investment may be dropping but Chinese FDI in the country is increasing. MOFCOM’s inclusion of portfolio investment in its FDI figures is also timely with the country’s ‘go global’ policy. Chinese prospective investors to Angola shall also benefit from the CADFund, which is expected to cushion the effect of the global financial crisis.

Policy Implications

Two principal characteristics of FDI are inward capital flows to
the market and the installation of fixed assets used for operations. Moreover, a distinction was made between market-seeking and resource-seeking investors. The purpose of FDI, particularly in a country like Angola, is to stimulate industrialisation and development. Even so, the mercantilist theory on the subject warns that FDI could ultimately have a degenerative effect on the sustainability of the local enterprises if and/or when it is mismanaged. Countries thus cautiously employ protectionist principles towards trade and investment to reduce the risks associated with foreign competition, such as the eventual privatisation of state enterprises and/or the collapse of local enterprises.

China’s emerging economy is notorious for its comparative and competitive advantage in the global economy. The country’s success is a source of admiration and envy, but increasingly a source of much concern. Two questions thus come to mind. Is there validation for such concern in China’s outward investment? In particular, how does Chinese FDI in Angola position the locally-owned enterprises?

Chinese investment in Angola’s deep and ultra-deep oil blocks merely involved the transfer of ownership from an existing foreign investor to the Chinese company. The collapse of Sinopec’s deal in Sonaref is indicative of Angola exercising its sovereignty and protecting its national interests. As long as Angola remains unwavering towards foreign investors in its extractive industry, the position of its national enterprises will remain secure. However, the same cannot be said for other sectors of the economy.

This paper revealed a wider scope of Chinese investment in sectors other than the extractive industry. Foreign investors in the non-extractive sectors of Angola’s economy are not required to co-opt a local partner. Therefore, the ownership structure of their operations is almost absolutely wholly-owned by the investor company. This is the case with Chinese investors, as well as many other foreign investors in Angola. Moreover, outside of the extractive industry, there are also very few mergers and acquisitions involving local enterprises. This is certainly not a problem when an industry is underdeveloped/non-existent or when a market has not yet been tapped. However, when there are nascent industry players the scenario places its local enterprises in a very vulnerable position. With increased FDI, the local enterprises that are unable to compete could face the brutal reality of folding.

The policy recommendations provided in the report aim to ensure that Angolan’s investment relations with China are not based on or determined by resource-seeking interests, but rather by a partnership that is indeed mutually beneficial and also reflective of Angola’s agenda for national reconstruction and development:

**Maintain an incubating environment for industrialisation**

Angola appears to be sceptical of market liberalisation. Hence, the government does not want to ratify the SADC’s FTA protocol. Instead, it seeks to stimulate industrialisation and local production before lowering tariff barriers. It is sensible for the country to opt for a long-term framework of market liberalisation. When gradually opening only specific sectors (in closely monitored phases), the local industry players should be given sufficient time and resources to adjust their operations to the external reflexes.

Adopting selective levels of protectionism across industry is a means used to maintain an incubating environment for industrialisation, by legislating new policies and building regulatory structures. It is a common practice in developed countries and can be done successfully in developing countries. Nigeria, for instance, restricts the import of certain household products and even bottled water. In Angola, the protection should be done in an efficient manner that will not create new bureaucracy, but ultimately reduce bottlenecks. A systemic approach is thus crucial for disseminating the new procedures in manner where both the civil servants and the public become accustomed to the new practice.

Similarly, Angola should be cautious of opening its market to China. The current environment, where Sino-Angolan relations has led to an influx of Chinese imports used in the national reconstruction and development agenda, will have a detrimental effect on Angola’s industrialisation if it is not well managed. Not for lack of trying, Angola has porous borders that perpetuate asymmetry in the market. Border controls and customs must be modernised; and the staff require training. The prevalence of corruption and bribery in this area is detrimental, and exceptionally taxing on the SMME sector. Accountability structures could be instilled, but these will only be effective once there is more respect for the rule of law and an improvement to conditions of living.

**Maximising the Development Impact of FDI to stimulate the manufacturing sector**

FDI must be channelled into the manufacturing sector, where it can make a sustaining impact on the social and economic conditions in Angola. The government should look to encourage Chinese FDI into its manufacturing sub-sectors. Furthermore, ANIP must leverage the seven industrial development zones as ideal locations for
FDI. The incentives could be adjusted even more according to industry and location, to steer investment diversification into specific sectors and different parts of the country. Globalisation has had an immense impact on the dynamics of industrial activity and manufacturing. Developing countries must acknowledge the limitations of having to play catch-up and construct innovative means of including themselves in the global economy. Production-sharing is an ingenious model for industrialisation that protects domestic interest while simultaneously adapting to the shifting dynamics in the contemporary global market.

Through the CADFund, there is opportunity to increase Chinese FDI in Angola. ANIP should lobby the organisation to market potential business ventures in the country’s manufacturing sector. The prospective investors would bring capital investment and professional expertise required to jump-start operations. But ANIP should match them with local partners and / or a business plan that fits into the country’s priority sectors. By steering FDI, ANIP will play an active role in representing the country’s agenda for the manufacturing sector, thus ensuring it can maximise the development impact of FDI.

Leveraging Chinese FDI for Preferential Access to Chinese Market

As a least developed country (LDC), Angola has preferential access to the Chinese market. There are 466 products that Angola is eligible to export to China tariff-free, yet the country’s only exports to China are oil and diamonds. In addition to the above-discussed FDI in the manufacturing sector, which is predominantly market-seeking FDI, Angola could also leverage Chinese FDI into sectors that will export their outputs to the Chinese market instead of domestically. It will promote industrial activity in Angola, in an area that is currently under-utilised or underdeveloped. For China, this model would also serve to meet the consumer demand in its domestic market.

Fiscalização (surveillance and inspection) of Chinese FDI

The ‘fiscalização’ (process of due diligence) must be carried out on Chinese FDI, as well as on investments from other countries. Their operations should be monitored to ensure they comply with employment equity and promote Angolanisation. Investors seek to make profitable ventures, but must also become conscientious of their roles in the Angolan economy. There appears to be sufficient regulations in place to promote fiscalização, but the process should be better managed.

AFRICAN ECONOMIC RESEARCH CONSORTIUM (AERC)
CONSORTIUM POUR LA RECHERCHE ECONOMIQUE EN AFRIQUE

The African Economic Research Consortium (AERC), established in 1988, is a public not-for-profit organization devoted to advanced policy research and training. The principal objective is to strengthen local capacity for conducting independent, rigorous inquiry into problems pertinent to the management of economies in sub-Saharan Africa. In response to special needs of the region, the AERC Research Programme has adopted a flexible approach to improve the technical skills of local researchers, allow for regional determination of research priorities, strengthen national institutions concerned with economic policy research, and facilitate closer ties between researchers and policy makers. The Training Programme augments the pool of economic researchers in sub-Saharan Africa by supporting graduate studies in economics, as well as improving the capacities of departments of economics in local public universities. AERC is supported by donor governments, private foundations and international organizations. Further information concerning AERC and its programmes can be obtained from:

THE EXECUTIVE DIRECTOR
AFRICAN ECONOMIC RESEARCH CONSORTIUM
MIDDLE EAST BANK TOWERS, 3RD FLOOR
MILIMANI ROAD
TEL: (254-20) 273-4150 (PILOT LINE) / 273-4157 / 273-4163
FAX: (254-20) 273-4173
EMAIL: exec.dir@aercafrica.org
WEBSITE: WWW.AERCAFRICA.ORG

www.aercafrica.org