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

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Introduction and Problem Statement

China’s rapid and increasing economic and commercial relationship with sub-Saharan Africa (SSA) has received increasing attention, and there is a need for empirical research on the opportunities and challenges for African economies that reflect these deepening relations. The African Economic Research Consortium (AERC) has commissioned a series of country-case studies in order to understand the larger macroeconomic impact, the sector-specific impacts and most importantly the policy making implications and recommendations for individual SSA countries to maximize the benefits and to minimize the costs of their economic engagement with China. This is most relevant for the trade channels, where between China and Africa, trade increased from $6.5 billion in 1999 to $106.8 billion at the end of 2008, surpassing the $100 billion trade mark two years earlier than anticipated.

While the majority of countries have experienced growing trade deficits with China, importing enormous quantities of consumer goods, in addition to light manufactured goods and agricultural equipment, a smaller number of resource-rich countries enjoy mounting trade surpluses, notably due to their rich oil and mineral deposits. The top African trading partner of China is the oil-producing Angola, which has enjoyed a mounting trade surplus with China. Importantly, Angola’s exports to both China and other destinations in general do not conform to the normal patterns of supply and demand that we associate with global trade patterns. Oil is effectively the only export, and oil is the one global commodity where the supply and consequently international price is influenced by a production cartel (Organization of Petroleum Exporting Countries, or OPEC). Now that Angola is firmly a member of OPEC, oil production and oil exports are governed by Angola’s global quota. Thus China, while able to perhaps influence its share of this trade, has a limited influence over the export quantity of oil from Angola.

The objectives of this policy brief are to capture the extent to which impacts of China’s economic growth and the Sino-Angola trading relationship are transmitted to Angola, both positively and negatively, and to provide some policy advice as to how Angola may maximize the economic benefits and minimize the costs from this increasingly important trade channel. Particular focus of the study that informed this policy brief was on exports of Angolan oil to China and the importation of building and construction materials and equipment from China to assist with the Chinese development of Angolan infrastructure. While this relationship is not unique, it is the extreme case in so far as an African bilateral trading relationship with China is concerned. This creates a special set of issues and opportunities.

Method of Analysis

Compiling a comprehensive trade data base for Angola proved difficult, as Angola does not publish trade details. The approach was to use Comtrade ‘mirror’ data from partners for the aggregate flows and Chinese data to portray the Sino-Angolan relationship. We do caution, however, that is not ideal, as trade data seldom reconciles between importers and exporters, even in situations where both parties publish their data. This was followed by a background section which provides the setting of the key features and patterns of the evolution of the economic relations between China and Angola as a basis for achieving a fuller understanding of the Sino-Angolan relationship.

A literature review which looked at work on this topic by other authors who have researched similar questions related to the China-Angola trading relationship and the broader Sino-African trading relationship was evaluated.

The core of the report, the empirical analysis of the China-Angola trade relationship, was then presented. This
linked with the terms of reference for the original study, and provided an interpretation of the trade trends.

Finally, the paper addressed the policy implications in order to justify or improve the policies currently in place (where they are in place) or suggest new policy decisions where this is appropriate for Angolan policymakers. Again, given the surfeit of trade data and the very new nature and impressive growth of the Chinese relationship, it is important to caution that there is not a strong base to develop these trade policies from. This especially related to policies and incentives in Angola at the firm level, as these firm level relationships are not yet structured into the macro level.

The Findings

Angola has considerable resources of land, oil and fisheries in particular, but only a rudimentary manufacturing sector outside of oil production, itself a sector that operates virtually as an enclave within the country. Since the end of a thirty-year civil war in 1992, Angola has made significant economic progress. Yet, despite impressive oil-driven growth in recent years, with growth rates averaging around 20%, pervasive poverty and inequality remain and problems of infrastructure and governance and corruption persist. Impressive progress, however, is being made in the reconstruction of Angola’s transport infrastructure, funded by mostly public funds and oil receipts, but with significant contributions also from development partners, including China in particular but also Brazil. Oil and gas account for nearly 60% of GDP and diamonds another 2%, with the balance being services (16.9%), agriculture, forestry & fishing (8%), manufacturing (5.3%) and construction (4.9%). Data on GDP per capita expressed as PPP suggests an actual of $3,340 in 2004, to estimates of $4,802 in 2008 and forecasts of $6,117 by 2010. FDI inflows have been the second highest in Africa, attracted specifically into the oil sector, and in response to the oil export bonanza the external debt situation has remained stable while Angola has accumulated considerable (although recently falling) international reserves.

On the negative side however, there are disconcerting figures on indices such as the United Nations Development Programme (UNDP) human poverty index where Angola ranks 89th among 108 developing countries, and the UN estimates that 28% of the population is living in extreme poverty and another 40% are struggling to survive below the poverty line. There is a dual economy operating, with the dominant and enclave-isolated oil sector operating in a way that poses extreme challenges for income redistribution in a relatively poor economy that is only just coming to grips with its post-war redevelopment and settlement of millions of displaced persons. Meanwhile, corruption remains a challenge in Angola.

Angola’s trade profile with China

Figure 2 reiterates the relative share of Chinese trade in Angolan exports and imports as reported by Comtrade. It highlights clearly the importance of China as an export destination over the last five years in particular, and the steadily increasing role of China in Angolan imports. The 2008 data reports an export share of 37% and an import share of 16%.

Figure 3 uses Chinese trade data to show changes in Chinese imports from Angola and Chinese exports to Angola over the period 1995 to 2008 inclusive. The data, expressed by value, in US dollar millions, highlights that:

- from 2003 Chinese imports from Angola increased dramatically, from $1 billion to over $22 billion in 2008;
- Chinese exports to Angola amounted to under $200 million in 2004 but climbed to $2.93 billion in 2008; and that
- trade balances are clearly in Angola’s favour (by $19.4 billion in 2008).
Chinese imports from Angola are almost exclusively dominated by oil imports, as the share has not dropped below 99.9 percent of the total imports from Angola since 1998 (when it was 99.8%). The only other reported import of any consequence is diamonds. Figure 3 also clearly shows that the Chinese exports to Angola are significantly lower than Chinese imports from Angola, but over the last three years these exports have increased dramatically from a low base. Chinese exports to Angola are much more diversified, but the outstanding feature is that, except for some vehicles, all the main imports are direct construction or construction related goods.

Policy Implications

The dramatic increases in trade between China and Angola have been entirely driven by oil exports, accentuated by the price spike of 2008. The main gainer from these exports on the external side has been China, and China itself was a factor in promoting the increased commodity and specifically oil prices through its dramatic economic growth. Increasing bilateral trade has been coupled to the complex interaction between Chinese investment in Angola, as well as loans and financing which in turn have also underpinned the country as an increasing export destination for China. China sees the security of supply as a major factor in its relationship with Angola.

In terms of Angola’s import profile, the displacement of European imports by Chinese products has been visible, but as reported by Campos and Vines (2008) the Angolans see this as a price factor. At the micro level the gainers and losers are hard to assess. There does not appear to be significant redistribution spillovers (yet) from the increased exports, and there is a need to assess the relative gainers from oil exports amongst the players of oil companies specifically, the Angolan Government in aggregate and the ruling elite within that government and the general population.

Overall, China offers Angola a new model of cooperation, while Angola provides China with oil and construction projects. Is there a downside to China’s competitiveness on Africa often reported are the fact that 1) African countries face tough competition from China in third markets, and that, although less understood, 2) China’s competitiveness in the industry reduces domestic prices for both industry inputs and domestic consumers in African importing countries. Studies have shown that China has significantly reduced world prices for manufactures, and especially for wearing apparel and footwear. This in turn has and is displacing the clothing exports of the African countries, but as a consequence of China’s export growth countries have seen a substantial reduction in their import prices across all manufacturing sectors. However, estimations of their terms-of-trade effects suggest that generally the reductions in

Figure 2: Historical percentage share of China in Angolan trade

![Graph showing the percentage share of China in Angolan trade from 1998 to 2008.](source: Comtrade)

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Figure 3: Chinese bilateral trade with Angola, $ million

![Graph showing Chinese bilateral trade with Angola from 1995 to 2008.](source: World Trade Atlas data (as reported by China Customs))
export prices for manufacturing goods outweigh the decrease in import prices and for county case studies as in Villoria (2009), these countries therefore were net losers from Chinese manufactures export expansion. We would suggest that since (a) Angola is a large net exporter and (b) as it has no industrial base, this is not a factor for Angola to consider as yet.

The hypothesis is that prices of exports to Angola, being a poorer developing country, will be marginally lower than the average price to the world as the quality of the goods exported to Angola may similarly be marginally lower than those exported to the rest of the world. Our assessment using Chinese export data to Angola during 2008 is that the average price was marginally (6%) above the average price for Chinese global exports to the world on a trade-weighted analysis. Based upon this we reject the hypothesis that China is exporting inferior quality goods to Angola. The accusation that imports from China may be hazardous on account of low quality should be answered by pointing out how China has become the global benchmark for lightly manufactured goods. Price may have been a factor in establishing this dominance, but it is difficult to argue that price is the only factor.

We believe that Angola is handling its relationship with China very adroitly given the recent background of this relationship during a very short post civil war period that has been characterized by an almost acrimonious relationship with the IMF in particular and Western agencies in general during a period of oil price spikes and a doubling of oil output in the now-constrained OPEC quotas. We see little to suggest that Angola should change its current policy stance. In particular, we note from the WTO (2006) that in the secondary sector Angola is implementing programmes and measures aimed at the development of competitive export industries and import substitution industries, the promotion of industry and the provision of assistance for small and medium sized industries the restoration of competitiveness and the creation (and restoration) of infrastructure. We note that this needs to be enforced and that the Chinese involvement in the latter aspect of infrastructure development is important.

The overwhelming conclusion from our analysis of Angola’s trading profile and performance is that its exports are (a) determined by oil exports and will be in at least the medium-term future, (b) the value of these oil exports is determined almost solely by the cartel-controlled OPEC quota, a quota in which Angola itself as a member of OPEC has some influence upon, and finally (c) that the oil trading relationship with China is a complex one in that it is inexorably linked to Chinese investment, development assistance and ‘economic cooperation’ in Angola. Thus, the crucial export performance question becomes one of future oil prices. Oil prices lead to a very simple mathematical adjustment in total Angolan export revenues as (a) oil is the only significant export product and (b) the supply is fixed. Yet we do note that, in consultation with OPEC, and with recent crude oil discoveries, including ultra deepwater discoveries, Angola’s oil production is likely to increase in the next few years. A pragmatic and appropriate policy response already seems to being adopted by Angola.

A fundamental and inescapable issue of governance remains in Angola. Without being judgmental, we would suggest that efforts to address governance and transparency must be on the table along with an increased effort to ensure that the benefits of oil wealth are more evenly distributed.

Reflecting upon import policy and performance we see little in the way of changes that Angola might adopt. Luanda has been cautious in its approach to the Economic Partnership Agreement (EPA) with the EU and appears to be conscious of the inherent and associated dangers of trade diversion away from the world reference priced import source(s) of China in particular. Our analyses suggest that the concern of China flooding Angola with cheap and substandard quality imports has little validity, and support the thesis that consumers are more than capable of making rational choices in the market place on such price-quality trade-offs. More especially for Angola the Chinese imports are concentrated upon infrastructural equipment and supplies, and these are largely related to the construction supply chain, and thus in support of Chinese companies themselves. Here we suggest that the quality of the Chinese construction work is of at least an appropriate standard, and that it really is up to Angola itself to leverage more capacity building from the Chinese construction programmes.

Bibliography