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The Oil Factor in Sino–Angolan Relations at the Start of the 21st Century

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South African Institute of International Affairs

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ABSTRACT

Even though trade figures are the most impressive feature of Sino–Angolan bilateral relations after 2002, the main reason why China's engagement in Angola has been attracting so much attention from scholars, the media and politicians is the fact that its presence in Angola is most evident in the sectors that have been driving Angola's rapid economic growth in recent years, which are infrastructure construction and the oil industry.

While Chinese firms' stake in Angola's reconstruction is mostly a product of Beijing's credit lines to Luanda, Chinese participation in the oil sector is emerging mostly through direct investment. It is worth bearing in mind, however, that bilateral trade is dominated by Chinese oil imports and that even Chinese credit lines for infrastructure remain closely linked to China's interests in the Angolan oil sector, since, firstly, they are guaranteed by oil supply contracts and, secondly, because of the goodwill these loans generate among the Angolan political elite that controls the oil concessions. This fact may give a clearer insight into the critical relevance of the oil factor for Beijing in this relationship.

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ABBREVIATIONS AND ACRONYMS

AGIP/ENI	Azienda Generale Italiana Petroli (AGIP) is a subsidiary of Ente Nazionale Idrocarburi S.P.A. (ENI)
b/d	barrels per day
BNA	Banco National de Angola (National Bank of Angola)
BP	British Petroleum plc
CDB	China Development Bank
CIF	China International Fund
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
CSIH	China Sonangol International Holding Ltd
DAC	Development Assistance Committee
DRC	Democratic Republic of Congo
EIU	*Economist* Intelligence Unit
Exim Bank	China Export–Import Bank
FDI	foreign direct investment
FNLA	Frente Nacional para a Libertação de Angola
GRN	Gabinete de Reconstrução Nacional (National Reconstruction Office)
IMF	International Monetary Fund
MINFIN	Ministry of Finance (Angola)
MINPET	Ministério dos Petróleos
MOFCOM	Ministry of Commerce (China)
MPLA	Movimento para a Libertação de Angola
NBS	National Bureau of Statistics
NOC	national oil company
ODA	official development assistance
ONGC	Oil and Natural Gas Corporation Limited
PRC	People's Republic of China
Sinopec	China Petroleum and Chemical Corporation
SSI	Sonangol Sinopec International
UNITA	União Nacional para a Independência Total de Angola

HISTORICAL BACKGROUND OF BILATERAL RELATIONS

Taking into account that the political regimes in both countries have remained constant for decades, compounded by the fact that Angola has been under the rule of President José Eduardo dos Santos for 30 years, it is necessary to have an historical understanding of how relations between China and Angola have evolved over time in order to fully grasp the changing features of Sino–Angolan relations.

Beijing's ties with Movimento para a Libertação de Angola (MPLA), the party in power in Angola since independence in 1975, were not always good. China's controversial involvement in Angola's liberation war in the 1960s and 1970s put a dent in its relations with the MPLA and MPLA-controlled post-independence Angola. Although at first China approached the MPLA, the largest liberation movement, Beijing soon decided that it was too urban based and pro-Soviet. As a result, Beijing switched its support to Frente Nacional para a Libertação de Angola (FNLA) in 1963. Chinese relations with the FNLA were strained by the fact that Chinese delegates were not allowed in the Democratic Republic of Congo (called Zaire at the time), where the movement was based. In 1964, Beijing switched again and started supporting União Nacional para a Independência Total de Angola (UNITA), formed by a rebel group that had split from the FNLA. Its leader, Jonas Savimbi, underwent military training in China in 1964 and 1965 before the formal establishment of UNITA in 1966. Unlike the MPLA and FNLA, UNITA sought support from indigenous sources and started to build internal bases, proclaiming Maoism as its doctrine. However, in the early 1970s, China abandoned UNITA to approach again, firstly, the MPLA and then the FNLA. After Angola's formal independence in 1975 and the onset of civil war, Beijing covertly supported both the FNLA and UNITA in an effort to prevent the victory of the Soviet-backed MPLA.[1]

Following the gradual improvement of Sino–Soviet relations in the early 1980s, Beijing–MPLA relations resumed and diplomatic ties were formally established on 12 January 1983. In the following year an inconsequential trade and co-operation agreement was signed and in 1988 the mixed Economic and Trade Commission was set up, which remained mostly inactive until the turn of the century.

In the 1980s and 1990s, due to Angola's volatile domestic situation, Sino–Angolan relations were, naturally, dominated by military co-operation. In the 1990s the relationship was rattled a few times by the discovery of Chinese arms in UNITA's possession. China always denied any involvement and UNITA seems to have confirmed an indirect acquisition.[2]

It was only in the 2000s that conditions in both China and Angola were ripe for taking bilateral relations to a new level. The launch of China's 'Going Out' policy coincided with the end of the civil war in Angola in 2002, setting the stage for the expansion of Sino–Angolan economic relations in the following years. In this new phase, bilateral relations have been marked by an astoundingly rapid intensification of political and economic exchanges, as indicated by frequent state visits and rapidly expanding trade flows. Furthermore, and signalling the growing weight of economic co-operation in the two countries' bilateral relations, the dormant Economic and Trade Commission was reactivated and meetings were held in 1999, 2001, 2007 and March 2009.[3]

Due to Angola's internal turmoil and the marginal importance of the relationship for both countries until the early 2000s, official visits and exchanges prior to that date between the countries were not very frequent. Nevertheless, some important Chinese state officials did visit Angola, including Qian Qichen (foreign minister, who visited Angola in August 1989), Zhu Rongji (vice premier, August 1995) and Tang Jiaxuan (foreign minister, January 2001). Reflecting the changing context, the exchange flow has clearly intensified since 2002. Among other high-ranking Chinese officials, Angola welcomed Zeng Peiyan (vice premier, February 2005), Wen Jiabao (premier, June 2006), Chen Deming (minister of commerce, January 2009) and Jiang Zengwei (vice minister of commerce, March 2009), and numerous delegations from Chinese banking institutions (China Export–Import Bank — Exim Bank; China Development Bank — CDB) and entrepreneurs. On Angola's part, visits to China took place mostly in the 2000s, and among various other state representatives, F. Piedade dos Santos (former prime minister) paid an official visit to China in 2006 and President dos Santos visited China in October 1988, October 1998 and twice in 2008 — in August for the Olympics inauguration and again in December 2008, clearly reflecting the new relevance of the partnership with Beijing.

In sum, there have been three distinct phases in Sino–Angolan bilateral relations: (1) prior to the establishment of diplomatic ties (1975–83); (2) between then and the end of the civil war (1983–2002); and (3) from then onwards (2002–the present). In the first phase, as discussed above, Beijing–MPLA relations can be said to have been mostly traumatic, but gradually evolved towards acknowledgement and rapprochement in the following phase. This was in part facilitated by the simultaneous changing of the guard in both regimes (with the rise to power of Deng Xiaoping in China in 1978 and Dos Santos in Angola in 1979), which in some way contributed to the move away from strained memories from the time of the liberation war.

In the post-conflict phase, a platform of growing complementarities emerged, characterised by China's growing thirst for oil and swelling financial might, on the one hand, and Angola's national reconstruction needs and rising crude oil production, on the other. In this framework, Beijing rapidly positioned itself to assume an increasing role in Angola's oil sector.

SETTING UP A FAVOURABLE BILATERAL ENVIRONMENT IN THE POST-WAR SETTING

As part of China's strategy to return to Africa, Beijing decided to foster closer ties with the second-largest oil producer in sub-Saharan Africa and the owner of promising oil reserves. As part of its efforts, China intensified trade flows, extended large concessional loans and assumed a central role in the reconstruction of Angola after its prolonged war.

Enhancing bilateral co-operation

Unlike its African neighbours, who have been benefitting from Chinese assistance since the 1960s, Beijing's co-operation with Angola is very recent. It was only in the early 2000s that China began to work with Angola in health, education and agriculture. These co-operation efforts mostly occurred following the first oil-backed loan package signed with Exim Bank in 2004 (discussed below).

The largest hospital in the country, Hospital Geral da Província de Luanda, was rehabilitated with a grant from the Chinese government.[4] Within the framework of Beijing's concessional loans, Chinese companies have been constructing and rehabilitating a large number of the existing health centres and hospitals around the country. Additionally, a number of Angolan doctors are pursuing postgraduate studies in China with Chinese grants.[5] Furthermore, an agreement was signed in 2005 with the Chinese Ministry of Health (International Co-operation Department) for China to send Chinese medical teams (18 doctors for terms of two years) and donate much-needed medicines.[6]

With respect to education, the Chinese government grants ten scholarships a year to Angolan students to study in Chinese universities, while the Macau Foundation offers five scholarships to Angolans to pursue studies in Macau. Interestingly, there are insufficient applications for the scholarships and not all are allocated every year.[7] By the end of 2007, 68 Angolan students were in mainland China pursuing a university diploma and seven more in Macau. For 2008 the Chinese Ministry of Education had a quota of 36 scholarships to award to Angolan students.[8] In addition, several Angolan administrative cadres enrol every year in short-term human resources development courses in China and Macau as part of the activities promoted by the Permanent Secretariat of the Macau Forum (423 students were enrolled in the period 2003–08).[9] Finally, and also within the framework of the Chinese credit lines, Chinese firms have been building or rehabilitating several polytechnic institutes and universities in the main urban centres of Angola, including Universidade Agostinho Neto in Luanda, which is the main public university.

Agriculture is also an area that has benefitted from Chinese credit lines. China has been financing equipment acquisition and irrigation projects in Angola's major agricultural provinces of Huíla, Huambo and Moxico. In December 2008, during Dos Santos's last visit to Beijing, a memorandum of understanding was signed to send Chinese technical teams to help develop cereal crops.

Despite not having military attachés in their respective embassies, military assistance is the oldest form of co-operation between Angola and China. Co-operation consists mainly of the acquisition by Angola of Chinese equipment and training for Angolan forces, including the air force, conducted mostly in Angola by Chinese officials.[10] Additionally, China has also been assisting in the removal of land mines all over the country, having promoted a short-term course on the topic in Beijing in 2007 attended by Angolan, Mozambican and Guinea-Bissau officials.[11]

In light of the growing movement of people between Luanda and China over the last few years (over 40 000 visas were issued to Chinese nationals in 2008 alone), both governments negotiated for almost two years to establish a direct air link between Luanda and Beijing. The link was formally inaugurated in February 2009 and flights take place twice a week. These are currently operated by the Angolan airline TAAG. An additional direct flight is being planned that will connect Luanda and Guangzhou in the south of China.[12] The new flight is set to reduce the large numbers of passengers that are now flying via Ethiopia and South Africa.

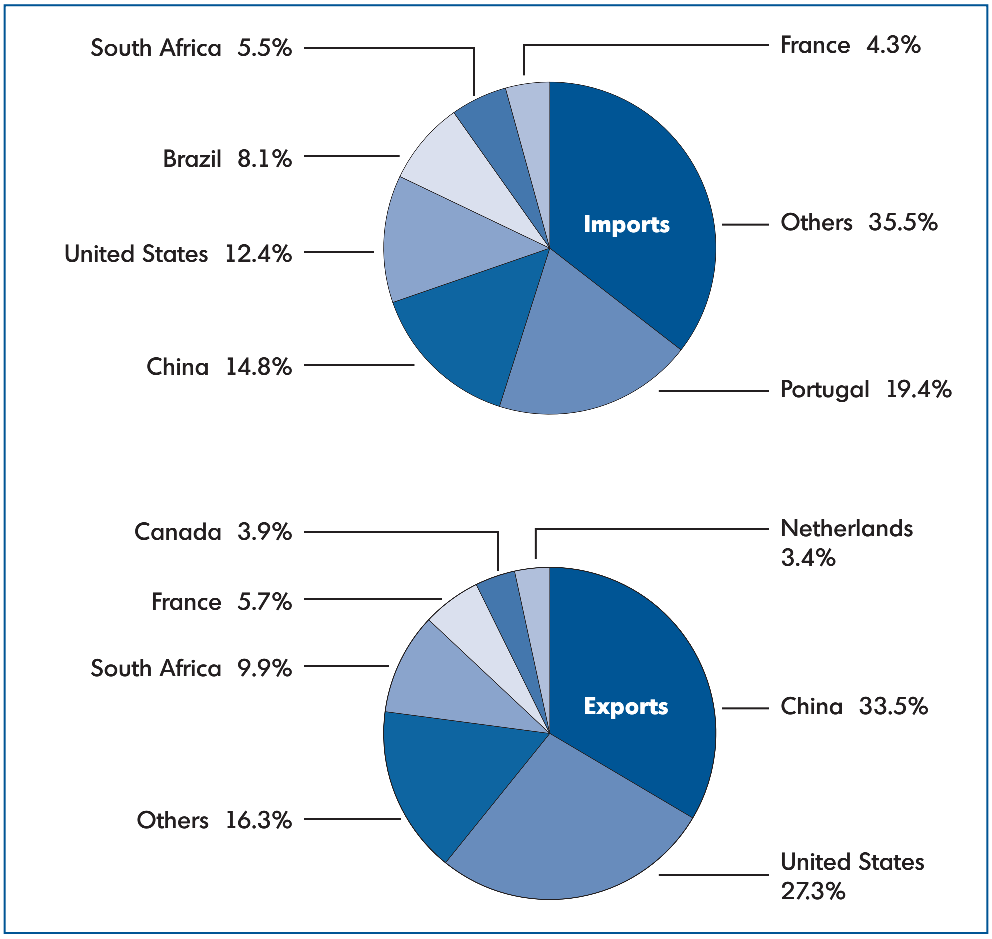
Despite a late start, Chinese co-operation has been successful, building up a very positive image of China in Angola, particularly among the political elite. Even though China's co-operation aid is still small when compared to that of Western donors, its non-conditional nature undoubtedly makes it more appealing to Angola's government.

Nevertheless, the rapid rise in bilateral trade flows in recent years remains by far the most notable feature of the increasingly intense relations between Luanda and Beijing.

Expanding bilateral trade

Bilateral trade between the two countries reached $25.3 billion in 2008, up from $1 billion in 2002.[13] Moreover, in this short period of six years, Sino–Angolan trade relations achieved a dramatic level of interdependency. Not only did Angola become China's major trading partner in Africa in 2006, displacing South Africa, but China is now Angola's major trading partner, replacing the US, which had occupied that position throughout most of the country's modern history.

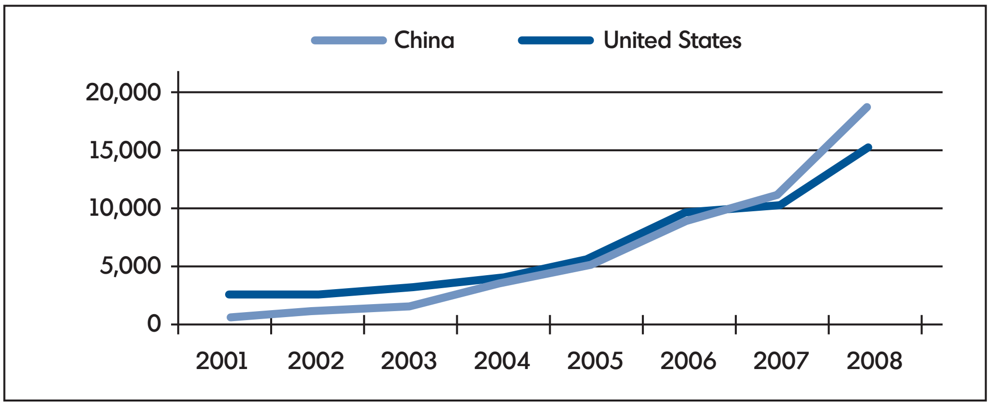
Figure 1: Angola's imports and exports, by country, 2008



Source: *Economist* Intelligence Unit (EIU), *Angola Country Report*, September 2009, http://www.eiu.com/.

The lion's share of bilateral trade is made up of Chinese oil imports, which in 2008 represented 72% ($18.6 billion) of total bilateral exchanges. In 2007 China became Angola's main oil export destination, absorbing 26.3% of its total export value, against 24% going to the US.[14] China's share expanded to 29% in 2008, while the US share was maintained at the same level.[15] The phenomenal rise in bilateral trade is thus a direct consequence of the rapid expansion of China's oil imports from Angola, which is particularly evident after 2004 (the year of the first credit line), clearly illustrating the driving force sustaining China's thriving relationship with Angola. Since then, Angola has temporarily overtaken Saudi Arabia as China's largest oil supplier on two occasions, initially in the first quarter of 2006 and again in the same quarter of 2008.[16] Furthermore, in 2008 Angola exported 596 000 barrels per day (b/d) to China, representing 14% of the latter's global oil imports.[17]

Figure 2: Angola's oil exports to the US and China, 2001–08 ($ millions)



Source: BNA (Banco National de Angola / National Bank of Angola), *op. cit*.; BNA, *Boletim Estatístico 2000–Junho/08*. Luanda: BNA, 2008; Ministério dos Petróleos (MINPET), *op. cit*.

Although representing only a tiny share of the value of its oil exports to China, Angola's imports from China have also been rising at a rapid pace, particularly in the last couple of years. They more than doubled from 2007 to 2008 ($1.2 billion to $2.9 billion), contributing to China's rise from Angola's fourth-largest (with a share of 9.5%) to second-largest source of imports in just one year.[18] Angola's imports from China are to a great extent a collateral effect of China's oil drive, since the bulk of imports is composed of construction materials and equipment used in Angola's reconstruction, as part of the Chinese oil-backed loans granted since 2004. According to the National Trade Department (Direcção Nacional de Comércio) of the Angolan Ministry of Commerce, over two-thirds of Angolan imports from China are construction materials, machinery and vehicles, the remaining being accessories, electrical appliances and furniture.[19]

In this context, Angola has been enjoying a sustained and expanding trade surplus with China, which was over $19 billion in 2008. According to information posted on the Chinese Ministry of Commerce (MOFCOM) website, Angola ranks fourth in the list of the top ten sources of the Chinese trade deficit, after Taiwan, South Korea and Japan.[20]

The 2008/09 global economic crisis had a strong impact on bilateral trade flows, especially since they are dominated by Chinese oil imports. One expects the value of the bilateral trade to decline in 2009 as a result of the combined impact of the oil price plunge and the cuts in production imposed by the Organisation of Petroleum Exporting Countries. By January 2009, according to Chinese official statistics, the value of Chinese oil imports from Angola had already fallen 54% in relation to the same period of 2008.[21] The significant decrease in terms of absolute value does not necessarily mean a decline in the total volume of Chinese oil imports. This is a circumstantial phenomenon and should reverse itself as the world economy recovers.

Figure 3: Sino–Angolan trade, 2001–08 ($10,000)

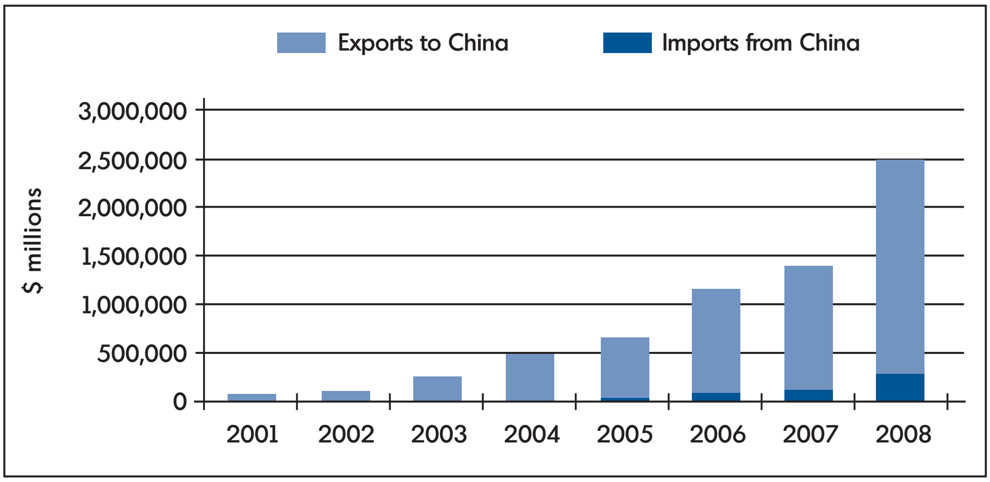
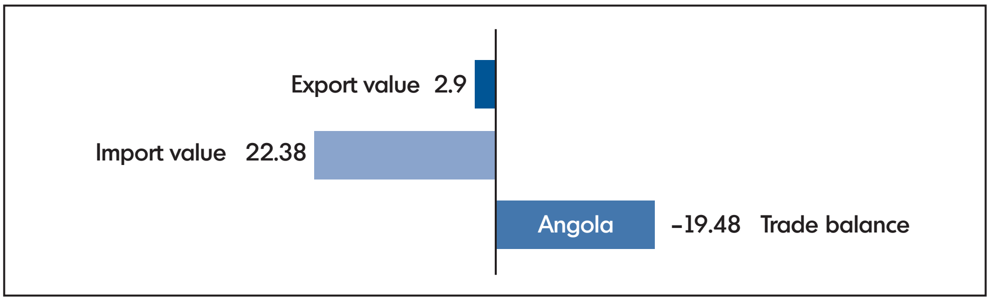


Figure 4: Sino–Angolan trade balance, 2008 ($ billions)



Source: MOFCOM, http://www.mofcom.gov.cn; General Administration of Customs of the People's Republic of China (PRC), *China Customs Statistics*, *Hong Kong: Economic Information and Agency*, various years/months, http://www.jdonline.com.hk; NBS (National Bureau of Statistics) of the PRC, *China Statistical Yearbook*. Beijing: NBS, 2003–09.

Extending generous credit lines

From Beijing's perspective, Angola has also been one of its most successful and least troublesome partners in the region. Because of its stability and significant oil reserves, Angola has been one of the major African beneficiaries of China's financial largesse. In fact, this feature of the relationship has helped to establish the pattern of resource collateralised loans that has become one of the most distinctive characteristics of Beijing's engagement with Africa in the present decade.

China's official co-operation with Africa is dominated by concessional loans that are granted by its major banks (Exim Bank; CDB) to construct or rehabilitate infrastructure. This kind of financial assistance, secured by Chinese access to natural resources, which comes tied to the procurement of goods and the participation of contractors from China, came to be known as the 'Angola model'. This model reflects the eminently pragmatic nature of China's assistance and is designed to benefit both the lender and the borrower, fitting into the 'win-win co-operation' and 'mutual benefit' models that Beijing employs. This formula, however, is not exclusive to China, as other developing countries investing in the region, e.g. India, have been using the same approach, and even before that Western countries had resorted to similar financial instruments.

China's financial assistance to Angola, and to Africa in general, often falls into a blurred area between official development assistance (ODA) and commercial loans. On the one hand, it does not completely fit the Western notion of ODA as defined by the Organisation for Economic Co-operation and Development's Development Assistance Committee (DAC).[22] Despite the fact that it is undertaken on a state-to-state basis and with the purpose of the long-term economic development of the recipient country, China's aid differs in that it does not have the required 25% grant element prescribed by DAC, and China is not a traditional donor, because it is not a developed country. On the other hand, because the interest rate is subsidised by the central government (and hence makes these concessional loans), Chinese credit lines are not regular loans, as the interest rate at around 1.5% is much lower than standard commercial loan rates (around 10%). Furthermore, China's soft loans to Angola are backed by oil supplies and fall into the category of tied aid, since they presuppose the procurement of goods and services in China. This specific feature, however, as noted above, is not exclusive to the Chinese, as other Angolan partners like Portugal and Brazil have been doing the same thing.

Soon after the peace accord was signed in April 2002, Angola's diplomacy focused its efforts in promoting a donors' conference in order to get funding for much-needed reconstruction. Its efforts, however, were undermined by Luanda's poor relations with the International Monetary Fund (IMF). In 2003 Angola tried to obtain the required funds by approaching several countries directly, including South Korea and Japan. These countries, however, demanded from Angola an improvement in relations with the IMF.[23] It was under these difficult circumstances that Beijing took the initiative to approach the Angolan government.

In 2002 the China Construction Bank and Exim Bank funded infrastructure projects, namely the first phase of Luanda's railway rehabilitation and electrical grid projects in four cities, valued at over $150 million.[24] In mid-2003 the Chinese government proposed large concessional loans targeting infrastructure, backed by oil, which were implemented after the negotiations that started soon after.

The public arm: Exim Bank credit lines

According to the office responsible for running the Chinese loans in the Angolan Ministry of Finance (MINFIN),[25] three loan agreements have been signed with Exim Bank worth a total of $4.5 billion. The first one, for $2 billion, was signed in March 2004 for infrastructure construction and rehabilitation. A second one, for $500 million, was signed in July 2007 to finance complementary works required to finish the projects started under the first credit line. A third agreement was signed in September 2007 for another $2 billion. The credit lines were given to finance the projects listed in the government's Public Infrastructures Programme. The loan is managed as a current account of the Angolan government at Exim Bank in Beijing. Disbursements are made on a project-by-project basis. The tendering, management and payment of projects are jointly managed by MOFCOM and MINFIN (MINFIN co-ordinates the ministries undertaking the projects in Angola).[26]

According to the former Angolan finance minister, the first $2 billion loan was mainly spent on projects related to energy and water supply, as well as education, with these sectors benefitting by between 18% and 20% of the first consignment.[27] The bulk of the complementary works batch was directed to health (31%) and education (18%).[28] The remaining $2 billion loan (the third phase, which is being disbursed at present) is to be spent on integrated infrastructures (in Malange, Zaire and Cabinda provinces), roads and transportation (rolling stock for railways; urban public transportation) and most of the contracts are still being negotiated or in the tendering process.[29]

Under the current agreement, 30% of the work should be subcontracted to local companies. The combined loan of $4.5 billion was originally to be repaid over 17 years, following a grace period of five years, with an interest rate of Libor[30] + 1.5% (later reduced to 1.25%) and to be repaid through receipts of contracts for oil sales of 10 000 b/d in the first two years of reimbursement and 15 000 b/d thereafter, to be channelled through the National Bank of Angola, the guarantor of the loan.[31] The oil-backed loan was brokered in London through McKinsey consultancy. Changes to the initial agreement are hard to track, but in light of the current sharp fall in oil prices (from $140 per barrel in mid-2008 to $40 in early 2009), the amount of oil barrels a day in the supply contract linked to the loan is most likely to have been increased, with this issue having allegedly been addressed during President dos Santos's visit to China in December 2008.[32] Although the new figure has not been disclosed, rumours put it at 100 000 b/d.

The management of the Exim Bank credit line has become increasingly transparent, especially since the emergence of allegations of mismanagement in 2004 and 2007. The latter allegations were particularly damning because they involved a former close ally of the president who was charged with insubordination.[33] This led MINFIN to issue a press release on the topic and to post detailed information on its website concerning the Chinese dossier, including the number of projects, their value and their progress status.

The Exim Bank credit line materialised at a particularly important time when the Angolan presidency was facing enormous difficulties in obtaining loans to fund the country's reconstruction following the end of the war in order to ensure its control over the country. In addition, this unexpected cash came with no conditions (e.g. improvements in transparency, better governance, democracy, etc.) and offered more favourable terms to Angola than similar loans granted by Western countries.

The private arm: China International Fund

Another large Chinese credit line to Angola started to take shape in late 2004/early 2005 through a private fund based in Hong Kong, the China International Fund (CIF).[34] This credit line was set up to fund projects under the Angolan National Reconstruction Office (Gabinete de Reconstrução Nacional — GRN).

According to some reports, the establishment of the GRN in 2004 followed a visit by MINFIN officials to Beijing.[35] It is said that at the time the Chinese Secret Services showed concern over alleged illegal rent seeking by Angolan officials involving the Exim Bank credit line.[36] The GRN's main purpose is to administer the bulk of the public works as part of the government's national reconstruction programme. The GRN is under the direct control of the Presidential Office and is headed by one of Dos Santos's closest allies from

Casa Militar (the central army institutional structure under his direct control), General Helder Vieira Dias, also known as 'Kopelipa'.

CIF is apparently led by Hong Kong-based tycoons with unclear links to Chinese intelligence and state-owned enterprises, Sonangol,[37] and a Lusophone financier.[38] Its loan to Angola stands out for the opacity of its financial records and project management processes. Nevertheless, in a press release published in October 2007, MINFIN announced that the first batch of this fund totalled $2.9 billion and was contracted according to the same terms as those of the Exim Bank loan and was thus directed to infrastructure, tied to Chinese contractors and oil backed. According to the World Bank, CIF's credit totals $9.8 billion.[39]

Most of CIF's construction projects (see below) came to a halt in late 2007, allegedly due to unrealistic planning.[40] CIF apparently failed to consider logistic constraints like the insufficient capacity of Angolan harbours to cope with a sharp increase in port traffic, which resulted in a shortage of construction materials like cement. Most importantly, there seem to have been significant disbursement problems at CIF.[41] CIF's problems forced MINFIN to issue short-term debt titles worth $3.5 billion[42] in 2007 and 2008 to pay Chinese companies undertaking the contracts and allow them to resume works. The relative success of this measure led MINFIN to announce in late March 2009 the issuing of medium-term treasury bonds as a means to ensure funding for national reconstruction in the context of the current (2009) global economic crisis.[43] Since then, CIF has been striving to honour its financial commitments and complete all the flagship infrastructure projects for which it is responsible.

Despite CIF's recent efforts, its inability to meet its commitments has raised concern among the political elite in Angola[44] and in China, particularly within MOFCOM, which repeatedly highlights that CIF is a private fund that is neither controlled nor well regarded by Beijing.[45]

Reinforcing the public arm: New Chinese credit lines in the making

Problems with CIF together with the onset of the global financial downturn have created a setting in which the Chinese government has been able to consolidate its role as an important provider of funds to Angola. In Luanda in August 2008 CDB signed a framework agreement with the Angolan government to provide a third credit line.[46] During a recent visit of CDB's president to Luanda to settle the final details, it was disclosed that this credit line is to be directed to infrastructure (social housing in Cazenga and Camama, transport, and telecommunications) and agriculture development (mainly cereal crops and agro-industry projects).[47] Although CDB had been expressing its willingness to participate in Angola's reconstruction effort, it is significant that it was only following the crisis that it finally was able to give a line of credit to Angola. The amount involved has not been officially disclosed, but purportedly there will be an initial batch of $1.5 billion, which is expected to be extended in the following years.[48] Allegedly, this credit line is not to be backed by oil supply[49] and still needs the authorisation of Sinosure (China's official export credit insurance agency).[50]

Negotiations for a new credit line from Exim Bank were concluded in August 2009 in Beijing,[51] allegedly providing the Angolan government with an additional $6 billion for infrastructure development. Like the previous loans, this loan is tied to an oil supply contract, the details of which remain classified.[52]

These new credit lines had ultimately a dual goal: firstly, to 'clean up' China's image after the CIF debacle and, secondly, to boost Angola's goodwill towards China in the wake of a new oil licensing bid.

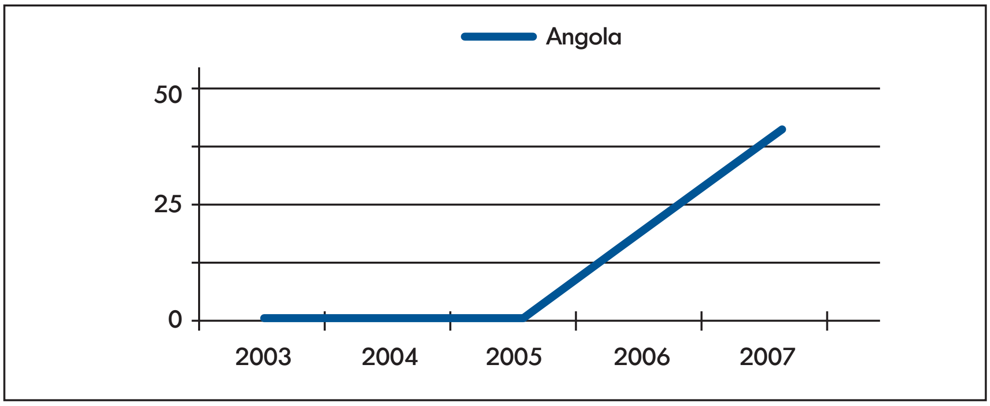
The combined total of the new loans is $7.5 billion, which, added to the previous $4.5 billion, makes up a total sum of $12 billion in public funding for Angola from China. These new developments are unmistakably a signal of China's willingness to reinforce its economic partnership with Angola and to balance the relationship in the former's favour.

The fact that President dos Santos visited Beijing twice in the second half of 2008[53] (his last visit was in 1998) is a clear sign of Beijing's growing importance, particularly in the context of the global economic crisis. Indeed, the main aim of Dos Santos's visit to China in December 2008 was to ensure the continued flow of Chinese funds. The response was very positive. Premier Wen Jiabao guaranteed that China would not reduce its financial assistance[54] and President Hu Jintao even introduced four proposals[55] to deepen co-operation and further extend bilateral exchanges. Dos Santos's visit was followed shortly by the visit of China's minister of commerce, Chen Deming, to Luanda in January 2009. During his stay, he restated that China would not only honour previous financial commitments, but would also further strengthen its co-operation with Angola in a variety of sectors, including oil, construction and agriculture.[56]

Playing a central role in Angola's reconstruction

In the last five years, China has played a major role in Angola's national reconstruction effort as the single largest external source of funding (through Exim Bank and CIF). Benefitting from China's generous oil-backed loans and its political support, Chinese companies have made impressive inroads into the construction sector in post-conflict Angola. In fact, if one excludes oil, over half of Chinese foreign direct investment (FDI) in Angola is directed to the construction sector, followed by light industry, retail and transport.[57]

Figure 5: Chinese FDI in Angola, 2003–07 ($ millions)



Source: Department of Outward Investment and Economic Co-operation, MOFCOM, *2007 Statistical Bulletin of China's Outward FDI*, http://hzs2.mofcom.gov.cn/aarticle/statistic/200909/20090906535723.html.

According to Angola's National Private Investment Agency, Chinese investment in construction in Angola rose at a rapid rate in recent years, but still pales in comparison to that of traditional investors such as Brazil and Portugal.[58]

As with the oil sector, most of the Chinese companies in the Angolan construction sector (mostly parastatals) entered the Angolan market in the framework of the first Exim Bank loan in early 2004. Encouraged by political stability and rapid economic growth, some have established headquarters in Luanda and started venturing outside the areas covered by the Chinese credit lines, further expanding China's presence in the country's construction sector. Among these are China Road and Bridge Corporation, China State Construction Engineering Corporation, China Guangxi International Construction and China Jiangsu.

Much like in the rest of Africa, China seems to be particularly keen on delivering prestigious infrastructure projects such as the rehabilitation of the MINFIN building, the High Court and various convention halls, as well as infrastructure for the population at large, like hospitals, schools and stadiums.[59] Additionally, its engagement in housing, the transportation network, water supply, and electrical grid improvement and extension has had a wide impact in improving local living standards. The fact that Chinese construction projects have also been completed within (or even before) the allotted time and within (or below) budget has certainly enhanced China's political capital, maximising goodwill among the Angolan government and the general population vis-à-vis China.

The CIF is presently undertaking the most prestigious public works, through various Chinese public and private enterprises. It is rehabilitating the three railway lines that run eastwards from the three main ports on the coast (Luanda, Lobito and Namibe),[60] which are scheduled to be fully operational in 2010/11. The Benguela railway links Angola to the Copper Belt area in the Democratic Republic of Congo (DRC) and Zambia,[61] where China has strong mining interests. The Benguela railway is by far the shortest and fastest way to transport commodities from this area out of the continent. The Moçamedes railway, which links the port of Namibe to the mineral-rich Huíla (iron ore) and Cuando Cubango (copper, iron ore and diamonds) provinces, is planned to connect with Namibia's railway network and the Benguela railway in the north.[62] Rolling stock for the Moçamedes railway and staff training were left out of the Chinese contract and handed over to an Indian company as part of New Delhi's credit line to Angola.[63]

Other projects being run by the CIF include road rehabilitation;[64] the construction of 215 000 housing units in Luanda and in 17 other provinces; the construction of the industrial zone of Luanda (in Viana) and the new Luanda airport; and studies for the hydroelectric power project on the Kwanza River, the New Luanda City project and the new administration complex in Luanda.[65] The new airport, located between Viana and Bom Jesus (40 kilometres outside Luanda), is projected to have the largest operational capacity (for both passengers and cargo) in sub-Saharan Africa and is a clear attempt on the part of Angola to make it the region's air traffic hub,[66] in line with Angola's ambition to become a regional power.

Unlike with oil, where the largest Chinese investments have been made, Chinese involvement in the construction sector puts China directly under the public spotlight, mostly because of the publicly visible presence it entails in terms of Chinese labour, equipment and the products delivered, making it more prone to criticism. Indeed, several emerging issues are currently threatening to stain China's reputation in Angola. These include the delay experienced in most projects carried out by the CIF, the alleged poor quality of Chinese workmanship, the lack of maintenance procedures, problems with technological equipment (its frequent failure or the inability of locals to operate it), very low labour standards, the large numbers of Chinese workers brought to work in Angola and concerns about their skills.[67]

If criticism grows in this sector, following what has happened in other African countries where China's physical presence is greatly felt like the DRC and Zambia (the mining sector) or Cameroon and Gabon (the retail sector), China's image in Angola may well deteriorate. This would certainly have a negative impact on its quest for oil equity in Angola, since in such a highly centralised decision-making structure, political perceptions at the highest level can overshadow the brightest business prospects.

Nevertheless, at this stage, China's partnership is in general well regarded, not only by the political elite, but by the population at large, who have seen an improvement in living standards due to new infrastructure and cheap Chinese consumer goods.

Having at an early stage correctly identified infrastructure construction as a critical need of post-conflict Angola, Chinese public and private interests managed to establish a direct connection to the Presidential Office (MOFCOM/Exim Bank through MINFIN, and the CIF through the GRN), entering the country through the main door, as it were. Although the rapidly expanding trade has further raised China's profile, its presence in Angola has become most evident in the sectors that have been driving Angola's rapid economic growth in recent years, which are infrastructure construction and the oil industry. One must keep in mind, however, that even construction remains closely linked to China's interests in the Angolan oil sector since, firstly, it is funded by Chinese credit lines guaranteed by oil supplies and, secondly, because of the goodwill these loans generate among the Angolan political elite that controls the oil concessions. Indeed, the laying down of such a comprehensive co-operation framework has played a significant role in securing China access to Angolan oil assets, where the same distinction between public and private interests has also emerged, although overlapping to a much greater extent.

ASSESSING THE SUCCESS OF CHINA'S QUEST TO ENTER THE OIL INDUSTRY IN ANGOLA

As we have seen, the presence Chinese firms in Angola's construction sector is mostly a function of Beijing's oil-backed credit lines to Luanda. In contrast, in the oil sector, Chinese participation has been led by the direct investment of China's national oil companies (NOCs). This does not mean, however, that Chinese investments in oil have not benefitted from the existence of Chinese credit lines to Angola, as the following example will exemplify.

The successful venture of Sinopec upstream

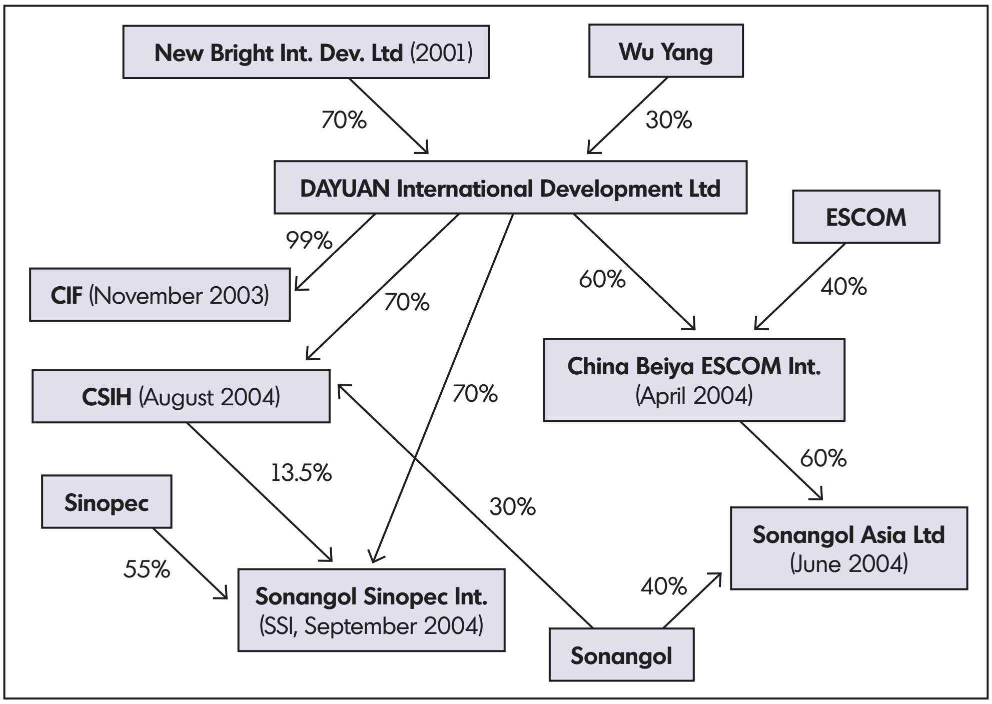
The China Petroleum and Chemical Corporation (Sinopec) acquired its first stake in an Angolan oil bloc shortly after the signing of the first Exim Bank credit line in March 2004. The stake in question is 50% of oil bloc 18, in which British Petroleum plc (BP) owns the remaining 50%. The surrounding framework and the procedures involved in the acquisition process illustrate very clearly the critical role played by connections at the highest level.

The stake was being relinquished by Shell in mid-2003 allegedly due to rising exploration costs and unsuccessful drilling.[68] In April 2004 Shell reached an agreement to sell its stake to the Indian state-owned ONGC (Oil and Natural Gas Corporation Limited) Videsh.[69] Since mid-2003 the Angolan government had been negotiating the first batch of the much-needed loan with Exim Bank, in which Sonangol obviously played a role, since the loan was to be oil backed. Delegations of both parties (in Sonangol's case, headed by the president of the company, Manuel Vicente) were meeting on a regular basis in Luanda and Beijing. By mid-2004 it became public that Sonangol was going to exercise its pre-emptive rights on bloc 18 and jointly explore it with Sinopec.[70] For this purpose, a joint venture was established between Sonangol and Sinopec in September 2004, called Sonangol Sinopec International (SSI). Sinopec's bid to buy Shell's share at $725 million was allegedly much higher than ONGC Videsh's.

In December 2004, backed by an executive decree (no. 148/2004 of 14 December), Sonangol formally exerted its pre-emptive rights to buy the 50% stake in oil bloc 18 from Shell. Then, confirming the goodwill China had generated among the highest stakeholders of the Angolan political elite that controls the institutional framework, the minister of petroleum, Desidério Costa, formally sanctioned the transfer of the stake to SSI in February 2005,[71] with SSI assuming full responsibilities under the terms of the pre-existing production sharing agreement as of July 2003.[72]

It is worth noting that, although Sinopec maintained a majority stake in SSI (55%), the arrangement took place under the umbrella of the same group of Chinese private interests based in Hong Kong that in 2005 started channelling infrastructure funds to Angola through CIF and with which Sonangol had became formally associated in June 2004[73] (see figure 6).

Figure 6: How SSI integrates with the Hong Kong group Dayuan



Sources: Levkowitz L, M McLellan Ross & JR Warner, *op. cit.*; Vines A *et al.*, *op. cit*.

As such, the remaining capital of SSI is composed by a 31.5% share held by Dayuan International Development Ltd (the core company of the group) and a 13.5% share held by China Sonangol International Holding Ltd (CSIH),[74] a Sonangol joint venture with the group that enjoys full backing from the Angolan presidency.[75]

After the transfer of 50% of the bloc to SSI, the Chinese vice premier paid a three-day visit to Luanda (25–27 February 2005), during which he held private meetings firstly with President dos Santos, and then with Minister of Oil Desidério Costa and Manuel Vicente. He and the Angolan prime minister, Piedade dos Santos, co-ordinated the signing of nine co-operation agreements (five of which were intergovernmental and four entrepreneurial). It is significant that in the wake of Sinopec's first oil equity access, four out of the five intergovernmental agreements and three out of the four entrepreneurial ones were energy related. The first category contemplated an agreement envisaging closer co-operation in energy, mining and infrastructure; a memorandum of understanding to create a bilateral commission on this topic; and two co-operation agreements between the National Development Reform Commission and the Ministry of Petroleum and the Ministry of Geology and Mining. As for the entrepreneurial deals on energy, Sonangol signed a long-term supply contract with Sinopec, and the two companies also signed a memorandum to jointly study exploration in oil bloc 3/80[76] and jointly develop the Sonaref refinery project.[77]

The long-term oil-supply contract signed between Sinopec and Sonangol (for a term of seven years; 40 000 b/d due in the first three years) with government backing granted Sonangol access to significant funds that allowed it to develop exploration projects in Angola's offshore oilfields, including bloc 18, over the summer of 2005. Through a financial engineering manoeuvre masterminded by the French investment bank, Bank Calyon,[78] the new CSIH was placed as the borrower (it had a clean borrowing file, unlike its parent company, Sonangol),[79] Sinopec as the guarantor and UNIPEC (Sinopec's trading company) as the off taker.[80] Calyon initially advanced the total sum ($2 billion), and through a syndication of the loan,[81] which was oversubscribed, Sonangol was able to raise $3 billion.[82]

This same successful financial expedient was used in May 2006 to raise $1.4 billion on behalf of SSI to develop its share of bloc 18, attracting numerous international and Chinese banks.[83] As noted in a recent Chatham House report, this funding structure is significant in that it was the first time that Sinopec used this type of international financial instrument to fund development acreage overseas. Furthermore, as the study shows, the dynamics generated by acquiring the stake in oil bloc 18 benefitted China in two ways, firstly, by facilitating access to new oil technology through a close partnership with BP, its only partner in the bloc, and, secondly, because it became ultimately the receiver of most of the oil produced by SSI in that bloc by virtue of the abovementioned oil-backed loans.[84]

This successful venture with Sonangol further benefitted Sinopec — and China's oil interests, for that matter — through the close relationship it had by then established with the major stakeholders of the Angolan elite that controls access to resources. Indeed, the fact that China and Sinopec enjoyed the favour of the Angolan elite, combined with its deep pockets, explains to a great extent the expansion of China's equity in the following year.

Although Sinopec was not awarded a stake in the shallow-water bloc 3/80 (later renamed 3/05 and 3/05–A),[85] as the signature of the joint study programme signed in

February 2005 originally suggested, it did acquire important stakes in the licensing bidding round that took place between November 2005 and May 2006. In May 2006 SSI was attributed with three stakes in some of the most disputed new ultra-deep-water blocs:[86] 20% in bloc 15/06, operated by AGIP/ENI (Azienda Generale Italiana Petroli — AGIP is a subsidiary of Ente Nazionale Idrocarburi S.P.A. — ENI); 27.5% in bloc 17/06, operated by Total; and 40% in bloc 18/06, operated by Petrobras. The bids paid for during this round were at the time the highest ever offered for oil acreage anywhere in the world.[87] The bidding level was supposedly pushed up by China, which allegedly offered $2.2 billion for the acquisition of blocs 17/06 and 18/06 (it is still unclear how much SSI paid for its stake in bloc 15/06). Shortly after the bidding round, the Sino–Angolan partnership was further strengthened by the official visit of Vice Premier Wen Jiabao to Angola (20–21 June).

Sinopec's unsuccessful venture downstream

In terms of one of the deals signed during Zeng Peiyang's visit in 2005 and of the downstream participation requirements for blocs 15/06, 17/06 and 18/06,[88] on 16 March 2006 the president of Sonangol and the vice president of Sinopec signed a partnership agreement to develop a refinery. The negotiations over the details of the project started shortly after. The refinery had long been on the government's agenda, since Angola only has one small refinery, which has become insufficient to supply the booming economy. Petrol shortages are a chronic problem in the country, leading to long hours of queuing up at petrol stations, particularly in Luanda.

The $3.5 billion project for the refinery to be built in Lobito (near the southern city of Benguela) with a capacity to process 200 000 b/d, in which Sonangol held 70% and Sinopec 30%, was projected to start operations in 2010. The technical development of the project had been awarded in 2000 to Korea's Samsung, but a lack of funding kept the project from starting. Under the agreement, Sinopec was to fund the totality of the project,[89] the second-largest downstream project after Angola's new liquid natural gas plant project (worth $5 billion).

Despite the favourable framework laid down by the previous ventures and the favouritism Sinopec clearly enjoyed among the Angolan executive,[90] negotiations stalled in January 2007 and the whole project collapsed in March 2007. This foreclosed Sinopec's entrance in Angola's downstream, which is the company's core business in China. Reports in the media at the time point to a sharp disagreement over which supply market to target. In a press conference held on 23 February the head of Sonangol publicly admitted: 'we have reached a point where we cannot make concessions, we cannot built a refinery to produce for the Chinese market.'[91] Various field interviews conducted for this paper both in China and in Angola[92] corroborated this. More specifically, the point of disagreement was on the technology to be used, which, because of different specifications in Asia and the West, would from the start limit the markets that could be supplied. While Beijing wanted to supply the Chinese market, Luanda envisaged supplying its own domestic market, plus regional and Western markets. Indeed, according to information posted on Sonangol's website, one of the major goals of Sonaref was to control 50% of the regional market and export the excess to Europe and the US.

Some of the interviewees (in China and in Angola) gave some further insight into the Chinese perspective, advancing the view that although the issue of which markets to supply was publicly presented as the major issue, Sinopec was from the start not really interested in the refinery project, having become involved with it only to please the Angolan government, which had linked the refinery project to the concession blocs. The reason why Sinopec was not interested was because the profit prospects were very low, since petrol prices are controlled and highly subsidised in Angola and most of the regional markets. Furthermore, South Africa was building a refinery on its west coast that would compete with Sonaref. Lastly, the location of the Lobito refinery raised serious logistical problems. In this context, Sinopec may have found in the target market question a way out of a deal that it was not actually interested in without 'losing face'. Furthermore, the fact that no other investor stepped forward to help finance this particular project throughout 2007 and until mid-2008, at a time of high oil prices and intense Angolan efforts to proceed with the project[93] further attests this interpretation. Thus, what most analysts interpreted as a show case for the strength of the Angolan government in the face of the growing Chinese presence in Angola's key economic sectors (construction and oil) might therefore in the end have been just a pragmatic withdrawal on the Chinese part.

Eventually, the Angolan government decided to go ahead alone with the project, backed by its increasing oil revenue. In late 2008 the technical execution of the project was awarded to an American company, Kellogg Brown & Root,[94] with the cost of the project having increased to $8 billion, with production (240 000 b/d) projected to start in 2011.[95]

In late 2007, as a sign of souring relations, Sinopec through SSI renounced its rights to the new blocs it had acquired in 2006 and the existing stakes were handed over to CSIH.[96] After an interim, the three stakes where respectively placed under SSI 15, SSI 17 and SSI 18. This renunciation confirms the link that the government had established between these blocs and the Lobito refinery when the blocs were auctioned.

Although all the conditions in terms of connections and financial capacity were initially present for a successful venture downstream to follow the one upstream, the Sonaref refinery project ultimately failed because different interests were at play. As such, the collapse of the project was not caused by the lack of capacity on the Chinese side to access the right layers of the institutional structure to make it work (connections were active at the highest level), nor due to a change in Angola's decision. The project failed because of strictly business considerations that set Chinese and Angolan interests on diverging paths.

Sinopec did, however, underestimate the impact this episode would have on bilateral relations in such a voluntarist political environment, especially in a high oil price context. Sinopec's mishandling of the whole process was, ultimately, due to a cultural factor, that of 'not losing face'. Had Sinopec said from the start that it was not in its best interest to develop the refinery, the favourable situation the company enjoyed before this episode might probably not have been affected, as recent developments show.

Assessing China's venture in the Angolan oil sector

Despite this unexpected hindrance, Sinopec continued soldiering on in its quest to expand its oil equity in Angola.

Only a few months after calling off the Sonaref partnership, Sinopec entered the oil bid opened later in 2007. Not surprisingly, Sinopec placed a separate bid from SSI. Although the bid has been put on hold, as mentioned above, the list of pre-qualified companies include Sinopec (as an operator) and SSI (as a non-operator).[97] In addition, Addax Petroleum, which Sinopec acquired in June 2009 for over $7 billion,[98] is also part of this list as an operator, increasing Sinopec's chances of getting operator equity in Angola.

Furthermore, in early autumn 2008, in the midst of the financial crisis, Sinopec joined hands with China National Offshore Oil Corporation (CNOOC) to bid for a 20% stake in ultra-deep-water oil bloc 32[99] operated by Total, which was being relinquished by the American oil company Marathon. The joint offer by Sinopec and CNOOC ($1.3 billion) outbid rival bids from ONGC Videsh, Petrobras, and even another Chinese NOC, China National Petroleum Corporation (CNPC). The deal was reached between Sinopec/CNOOC and Marathon in July 2009 and was expected to be closed at year end.[100] Nevertheless, and corroborating what a source close to the presidency and Sonangol had mentioned earlier that year, in September 2009 Sonangol made public its intention to exert its right of first refusal,[101] blocking the access of the Chinese companies to this asset.[102] According to this same source, this move was purely based on market considerations by Sonangol, as the stake was being bought at a much lower price than its real value (valued at $1.4–1.6 billion by Goldman Sachs, and Marathon had originally tagged the stake at $2 billion). Sonangol expects to sell the equity for a better price when the market is more favourable. Nevertheless, the source admitted that the traffic of political influences could reverse the picture. In the same month (September), Libya pre-empted the selling to CNPC of an oil stake that was being relinquished by a Canadian company.

Although Sinopec's position in the oil sector in Angola can be said to be still negligible when compared to those of the oil majors, mainly because it is a latecomer and it still lacks the right ultra-deep-water drilling technology and expertise, it can be said to have been quite successful if one considers what it has accomplished in just five years. As demonstrated in a recent study by Chatham House, China appears to be particularly successful when compared to other Asian newcomers.[103] Indeed, while India has been trying unsuccessfully to enter Angola's oil industry for much of this same period, the Japanese NOC AJOCO, which has been in Angola for longer, has only managed to get three stakes in shallow-water oil blocs (20% in blocs 3/05 and 3/05–A and 12.5% in bloc 3/85–91), where production is declining, and Malaysian Petrobas has only one stake (15% in ultra-deep-water bloc 24).

In the end, even if Sinopec's downstream approach did not work, China's venture into Angola's oil sector has been relatively successful, ensuring access to equity production in the country, a major goal of Beijing's oil diplomacy. It is worth noting that all four stakes acquired by Sinopec (through its 55% share in SSI), which are adjacent to the current major producing blocs (blocs 15 and 17), are in deep-water blocs, which indicates Sinopec's determination to enter the most promising area of the sector in Angola and to acquire new and much-needed technological expertise in deep-sea exploration. Blocs 15, 17 and 18/06 have proven reserves of 3.2 billion barrels.[104]

China's equity oil production in Angola is still substantially below its potential. The only stake currently on stream is bloc 18. Production there started in October 2007, when the largest field, Grande Plutonio, first came on stream. In 2008, the second year of production, it had an output of 55.4 million barrels (79% of its actual capacity, due to technical constraints), producing an average 150 000 b/d or 8% of Angola's total production volume for that year.[105] The first major discoveries in blocs 15/06 and 17/06 were made in October 2009 and both blocs are still in a pre-development phase.

Table 1: SSI oil assets in Angola

Oil asset	Acquisition year	Reserves (billion barrels)	Known investment ($ billions)	Production start & major well (& depth at which drilling is taking place in metres)	Total production, 2008	Sinopec net share
50% Bloc 18 (Op. BP 50%)	2004	1.0	1.4	October 2007 Greater Plutonio (1 200–1 500)	55.417 million barrels (150 000 b/d)	27.5%
20% (SSI 15) Bloc 15/06 (Op. ENI 35%, Sonangol EP 15%, Total 15%, Falcon Oil 5%, Gemas 5%)	2006	1.5	1.1	October 2009 Cabaça Norte (500) Pre-development phase	–	11%
27.5% (SSI 17) Bloc 17/06 (Op. Total 26%, Sonangol EP 24%, Falcon Oil 5%, ACR 5%, Partex 2.5%, Somoil 10%)	2006	1.0	1.1	Ocober 2009 Gardenia (977) Pre-development phase	–	15.3%
40% (SSI 18) Bloc 18/06 (Op. Petrobras 30%, Sonangol EP 20%, Falcon Oil 5%, Gemas 5%)	2006	0.7	–	Exploration phase	–	22%
Total	**–**	**4.2**	**3.6**	**–**	**–**	**41 250 b/d**

Sources: Ministério dos Petróleos de Angola, *op. cit.*; Africa Energy Intelligence, 'Angola intelligence', http://www.africaintelligence.com/aif/channel/country/ANGOLAEIA; Sonangol, http://www.sonangol.co.ao.

Bloc 15/06 currently has the largest oil reserves of Sinopec's oil assets in Angola. Three out of the four wells drilled there have struck oil, the largest of which, Cabaça Norte (with reserves of 977 million barrels), was announced in late October 2009.[106] Gardenia, also announced in late October 2009, is the largest producing well drilled in bloc 17/06 at a depth of 500 metres. [107] Bloc 18/06 is still in an early exploration phase and the first oil discovery announced by Petrobras (the operator) took place in early December 2009.

Through its net share (27.5%) in bloc 18, Sinopec production can be approximately estimated at 41 250 b/d (2008), a share that is expected to expand to over 100 000 b/d[108] when the blocs acquired in 2006 start to come on stream in 2010–11. The successful acquisition of 20% of bloc 32 would be a significant addition to Sinopec's oil assets in Angola by adding access to another 1.5 billion barrels of proven reserves[109] and 130 000 b/d when the project comes online in 2011.[110] Although this represents only a small drop in the ocean when compared to the majors' production in Angola, or to Sinopec's oil production overseas (nine million tons in 2008),[111] Sinopec's growing presence in Angola can be considered a relative successful.

CONCLUSION

In less than a decade, China has managed to carve out a prominent position in Angola's economy as its largest trading partner, a major provider of funds and the largest operator in the country's reconstruction project. Nevertheless, oil remains the key element in bilateral relations, since it pervades all aspects of China's economic engagement with Angola: credit lines for infrastructure are oil backed, oil imports dominate bilateral trade and the largest share of Chinese investment in the country is directed towards the oil industry. Since 2004 Sinopec has invested at least $3.6 billion in Angola, a figure that is well below the real value of the investment, since it does not include the signature bonus it paid for the stake in bloc 18 or the value it paid for the actual acquisition of the stakes.

China entered Angola through the front door in the context of connections established at the highest level, to a great extent propelled by the extension of generous credit lines to Luanda. The Exim Bank concessional loan was arranged within a government-to-government platform involving official exchanges at the highest level, which intensified over the years, and a co-ordinating mechanism between Angola's MINFIN and China's MOFCOM. Without the Chinese governmental apparatus behind it, but certainly riding the wave started by Exim Bank, the CIF credit line managed to establish, through a handful of individuals in key positions, a direct connection to the presidency in Angola. Not only was the management of the infrastructure fund in Angola placed under the presidency through the GRN, but the Hong Kong group behind this initiative came to be closely associated with Sonangol, the powerhouse of the presidency.

None of these Sino–Angolan credit lines (from either Exim Bank or the CIF) or oil deals, both upstream and downstream, ever raised serious questions at the domestic level regarding the procedures followed to enact them or the implementation rules related to them (i.e. the importation of Chinese labour). The almost immediate disbursement of the funds and the equally rapid enactment of the deals in the oil sector are indeed best explained by the specifics of Angola's institutional structure, characterised by a highly centralised state and a lack of executive constraints. Although Angola is nominally a multiparty system and supposedly hosts an open society, these are in reality very limited and under the tight control of the presidency. Indeed, agreements made at the highest level of state are in effect unaccountable to anyone, since the National Assembly is merely a rubber-stamping arm of the presidency, as are the judiciary and local authorities. As such, the system's only filter mechanism lies in the perceptions of national interest of the president and his close entourage, which are often intertwined with personal interests. In this context, the secret of successful business in Angola lies in maintaining a healthy relationship with the top layers of the political elite in command of the institutional structure and state resources.

The strong connection to the presidency, built up on a government-to-government basis (energy agreements in February 2006) and on personal connections through the Hong Kong clique, gave Sinopec a bright start in upstream activities, and in only two years (2004–06) it amassed significant oil assets and a considerable amount of oil through one oil supply contract and also by being the off taker of the oil-backed loan for the development of bloc 18. In spite of the same auspicious framework, the downstream initiative collapsed, meaning that although successful entry is ultimately a function of close connections with the top layers of the highly centralised institutional framework, its consolidation rests on the capacity to cultivate a healthy relationship.

In the upstream area, Sinopec has tried as far as possible to strengthen its position in the industry, using to its advantage the political backing offered by the Chinese state and the public and private credit lines (SSI's link to the Hong Kong group). Proving its determination to establish itself in the sector, Sinopec has pursued all the ways available to engage Angola's oil sector, which are all ultimately linked to Sonangol, and hence the presidency. The first move was to create a joint venture with the Angolan NOC, which is also the concessionaire. Although having given Sinopec its most valuable asset (20% of bloc 18), currently this venture has been facing some limitations in the wake of the Sonaref debacle. This has been confirmed by Sinopec's intention in late 2007 to relinquish the shares awarded in the 2006 licensing round and the separate bid the company subsequently placed in the 2007/08 oil bidding round, which has been frozen. Participation in licensing bids thus constitutes the second means by which Sinopec is attempting to consolidate its stake in the Angolan oil sector. The third method is by buying equity being relinquished by companies divesting from the sector, as is the case with Marathon's 20% stake in bloc 32.

Looking at the overall picture and analysing the forces at play, one can clearly see the changing features of the relationship. By comparing the smooth acquisition of the relinquished stake in bloc 18 in 2004 with the strains Sinopec is now facing with the ongoing bidding for Marathon's relinquished stake in bloc 32, one can see that the main difference is that Sonangol is no longer on Sinopec's side. Whether the change of attitude on Sonangol's part is still a consequence of Sinopec's withdrawal from the Sonaref project in 2007 or just a move to protect the market and avoid a decline in oil stake prices[112] remains unclear.[113] Nevertheless, the important fact to retain is that there has been a change in the relationship between Sinopec and Sonangol.

If one enlarges this picture to include two important variables, i.e. (1) the context of the financial crisis, resulting in less available funding sources for Luanda to proceed with its infrastructural investments on the eve of presidential elections, and (2) China's extension of two new generous concessional loans to Angola in 2009, one concludes that

Sonangol's change in its behaviour is quite striking. Unlike in 2004, the extension of the new credit lines is clearly not influencing the Angolan executive to favour China's access to oil acreage, meaning that Luanda is undoubtedly making an effort to separate politics from the oil business, as underscored by one interviewee close to the Angolan elite.[114]

Nevertheless, strategic changes can also be perceived on the Chinese side. Indeed, the same picture of the last five years shows that Sinopec has been distancing itself from SSI (e.g. presenting a separate bid in the 2008 round). The issue with SSI is not so much related to the unwanted links with the financial group based in Hong Kong,[115] but the perception by Sinopec that SSI has become counterproductive, limiting its prospects in the industry. As such, Sinopec is now trying to act on its own (e.g. the bid for the Marathon stake). The final outcome of these two developments will shed some light on the new terms of the Sinopec–Sonangol relationship, whether relations will follow a more strictly business path or not, and to what extent this will benefit Sinopec. At present, though, distancing itself from Sonangol seems to have impaired Sinopec's attempt to gain new acreage in Angola. Another option for the company to strengthen its position is through the acquisition of companies that have equity assets in Angola. The acquisition of Addax in June 2009, for instance, added important oil acreage to Sinopec's holdings, particularly in West Africa, including in São Tomé and Príncipe (two of the four blocs in the joint development zone with Nigeria).

Sinopec's large financial muscle works better than that of other newcomers (India was outbid by Sinopec in oil blocs 18 and 32), but has proven not necessarily to be an advantage when competing with Western companies that have a lot more to offer, particularly in terms of deep-water drilling technology. In this setting, and in the face of the evident declining influence of China's political backing, in spite of Beijing's efforts, Sinopec needs to offer other added value in order to revitalise its partnership with Sonangol in what is increasingly becoming a strictly business environment. This could have been the joint development of the refinery, but might also be through China's assets in other African countries (i.e. the position it gained in São Tomé and Príncipe through the acquisition of Addax), since complementary interests may emerge, considering that Sonangol is actively pursuing the expansion of its various business interests abroad, particularly in Portuguese-speaking countries.

ENDNOTES

1 For a detailed account of China's involvement in Angola from the 1960s to the 1990s, see Jackson SF, 'China's Third World foreign policy: The case of Angola and Mozambique, 1961–93', *China Quarterly*, 1995, pp. 389–422.

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26 Chinese money is only virtually present in Angola, which makes it easier to avoid its diversion towards personal accounts. MINFIN submits the projects for tendering, Exim Bank selects the Chinese candidates running for each project and a joint commission makes the final selection. The capital is released upon project completion (confirmed by MINFIN) and directly paid to Chinese companies in China.

27 A full list of the projects is available on MINFIN's website, http://www.minfin.gv.ao/docs/dspProjGov.htm.

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53 This is especially evident if we take into account that the last visit Dos Santos paid to Beijing was ten years earlier. The president's official visit to China had been on the agenda for a couple of years, but was always postponed. He did not take part in the historic Forum for

China–Africa Co-operation Beijing meeting in 2006, but showed up for the opening of the Olympics in August 2008.

54 See, http://www.fmprc.gov.cn/eng/zxxx/t527821.htm.

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59 Chinese companies built the bulk of the sports stadiums to host the Afrobasket Cup in August 2007, and are now building the four main stadiums to host the African football cup (African Cup of Nations) in 2010.

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73 Through the establishment of a joint venture, Sonangol Asia Ltd, with 40% owned by Sonangol and 60% by China Beya ESCOM international (of which 40% is owned by ESCOM and 60% by Dayuan International Development, which is the core company of the group). Source: Levkowitz L, McLellan Ross M & JR Warner, *op. cit*.

74 Vines A *et al*., *China's Thirst for African Oil: Asian National Oil Companies in Nigeria and Angola*, Chatham House report. London: Royal Institute of International Affairs, August 2009, p. 64.

75 CSIH (China Sonangol International Holding Ltd) was established just a month prior to SSI, in August 2004, and was 70% owned by Dayuan and only 30% by Sonangol. The joint venture was set up with the purpose of expanding the Hong Kong group's energy projects in Angola and to allow Sonangol to access funding. At that time, Sonangol was having difficulties raising capital in the international market because of the several oil-backed loans it had assumed in previous years. Although a majority of the capital of this joint venture is Chinese, this study chose not to focus on CSIH, because it features mostly private Chinese interests articulated with Angolan state interests (Sonangol), and its management suggests that despite Sonangol

having a minority stake, CSIH has been mostly used as a Sonangol instrument and is thus more prone to pursue Angolan interests than Chinese.

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112 Indeed, if Chinese oil companies were paying above the odds and pushing the market up before the global economic crisis, they are now bringing it down by, in the context of the crisis, bargaining in a market where their competitors' financial capacity has contracted significantly.

113 Based on the interviews conducted in Luanda (March 2009) and media reports, there seems to be a dividing line between government officials or individuals close to the executive and external observers (civil society) concerning the nature of the changing relationship between Sonangol and Sinopec, with the first group denying any political change and reinforcing market-oriented considerations, and the second one referring to a souring relationship resulting from the Sonaref episode.

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115 In fact, and in spite of the much larger participation of Dayuan International Development Ltd, since its inception SSI was seen as a joint venture between Sonangol and Sinopec. Despite having formally only a marginal participation in the joint venture through its 30% share in CSIH, Sinopec has played the key role as the recognised counterpart of the venture.

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