

Chinese Colonialism or South-South Cooperation?

The Case of Chinese Resources for Infrastructure Contracts in Angola

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Abstract

This thesis examines the use of Chinese resources for infrastructure contracts in Angola. China has engaged in this mechanism that trades African natural resources for Chinese infrastructure construction with several African countries. The main debate in the literature on Sino-African relations is between scholars who see China as a ‘neo-colonialist’ that reinforces a classic north-south relationship of exploitation, and those who see China as a different development partner, emphasizing South-South cooperation and mutual benefit. The resources for infrastructure contracts have been used to construct the argument that China’s engagement in Africa is ultimately aimed at securing access to natural resources. To examine this assumption, I conducted a case study of Angola, the African country where the resources for infrastructure contracts has been most pronounced in scope and size. Due to challenges of data availability I complemented the secondary sources with primary sources from fieldwork conducted in Luanda, Angola. I also drew on evidence from comparable cases to shed light on the mechanism. I found that there are strong indicators suggesting that resources for infrastructure contracts are not mainly a mechanism to secure Chinese access to Angola’s natural resources. Rather, it seemed like a mechanism to mitigate the risks of extending a loan to a country with poor credit. However, this tentative finding is not automatically transferable to other cases as country-specific differences uncovered in the study shows the limitations in generalizing Sino-African relations from one case.

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Chapter one - Introducing Sino-Angolan relations

China, the biggest developing country in the world, is ready to join hands with Africa, the biggest developing continent in the world.

*President of People's Republic of China, Jiang Zemin 2006*¹

1.1 Introduction

My thesis is about Sino-Angolan trade relations, focusing on a mechanism that trades Angolan oil for Chinese infrastructure construction through a Chinese oil-backed export credit. In Angola, an export credit-line is extended by the Chinese export-import bank (Eximbank) to the Angolan government, and the credit is used to pay Chinese construction companies for projects after completion. The repayment is in oil.

There are two main discourses on Sino-African relations. One group of scholars sees China as a 'neo-colonialist' that reinforces established north-south patterns of African resource extraction and elite relations. From that perspective it has been suggested that the resource for infrastructure credits is an instrument to secure access for China to Africa's natural resources. Another group of scholars perceive China as a different development partner, emphasizing the mutual benefit of the Sino-African engagement. From this perspective it has been suggested that the benefits of obtaining infrastructure contracts may be even more important than the conceding of access to natural resources, and that the natural resources are merely used as a credit-guarantee for countries' with poor credit. By using these diverging perspectives on Sino-African relations as a point of departure I wish to analyze the use of this mechanism in Angola from 2004 to 2010. My research question is:

How has the Chinese resource for infrastructure mechanism developed since its implementation in Angola? Is this a mechanism to secure a steady supply of natural resources from Africa to China, or is it a mechanism to ensure mutual benefit?

¹ Quoted in Alden et al. (2008:1)

1.2 Why study China in Africa?

Accelerating relations between Africa and Asia in the last decade has not gone unnoticed in the media and in academic circles. Broadman suggests that South-South trade and investment relations are one of the most profound features of the new global economy. World trade had for decades been dominated by trade amongst the developed countries or between the north and the south. However, since 2000 there has been a massive increase in trade and investment flows between Asia and Africa (Broadman 2006:1-2). Several scholars suggest that China's relations with Africa are at the core of this dynamic. Alden et al. suggest that "China's expanding relations with Africa are the most important dynamic in the foreign relations and politics of the continent since the end of the Cold War (Alden et al. 2008:1).

China's presence in the African continent however is not new as Chinese development aid to African countries started in the 1950s (Xinhuanet 2011:3). However, the size of the engagement and the attention it has received from the media, NGOs and academics is definitely new. This is to a degree due to the growth of the Chinese economy and the changing roles in the international economy. China is both an authoritarian state, and as of 2010, the world's second largest economy. China has the world's largest foreign reserve, surging over \$2.85 trillion in 2010, which makes China a significant player globally.² Concerns have been raised by media and scholars alike of what the consequences of China's increasing engagement with the continent will be.

1.3 Motivation and contribution

Scholars suggest that social science research should be of value for both the real world, and for the academic discipline (Sckocpol 2003:409; King et al.1994:9). According to Brautigam (2009), myths and inaccuracies have surrounded the perception of the Chinese engagement in the media and NGOs alike. This was confirmed during my fieldwork as it was suggested to me by several informants in Angola that Chinese workers were indeed prisoners. This is a common myth about Chinese workers that no empirical evidence has supported so far (Brautigam 2010b). That makes more scholarly research important as a basis for the public debate. The field on 'China in Africa' is a young academic discipline. While material on the subject has been published has been published earlier, academic attention took off in 2006 (Large 2008:45). Several scholars in the

² The Economist (2011a). All dollars referred to in the thesis are US dollars.

field have called for more case studies, and more systematized information of Sino-African engagement (Mohan and Power 2008, Vines et al. 2009:vii). I hope to contribute to the scholarly debate by adding a case study of Sino-Angolan trade relations that is updated by 2011 and includes recent developments.

1.4 The history of Sino-African relations

1.4.1 1949-1978: Ideology

Chinese influence in the period from 1949 to 1978 was characterized by Cold War politics and ideology. Beijing had little international support, and its relations were strained with both Moscow and Washington. Africa represented a new potential for building international relations, but were initially also viewed as a place to promote Maoism. Africa experienced de-colonization and liberation movements, and China first met with African liberation leaders at the Bandung-conference in Singapore in 1955 (Tjønneland et al. 2006:6). The conference intended to advance Afro-Asian cooperation as a counterbalance to imperialistic nations such as the USA and the Soviet Union. Anshan writes that in the period from 1956 to 1978, China gave away billions of dollars in aid to Africa despite its own uncertain economy. During this period, China also supported several liberation movements and was quick to establish diplomatic relations with new independent African states (Anshan 2007:70-74) According to Alden, diplomatic objectives such as support against Taiwan and US dominance were important factors motivating the Chinese involvement. The tendency of African countries to vote as a block in agencies such as the UN combined with their numerical advantage made them diplomatically important to Chinese diplomacy (Alden 2007:22). The support to African states paid off as Beijing replaced Taipei in the Security Council in 1971, largely due to the support from African governments. In this period Alden argue that natural resources was not a motive for China's involvement; rather, it was driven by a combination of geopolitical realities and the wish to "pursue prestigious aid work" (Alden et al. 2008:5).

1.4.2 1978 -now: Economic co-development

After 1978, Deng Xiaoping's program for economic modernization influenced China's foreign policy. "Mutual benefit" and "win-win cooperation" became key words in the relationship between China and African states (Hellstrom 2009:8). Brautigam emphasizes that China's involvement in Africa after Mao's death was shaped primarily by two influences. First of all, it

was shaped by China's own experience of receiving aid and foreign investment. On this background, the Chinese government realized how aid and economic assistance could serve its own development goals. Second, the success of the state-sponsored engagement characteristic of the East Asian developmental state also influenced China (Brautigam 2009:18).

From the 1990s, China's need for natural resources is often referred to as the main reason why China is involved in Africa. China shifted from being a net exporter of oil to a net importer of oil in 1993. The country is today the world's second largest importer of oil, and its rapid growth during the two last decades has fueled its need for more natural resources (Alden 2005:148). However, the debate has been broadened, and several scholars suggest that the focus on natural resources in Sino-African studies limits the development of academic progress in the Sino-African field (Brautigam 2009; Taylor 2007).

Africa's international support continued to be of importance in an international environment that especially after the Tiananmen Square incident in 1989 condemned China. While Tiananmen alienated China from the West, several African leaders were supportive. "African elites, who themselves regarded democratization projects as potential threats, wanted to show China Third World solidarity and to express their resentment towards Western interference in the affairs of a fellow developing country" (Hellstrom 2009:8). China has received support from African countries on a range of issues: "The 2008 Olympics, blocking UN resolutions condemning human rights abuse in China, securing China's position in the WTO and multilateral trade" (Alden 2008:22). A consequence of the importance of the Taiwanese issue has according to Taylor in several instances led African governments to sell their allegiance to the highest bidder of the two, China or Taiwan. Some African countries have even used this dispute to gain increased aid. Senegal is an example of a country that switched for the third time in 1996 to gain a generous aid package, as had been the case in the previous shift of diplomatic relations between Taipei and Beijing (Taylor 2009:29).

1.5 Non interference and mutual benefit

Western influence in Africa during the last two decades has been guided by the IMF and the World Bank, institutions that are known to require economic and political reforms as prerequisites for granting of financial assistance (Brautigam 2009:169). The Chinese approach challenges the assumption that introduction of human rights, legal systems and democracy are necessary conditions to gain development aid and loans. By its own example, China also

challenges any assumption that democracy is a prerequisite for economic growth. China's policies for trade and aid are stated in their five principles of peaceful coexistence, and eight principles of foreign aid (MOFCOM 2004, Xinhuanet 2011). China's five principles of peaceful coexistence were adopted in 1995. These principles contain a policy that emphasizes non-interference in internal affairs, the sovereignty of states, equality and mutual benefit. The eight principles of foreign aid (1964) also state the importance of non-interference. Principle two is: "respect for the sovereignty of recipient countries, no strings attached and no privilege required". This is a clear stance against the Western approach where aid and loans have become dependent on interference in the internal affairs of the recipient countries. According to Vines et al.: "China provides a new model of cooperation, based on credit lines, economy and commerce, which contrasts with Western efforts of cooperation based on aid attached to conditionality" (Vines et al. 2009:56). The Chinese approach has even been labeled the 'Beijing consensus' as a contrast to the existing 'Washington consensus' (Ramo 2004). Historically, the Chinese government emphasizes the fact that they never colonized Africa, a burden many Western countries face (Alden 2007:19). Chinese foreign policy in Africa is thus according to the Chinese government embedded in non-interference and mutual benefit.

1.6 Chinese actors in Africa

As China expands its Africa policy, the picture of who the Chinese actors in Africa are becomes more complicated. Some scholars suggest that the Chinese government and Chinese companies, state-owned and private, share the same agenda and closely cooperate (Downs 2007:48). According to Lagerkvist, it is a common misperception that China operates as a unified actor that operates according to a grand plan from Beijing. Chinese companies, regions, cities and diplomats have their own potentially competing, interests and agendas (Lagerkvist 2009:123). It is problematic to assume that Chinese state-owned companies always act in accordance with Beijing's intentions. Competition between Chinese companies may create situations where the Chinese government does not benefit from their behavior. For example, the Chinese government is a primary shareholder of Chinese National Oil Companies (NOCs), but the Chinese NOCs are increasingly in direct competition with each other for projects. This is a problem for the Chinese government because it ultimately lowers the rate of the return for the winner. "When CNPC and Sinopec competed against each other for a pipeline project in Sudan, Chinese diplomats and the

China International Contractors Association unsuccessfully attempted to persuade Sinopec, the company that entered the lower bid, to withdraw from the competition” (Downs 2007:50).

The Chinese government encourages Chinese national companies to become international companies. The Chinese ‘go out’ policy is intended to facilitate for Chinese companies to expand overseas, and was formally launched in 2001 (Alden et al. 2008:20). The policy encourages Chinese companies to invest and expand overseas by offering incentives to ‘go out’. The Chinese Ministry of Commerce (MOFCOM) is the ‘primary bureaucratic interface between China and the rest of the world’ concerning trade and investment (Ide-Jetro 2009). As trade is the area where we clearly see an accelerating Sino-African engagement, this ministry is obviously important in Sino-African relations. But just as important are the publicly owned policy banks that facilitate Chinese investments in Africa. There are three policy banks in China, and two of them operate in Africa and provides financing for Chinese companies that wish to do business in Africa. These are the Chinese Eximbank and the Chinese Development Bank (CDB). These policy banks are expected to be tools to execute government policy in contrast to other Chinese state-owned banks that are now asked to operate on commercial principles. The CDB does not give out aid, but provides non-concessional development finance. The CDB operates mainly in China, but has had a growing role in Africa that is expected to increase. It set up the China Africa Development fund in 2006, announced to be \$5 billion to ‘encourage and support Chinese enterprises to invest in Africa’ (Brautigam 2009:116). The Chinese Eximbank is crucial in China’s dealings with Africa. It is primarily used to offer export credits to sellers and buyers to support the purchase of Chinese goods, and is one of the world’s largest export credit agencies (Foster et al. 2009:6). Both commercial credits and concessional loans extended by the Eximbank, or other Chinese state agencies are tied to the purchase of Chinese goods and services. Trade and aid are closely linked, and may be confusing as credits may be partly financed by aid, and given as a mixed credit that is part commercial loan, and part aid. The tying of financing to Chinese goods and services ensures according to the Chinese perspective that both parties gain from the arrangement.

Private Chinese investors, migrants and companies have also ventured into Africa in the search of new markets and opportunities. It is thus not one ‘China’ in Africa, but an array of different, often competing Chinese actors. My focus is on the resource-backed credit-lines extended by the state-owned Chinese Eximbank. However, the Chinese companies that gain from

this mechanism are both state-owned and private, and have their own agenda that is not necessarily the same agenda as the Chinese government has.

1.7 Organization of thesis

The thesis is organized in six chapters. In this chapter I have outlined my research question, and given a short overview of the history of Sino-African relations and important Chinese actors. In chapter two, which is the theoretical fundament of the thesis, I will present an overview of the Sino-African engagement today, and perspectives on Sino-African relations. These theoretical perspectives will be used as a basis for hypotheses that will be further explored in the empirical section. In chapter three I argue for why I chose Angola as a case, and discuss methodological challenges with using a case study to investigate a phenomenon. This will be done by comparing resources for infrastructure contracts in other African countries, and discussing how the case of Angola can shed light on the resource for infrastructure mechanism. In chapter four I will present Angola, and Sino-Angola relations. In this chapter I will discuss the mechanism of the resources for infrastructure credits in Angola, and the situation Angola was in when the contracts with the China were negotiated. In chapter five I will discuss two main hypotheses from the theoretical chapter directly related to the second part of the research question: Is this a mechanism to secure a steady supply of natural resources from Africa to China, or is it a mechanism to ensure mutual benefit? I will also use evidence from other comparable cases to compliment the analysis. In chapter six I will discuss the findings from of the thesis and suggest topics for further research.

Chapter two - The theoretical fundament

2. Sino-African relations

In this section I seek to place Sino-Angolan trade relations in a broader theoretical perspective, emphasizing how the resource for infrastructure mechanism may be theorized. This will be the fundament for exploring how the resource for infrastructure mechanism in Angola has changed since its implementation in 2004, and to what extent this is a mechanism for China to secure access to African natural resources. Primarily I will present an overview of the Chinese engagement in Africa to examine what information the theoretical perspectives are based on. I will present different dimensions of this engagement; trade, aid, investment, migration and diplomacy. Further I will present trends in the 'China in Africa' literature, and two perspectives that will be used to analyze Sino-Angolan relations; dependency and win-win, respectively. On the basis of these perspectives I will formulate hypotheses to be explored in the analysis. I will finish with a short discussion of how I can use these hypotheses to analyze the empirical evidence.

2.1 Trade

According to a Chinese white paper, trade between China and Africa grew from approximately \$10 billion in 2000, to \$114.81 billion in 2010.³ China is now next to the USA as Africa's top trading partner. African exports to China consist mainly of oil and mineral products, while Africa imports value-added goods from clothing, footwear and plastic products to electronic appliances, machinery and transport equipment. The oil and mineral products make Africa an important trading partner for China, even though trade with Africa is a relatively small part of overall Chinese trade (between 3 and 4 percent of overall Chinese trade in the world). While trade is still comparatively small, it is on the rise. China imports around fifty percent of its domestic consumption of oil, and Africa supplies 30 percent of that import (Christensen 2010:3). Chinese imports from Africa are highly geographically concentrated; Angola (32%), South Africa (23%) and Sudan (10%) accounted for about two-thirds of Chinese imports from the continent in 2009. Chinese exports to Africa is on the other hand quite diverse in terms of destination and is directed

³ News.xinhuanet.com (2010:1)

at countries with large populations and /or large GDP per capita such as North Africa, Nigeria and South Africa (Haugen 2011:162-3).

2.2 Resource for infrastructure/Angola mode

Resource for infrastructure contracts, also known as the ‘Angola mode’ is a mechanism that trades natural resources for infrastructure construction. These contracts are referred to by the World Bank as ‘Angola mode’ because Angola was the first African country to sign a large resource for infrastructure contract with China (Alden and Alves 2009:13). The natural resource can be used as a security to guarantee repayment, or be conditional on preferential access to a natural resource for a Chinese company. The loan is provided by the Chinese Eximbank, and is contingent on the use of Chinese goods and services for the project(s) (Brautigam 2010a:15). The money is held in an escrow account in China, and the companies are reimbursed when projects are completed. Resources have been used to secure credit before, and especially in the oil industry. What is unique with these loans is that they are tied to infrastructure construction (Brautigam 2009:275). China has resource for infrastructure deals in several African countries, and more such deals are under negotiation. Oil isn’t the only natural resource that has been used to secure such credits. Other less demanded commodities are also used in such deals, such as cocoa in Ghana. The other resource for infrastructure credits will be further discussed in chapter three.

2.3 Aid

Africa is the largest recipient of Chinese development aid. While concrete numbers are labeled state secrets, China’s state council released its first official report on foreign aid in 2011. It reports that 45.7 percent of Chinese development aid goes to Africa; 12.7 percent goes to Latin-American/the Caribbean and 32.8 percent goes to Asia⁴. Countrywide breakdowns are not provided, but Chinese development aid goes to every African country that recognizes the ‘One China Policy’.⁵ China does not use the same definitions of Official Development Assistance (ODA) as the OECD does, and due to divergent opinions of what development aid consists of, it is difficult to compare the size of the Chinese development aid with other established donors. However, Brautigam estimated Chinese development aid to Africa to be \$1.4 billion in 2008 by

⁴ News.xinhuanet.com (2011)

⁵ The ‘One China policy’ recognizes China, and not Taiwan as the legitimate Chinese state.

using Chinese sources and the OECDs Development Assistance Committee reporting categories (Brautigam 2010a:22). Chinese development aid has often been used to build ‘statement’ buildings such as stadiums. Chinese financing and export credits are often misunderstood to be Chinese development aid: “China’s official finance in Africa consists of grants, zero-interest loans, debt relief, and concessional loans (which would all qualify as ODA) as well as preferential export credits, market-rate export buyers’ credits, and commercial loans from Chinese banks, none of which would qualify as ODA” (Brautigam forthcoming (a):3). Chinese development assistance is characterized by non-conditional bilateral aid, delivered on a project basis, and closely linked with Chinese investment and trade interests (Tjønneland et al. 2006:8). While China has aid programs in education, health and agriculture, the main focus has been on the building of physical infrastructure tied to Chinese goods and services. The Chinese are happy to build statement buildings such as stadiums or government buildings that the ‘traditional donors’ are reluctant to support. The Chinese Eximbank is the only Chinese agency providing concessional loans to African countries, underscoring the connection between trade and aid in the Chinese engagement with Africa.

2.4 Investment: Foreign Direct Investment and Special Economic Zones

According to Alden et al. (2008), natural resource rich countries are main destinations of Chinese FDI, and 50-80 percent of FDI goes to Angola, Sudan, Chad, Equatorial Guinea, Nigeria and South Africa (Alden et al. 2008:14). According to Berthelemy, official Chinese FDI statistics are flawed and a big problem with measuring it is that a lot of Chinese foreign investment is pooled through offshore financial investment centers like Hong Kong or the Virgin Islands, and are thus not part of the official statistics (Berthelemy 2011:10). What types of investments are made? Do these go beyond natural resources and infrastructure construction sectors? We do see some evidence that natural resources and infrastructure are not the only sectors that receive Chinese investment. The biggest Chinese investment to date has been the Industrial and Commercial Bank of China (ICBC) acquisition of a 20 percent stake in South African Standard Bank (Brautigam 2009:279). Even though a lot of investment is directed to countries rich in natural resources, it does not necessarily mean that the investments are used to secure access to or control over natural resources.

A Special Economic Zone (SEZ) has more liberal economic laws than the rest of the country, and is a place where it is possible to experiment with different economic approaches

without changing the policies at a national level. The Chinese Ministry of Commerce stated that SEZ would be a key element of the Chinese “going global” policy, and in 2006 it announced a goal of establishing at least 50 such zones overseas. The key difference between these and other SEZ was that they were to be “built and operated by Chinese Enterprises as profitable ventures” (Brautigam 2009:97-98). A tender was held by China’s Ministry of Commerce (MOFCOM), and Chinese companies proposed projects in countries they chose. The winners of the tender would receive government support such as grants and long-term loans through special funds. So far, 19 SEZ have been approved worldwide, and six of them are situated in Africa.⁶ To date, these are in the beginning phase in Africa. The zones are situated in Zambia, Egypt, Nigeria, Ethiopia, Mauritius and Algeria. The zones in Zambia and Egypt are under construction and in operation, while the others are still under construction except for the zone in Algeria that is suspended. One zone is focused on mineral processing, while the others are mainly concerned with manufacturing (Brautigam and Xiaoyang 2011:31-32).

Alves writes that:” the bulk of ETCZ⁷s to date has been targeted at the continent’s resource-rich countries and the largest markets” (Alves 2011:3). However, an exception to that rule is the SEZ in Mauritius, questioning the pattern of targeting natural resource rich countries. Brautigam and Xiaoyang emphasize that the zones are located in African countries that score high on ‘ease of doing business’. The SEZ are potentially a very important component of China’s Africa policy. However, it is still too early to know how these zones will develop, and what role they will play in China’s Africa policy in the future.

2.5 Migration

Chinese migration to Africa is to some degree facilitated by Chinese companies operating there. Chinese workers often come to Africa on two or three year contracts; they live on the site and are often separated from the local community. However, many Chinese entrepreneurs migrate to Africa on their own in search of new opportunities. We thus find Chinese migrants in both the formal and the informal economy. The existence of Chinese migrants in the informal economy is especially interesting as these are jobs that Africans rarely have faced any competition from outside the continent in previously. The influx of Chinese migrants is very visible in African

⁶ In addition there are a handful of industrial zones that Chinese enterprises have set up outside the official MOFCOM program (Brautigam and Xiaoyang 2011:28).

⁷ Alves refer to SEZ as ETCZ, but the differences are only in name.

countries. In Zambia, the opposition party even used anti-Chinese sentiments in its political campaign (Gadzala 2010). There are no clear numbers on the total amount of Chinese migrants to Africa, but according to Mohan and Tan-Mullins guesstimate range from 270 000 to 750 000 (Mohan and Tan-Mullins 2009:590). A recent study suggests that few Chinese stay in Africa for more than two or three years except for the ones that have settled in South Africa. While the Chinese workers are not highly paid compared to Western workers, they earn enough to buy their own house during a three year contract in Africa. Had they stayed in China, it would have taken them ten years to earn that amount (Jung Park 2009). However, it is still too early to say what will happen with the Chinese migrants in Africa. We don't know if they will stay, how and if they will integrate with the local community, or if Chinese entrepreneurs will cooperate with local industries in the future.

2.6 Diplomacy and political integration

There is close political contact between China and African states. Chinese leaders often visit Africa, touring several African countries. African leaders are also often invited to Beijing. This stands in sharp contrast to Western leaders who seldom bother to visit Africa. The Forum on China-Africa Cooperation (FOCAC) was arranged for the first time in 2000, and is held every three years. It is the official forum between China and African states, initiated by the Chinese government (Alden et al. 2008:2). This forum, in addition to regular diplomatic visits by leading Chinese government representatives shows that China sees African countries as important partners.

2.7 China in Africa: state of the field

According to Taylor (2007), there was a good amount of academic research in the early seventies on China in Africa. However: "Compared to other area studies on Chinese foreign policy, the field of Sino-African relations had been almost completely neglected, certainly from the 1980s onwards and continued to be as the 1990s progressed" (Taylor 2007:380). Several scholars agree that the topic of China in Africa has been an 'under-researched' area (Large 2008; Alden et al. 2008). This changed when China's engagement in Africa accelerated. In 2006, announced as China's 'Year of Africa' attention by media and academics was 'cascading' (Large 2008:45).

Earlier, even in the Maoist period, China's presence in Africa was largely mullered over by specialists; now it has become a major world issue, a burning question about which over thirty

international conferences were held in 2006 alone, on which every self-respecting columnist finds it necessary to express an opinion (Snow 2008:xvi)

Kopinski et al. (2011) suggest that the main debate in the literature has been between two discourses. The first discourse, that also reflects the official Chinese view, argues that the mutual benefit approach of China will ‘prove to be beneficial for the long-exploited African people’. On the other hand it is argued that China is no different from other external actors that cultivate relations with Africa, and that China gains significantly more from the relationship than Africa does (Kopinski et al. 2011:131). I will use these perspectives as a point of departure to discuss theoretical approaches to my case.

2.8 Dependency and north-south exploitation

There is nothing new about ‘the looting of Africa’⁸

The Chinese government emphasizes the mutual benefit and shared colonial experience of China and Africa, portraying China as a different development partner (Alden and Large 2011). However, some scholars suggest that this “unique” relationship only replicates patterns established by previous (Western) partners on the continent (Brautigam 2008; Alden and Alves 2009). This pattern: “emphasises local elites, is founded on resource-backed loans and subscribes to a clear profit motive” (Alves and Alden 2009:21). On this background, it is argued that the reorientation towards Asia has done nothing to change established trade patterns, nor development relations. African governments are portrayed as passive players that have little leverage when negotiating with the Chinese dominant partner.

The literature identifies several pitfalls with an economy that is dominated by natural resource export. The resource curse suggests that countries that lack well-developed institutions may experience negative consequences of the availability of an abundant natural resource (especially oil and diamonds). According to Obi: “The implications of this diagnosis are that even if Africa experiences an increased net inflow of oil revenue from the oil revenue from the new boom, the oil curse and the rentier effect will conspire to ensure that it feeds into corruption and violent conflict rather than the development of society”(Cheru and Obi 2010:199).

As Tjønneland et al. write: “Trade statistics tell us that the traditional trade pattern

⁸ Cheru and Obi 2010:198

between Africa and the world will be reinforced by the Chinese. Africa's role as an exporter of raw materials will be reinforced and it will be more challenging to diversify away from traditional exports. There is also decreasing scope for Africa to compete with China in labour-intensive manufacturing – in Africa and in third markets.” (Tjønneland et al. 2006: viii). Cheap Chinese goods have already pushed domestic goods out of the African market in several countries (Taylor 2009:21). However, the cheap domestic goods from China may also have increased the purchasing power of locals in Africa. According to this perspective, Sino-African trade reinforces a classic north-south relationship.

This point of view stands in stark contrast to China's official Africa policy. In this perspective, China's search for natural resources is seen as the main reason for China's presence in Africa, and in that process, old patterns are reinforced. Sino-African trade has according to Alden commonly been analyzed through a 'resource security' perspective (Alden 2011). Some studies of China in Africa has been focused energy security⁹, and has mainly analyzed Sino-African relations with regard to China's need to establish structures to secure long-term import of oil (Downs 2004; Soares de Oliveira 2008). The term 'Resource security' has been used to include other sectors of the extractive industry. Alden and Alves write that: “In addition to oil and in order to sustain its economic growth, China also became externally dependent on other sectors of the extractive industry further justifying its growing economic interaction with Africa” (Alden and Alves 2009:5). Kopinski et al. suggest that:”Resource security is undoubtedly the biggest driving force behind China's increased involvement in Africa”. Several scholars thus ascribe the access to Africa's natural resources as the main motivation behind China's accelerated presence in the region (Alden and Alves 2009:5). According to Downs, China's main energy security problem is the growing oil deficit (Downs 2004:23). Soares de Oliveira suggests that China is engaging in a number of policies to cope with its volatile energy supply. He emphasizes that the dimension that is most relevant for China-Africa relations is “a concerted effort by Chinese NOCs to venture into foreign markets and acquire equity oil” (Soares de Oliveira 2008:89). It is on the basis of this perspective that resource for infrastructure contracts in Angola are often analyzed as a facilitator for Chinese NOCs to gain equity oil (Alves 2010).

The resources for infrastructure deals are also viewed by some scholars as a

⁹ According to Yergins, the aim of energy security is: “to assure adequate, reliable supplies of energy at reasonable prices and in ways that do not jeopardize major national values and objectives” (Yergins 2006).

method to secure China a broad range of natural resources, from oil to minerals. Alden and Alves suggest that: “To gain access to these minerals, China has loaned billions of dollars to African countries for infrastructure development in exchange for resources” (Alden and Alves 2009:3). Further, the use of Chinese construction firms in the resource for infrastructure contracts is perceived by Alden and Alves as risk management:

The use of familiar Chinese firms and labour to fulfil the terms of Chinese-financed infrastructure packages minimises exposure to risk and negative factors in the African environment that put off other investors, such as local corruption and labour costs (Alden and Alves 2009:10)

In this perspective, the resources for infrastructure loans are attributed to China’s search for energy security/resource security alone. The use of Chinese firms and labor in the infrastructure projects is ascribed to minimizing risks, rather than being a goal in itself, or as a means to minimize corruption and or secure quality.

2.9 South-south cooperation and mutual benefit

China has emphasized mutual benefit since it first started giving aid to African states in the 1950s. According to the FOCAC website, FOCAC is built on pragmatic cooperation, equality and mutual benefit. Hon et al. write that: “FOCAC provides the foundation for building a long term win-win China-Africa relationship. Through the FOCAC process China has cancelled African debt, facilitated expanded market access and provided a wide range of new opportunities for positive engagement” (Hon et al. 2010:4-5).

The first FOCAC was held in Beijing and was attended by close to eighty ministers from forty-four African countries (Taylor 2009:16). The third FOCAC held in 2006 coincided with the Chinese ‘year of Africa’, and was upgraded from the Ministerial level to level of heads of state for that year. China also presented the first official paper outlining its Africa policy (Tull 2008:115).

Eight proposals were put forward to ‘forge a new type of China-Africa strategic partnership’ at the 2006 FOCAC by the Chinese president Hu. These commitments ranged from promises of more financing and debt cancellation, training African professional and students, building important infrastructure, establishing Special Economic Zones and opening up China’s

market to African exports. Included in the list was also the China-Africa development fund, valued at US\$5 billion that would be established to encourage Chinese companies to invest in Africa. The inclusion of the fund in the list shows that the Chinese government suggests that the promotion of Chinese companies in Africa will benefit African countries. A Chinese white paper on China-Africa cooperation identifies the lack of infrastructure as a bottleneck for African countries: “As backward infrastructure is the bottleneck that hinders the development of many African countries, infrastructure construction is one important aspect of China-Africa economic and trade cooperation.”(Xinhuanet 2010) Chinese financial instruments such as export credits and concessional loans combined with Chinese companies are presented as the Chinese strategy of helping African countries overcome the ‘infrastructure bottleneck’.

This ambitious list underscores China’s formal commitment to engaging in a broad range of cooperation with Africa. However, it is suggested that while FOCAC sets the official agenda, negotiations and deals between African states and China are usually done on a bilateral basis. According to Hon et al., their research suggest: “that the FOCAC ministerial meetings largely are formalities, setting the tone for future collaborative agreements. As a result *de facto* development of African countries’ relations with China takes place in the ongoing bilateral dialogue and the preparatory meetings that are coordinated in each African country by the President’s office and the Ministry of foreign affairs” (Hon et al. 2010:16). According to representatives from the Chinese MOFCOM, all commitments from the 2006 FOCAC have been implemented. The commitments announced at FOCAC can be a point of departure to assess the Chinese engagement in Angola in practice. From this approach we can assume that China is engaged in a range of activities in Africa in line with the FOCAC commitments that transcends natural resource extraction.

What place then does resource for infrastructure contracts have in China’s Africa policy? According to Brautigam, resources for infrastructure contracts epitomize China’s win-win Africa policy: “Although they are relatively rare, the large, complicated infrastructure-resource loans epitomize what the Chinese talk about when they talk about win-win”(Brautigam 2010a). She argues that the resource for infrastructure mechanism could translate resources into development projects, by bypassing opportunities for embezzlement and fraud.

The Chinese deal was not without risks, but it was also revolutionary for the country: for the first time, there was hope that some of Angola's riches might actually be translated directly into development (Brautigam 2009:276).

The resource for infrastructure mechanism is thus a perfect example to examine closer how the Chinese win-win approach plays out in practice. Brautigam suggests that the resource for infrastructure loans were inspired by China's own experience with development. According to Brautigam, China in the seventies was an "agrarian economy with immense reserves of natural resources – oil, coal, gold, copper – similar in structure to many African countries today". As Japan sought to diversify its energy suppliers, negotiations began between the two countries: "By the end of 1978, Chinese officials had signed seventy-four contracts with Japan to finance turn-key projects that would form the backbone of China's modernization. *All would be repaid in oil.*" This was, according to Brautigam, a model where Japan used resource-backed concessional loans to counter the fact that their equipment was far below Western standards. The Chinese found themselves in a similar position decades later: "More than two decades later, as China faced the dual challenges of promoting its own, often lower-quality, equipment exports, and securing access to needed raw materials, Chinese officials drew on this early experience with Japan. It shaped Chinese perceptions of how relations between two countries at different levels of development might be beneficial to both" (Brautigam 2009:46-47).

It is argued that the natural resource is used as a guarantee for the credit, rather than as a goal by itself. Brautigam emphasizes that resource-backed credit is used for countries with poor credit ratings. She argues that the Chinese Eximbank does not require a resource-backing in countries with 'good governance'. She emphasizes that for creditworthy countries with good economic environments and low risks, the Eximbank can issue loans directly to the government (Brautigam 2009). Seen in a win-win perspective, the resource-backing is a method to help African governments obtain Chinese credits that can result in necessary infrastructure construction, removing bottlenecks for African countries.

Brautigam suggests that exports and contracts for infrastructure are hugely important for the Chinese; in 2008, the Chinese exported equipment worth more than \$50 billion, Chinese construction companies earned revenues of \$20 billion, and signed contracts worth \$39.6 billion in Africa. The Chinese 'Go Global' policy facilitates Chinese companies' establishment overseas through various incentives such as credits from the Eximbank.

2.10 Hypotheses based on the two perspectives

Based on these two perspectives I wish to take the discussion further by formulating two main hypotheses grounded in the literature. H1 is based on the assumption that Chinese activities in Africa are aimed at securing access to natural resources and that in that process, classic north-south exploitation patterns are reinforced.

H1: The 'Angola mode' is a mechanism to secure Chinese access to oil and other natural resources

This hypothesis implies that the resources for infrastructure contracts are used to facilitate the entrance of Chinese NOCs to acquire oil equity, or for China to achieve a steady supply of oil. We can also identify underlying assumptions to this hypothesis: that the Chinese construction companies are used to mitigate risk, and that the African governments' are just passive players in China's search for natural resources.

What empirical evidence would we expect to find in Angola according to H1? If this mechanism secures oil supply to China we would expect to find that Chinese NOCs have had substantial advantages in acquiring oil equity/entering the Angolan market because of the resource for infrastructure contracts. We would also expect that these credits have facilitated a long-term oil supply to China. We would find that the Chinese companies with workers from China are used primarily to mitigate risks. If they are used primarily to mitigate risk we would expect to see little economic gain for these companies. We would also expect them to leave after the official infrastructure projects were finished. Companies would be state owned, and mainly Chinese workers would be employed. The Angolan government would behave as passive players in a classic north-south relationship.

H2 is based on the assumption that the resources for infrastructure contracts epitomize China's win-win Africa policy where both countries gain from the engagement. Oil is used to mitigate the risk of extending credit so that the country is able to benefit from China's credit and construction companies.

H2: The resource for infrastructure contracts is a mechanism to secure contracts for Chinese companies and infrastructure development for Angola

There are some underlying assumptions to this hypothesis. First of all, the natural resource is used to mitigate the risk of extending a credit to a country with poor credit ratings. Second, both China and Angola gains from the arrangement.

If this mechanism is used to facilitate the entrance of Chinese companies, we would expect to see that Chinese companies are established in Angola because of this credit. We would also find indications that the oil is used to mitigate the risk of extending credit to a country with poor credit ratings. In addition, both China and Angola would have achieved substantial gains through participating in this arrangement. Angola would have gained much needed infrastructure construction while China would gain contracts for Chinese companies.

The first part of the resource question relates to how this mechanism may have developed since it was first implemented in 2004. This discussion is essential to clarify what mechanism we are discussing, and how this has developed. In this process I will assess changes internally in Angola to get an understanding of the circumstances that are essential to discuss the second part of my research question. The two hypotheses will be explored through China's oil gains, including the acquisition of oil equity by Chinese NOCs in Angola, and China's supply. I will also assess Angola's infrastructure gains from this agreement and the gains for Chinese construction companies through this mechanism. As the aim is to explore rather than to falsify the hypothesis I have not identified a threshold for when a hypothesis is falsified or confirmed. However, I will look for indicators supporting the different hypotheses, and use that as a base for tentative conclusions. I will also explore the usability of the theoretical perspectives to analyze the case.

In this chapter I have first presented an overview of Sino-African relations. This was done to have a point of departure to discuss theoretical perspectives in the Sino-African context. Further I discussed two different theoretical perspectives, and formulated hypothesis to be explored in the Angolan context.

Chapter three - Choosing Angola: The methodological fundament

3. Introduction

In this chapter I will discuss why Angola is a good case to analyze whether the resources for infrastructure contracts are a mechanism used by China to access African natural resources, or a mechanism to ensure mutual benefit. I will also argue for drawing on indicators from comparable cases in the analysis. Thereafter I will discuss the case study as a method, and the use of it in the field of comparative politics. I will finish with a discussion of data availability, fieldwork and the use of semi-structured interviews.

3.1 Why Angola?

“China needs natural resources and Angola wants development”

Angolan President dos Santos 2006¹⁰

Country	Year of commitment	Natural resource	Project description	Amount	Status 2011
Congo-Brazzaville	2001	Oil	Imboulou hydro-electric dam. Backed by crude oil guarantees	280 million	Completed
Sudan	2001	Oil	El-Gaili Power Plant. Oil used as collateral	128 million	Completed
Angola	2004, 2007, 2010	Oil	A range of infrastructure projects. Repaid with crude oil/revenue from oil	10 billion	Some completed, some under construction
Nigeria	2005	Oil	Infrastructure in exchange for oil equity	2 billion	Cancelled
Equatorial Guinea	2006	Bauxite	Souapiti Dam project. Allegedly linked to mining revenues.	1 billion	Cancelled
Ghana	2006	Cocoa	Bui Dam. Repaid with cocoa exports to China	562 million	Under construction
Congo-Kinshasa	2007	Copper	Mining and reconstruction	3 billion	Under construction

Table 1: Chinese resources for infrastructure deals in Africa¹¹

¹⁰ Quoted in Vines and Campos 2010:193

¹¹ Based on Foster et al. 2009 and updated with Brautigam 2010a

In addition to these projects, there are discussions of resource for infrastructure contracts in several other African countries such as Zimbabwe, Chad and Niger¹².

These credits backed by natural resources are a small and possibly increasing part of the total lending activity of the Chinese Eximbank in Africa. In comparison, the Chinese Eximbank has financed more than 300 projects in Africa since 1996 (Brautigam 2010a:16). We see that in Congo-Brazzaville and the Sudan, oil was used as guarantees rather than to repay the credit directly. In Angola, the credit is possibly repaid with crude oil shipped to Chinese refineries, and thus directly used to repay the used credit. The details of the Angolan agreement will be discussed further in chapter four. In Nigeria, the credit was linked with oil equity acquisition by Chinese NOCs. However, the deal in Nigeria fell through, and there are no immediate plans for a similar structure there for now. The project in Equatorial Guinea has also been cancelled, but there are negotiations between a group of private Chinese investors and Equatorial Guinea on a new resource for infrastructure contract, so it may seem like China is still officially involved even though the Chinese Eximbank has no resource for infrastructure engagement there. In Ghana the credit is paid back through cocoa beans export, allegedly 40,000 mt of coca beans annually over 20 years. The loan repayment would absorb approximately six percent of Ghana's cocoa production (Brautigam 2011). When we have several examples of countries that have engaged in resources for infrastructure contracts, why would we use only Angola to scrutinize the resource for infrastructure contracts?

The research question aims to investigate whether this mechanism is used to secure access for China to Africa's natural resources. If this is the case, then it is natural to ask what natural resource is most important for China. China went from being an oil exporter to a net importer of oil in 1993. China imports around fifty percent of its domestic consumption of oil, and oil is China's largest external reliance (Christensen 2010). As mentioned in Chapter two, Chinese imports from sub-Saharan Africa have been highly concentrated in a few countries that, with the exception of South Africa, are oil-producing countries (Broadman 2008). The importance of oil is clearly seen when one takes a closer look at the composition of the Chinese imports from sub-Saharan Africa. In 2006, three quarters of China's imports from sub-Saharan Africa consisted of oil. Four countries accounted for 93 percent of China's oil supply from sub-Saharan Africa:

¹² Interview with Deborah Brautigam, Researcher at American University in Washington, 13/5 2011

Angola (51%), Sudan (18%), Congo-Brazzaville (13%) and Equatorial Guinea (11%) (Foster et al. 2009).

If this mechanism is not used to secure access of oil to China, then why use such a complicated mechanism to secure a steady supply of less strategically important copper from Congo-Kinshasa? Considering this, I argue that scrutinizing a country that uses oil in the resource for infrastructure contracts would be most fruitful to explore this assumption. As we can see from Table 1, of the countries that have used oil in the resource for infrastructure contracts, Angola stands out by the size, the fact that the credit is extended several times, and the amount of projects that were financed. In both Congo-Brazzaville and the Sudan, the credit was used to build a single large infrastructure project. In the case of Nigeria, the whole agreement was cancelled.

Sino-Angolan relations have expanded quickly. In 1999, China imported 40 000 barrels of oil per day (bpd) from Angola, while in 2009 the oil import from Angola amounted to 800 000 bpd (Minpet 2010). Broadman points out that while the content of exports and imports has remained the same, main trading partners have changed. Angola has during a short period of time replaced South Africa as the main trading partner in the region, and Sudan as the main oil supplier to China in the region (Alden and Alves 2009:7).

Due to the size and scope of the resource for infrastructure contracts in Angola, it is an example of an extreme case. An extreme case is characterized by extreme or unusual values on x_1 or Y . Angola is not a representative case of Sino-African engagement. It is as China's main trading partner in the continent, and the resources for infrastructure contracts have dominated Sino-Angolan relations. An extreme case is mainly used to generate hypotheses, and its representativeness is achievable only in comparison to a larger sample of cases (Gerring 2007). If we don't find that this is a mechanism used to secure access to natural resources in Angola, then we would not expect it to be an instrument primarily used for that purpose in other countries either. However, as an extreme case, it is not possible to automatically use findings from Angola to generalize to other cases of Chinese resource for infrastructure engagement in Africa. While the main focus will be on Angola, I will also draw on examples from the other countries that have engaged in oil for infrastructure contracts such as Nigeria, the Sudan and Congo-Brazzaville in the analysis. This may shed light on comparable agreements, and uncover some country-specific differences. By drawing on evidence from comparable cases I also wish to explore the potential

for external validity of the findings from Angola. By analyzing Angola and drawing on examples from countries that have engaged in similar mechanisms I seek to add to theory building in the field of 'China in Africa'.

3.2 Why case study?

According to Gerring what we should study is to some degree contingent on what we already know. The status of a field, i.e., the amount of case-studies or cross-case studies already conducted will tell us what type of studies the field is lacking. It is more fruitful to contribute with a case-study in a field that is dominated by cross-case comparison, and vice-versa (Gerring 2007:62). In the field of "China in Africa" several scholars have called for less generalized overviews, and more in-depth study of Chinese influence in Africa to disentangle country specific variations (Mohan and Power 2008, Vines et al. 2009:vii). While there has been a rise of such case studies in recent years, Angola (alongside Sudan) is probably one of the countries in Africa that has received the most attention from scholars (Corkin 2008; Kiala 2010; Vines and Campos 2008, Ferreira 2008; Vines et al. 2009; Alves 2010). This is probably due to the size of the Chinese engagement as Angola has been of the most visible example of Sino-African engagement the recent years. The lack of a comprehensive database and the potential problems of data reliability are strong arguments against using a quantitative study to analyze Sino-African relations (Brautigam 2009). What I want to add to the discourse with adding another case-study is a more thorough in-depth examination that covers the latest development of the engagement. However, the existing studies also allows for a better understanding of recent developments of Sino-Angolan relations as they lay the ground for further examination. I seek to identify some of the mechanisms of Sino-Angolan relations to compare with the broader generalizations of the Sino-African engagement. The case of Angola has been used to understand Sino-African relations in previous studies. Ovadia write that: "The Angolan case is most often selected due to the depth of Chinese engagement. It is particularly useful for wider generalizations in other cases where China is engaged in significant natural resource extraction" (Ovadia 2010:11). I wish to avoid 'conceptual stretching' as meanings associated with the resources for infrastructure mechanism in Angola (the model case) may fail to fit with additional cases (Sartori 1970). I argue that Sino-Angolan relations, as an extreme case of the resource for infrastructure mechanism is not automatically suitable for wider generalizations. Nevertheless, the Angolan case may contribute to a broader

understanding of other African countries that have operated with resource for infrastructure contracts, specifically when the resource is oil. Kopinski et al. cautions: “Not to generalize Beijing’s relationship with a handful of African states to reflect China’s ties with the entire African continent” (Kopinski et al. 2011:131). This I will avoid by ensuring strong internal validity, and prioritizing internal to external validity in my thesis.

3.3 The use of case study in comparative politics

Comparative politics is referred to as the study of political phenomenon that is compared through time and/or space. There are several methods used to conduct comparative studies such as most similar/most different systems. However, case studies also have a place in comparative politics.

Gerring defines a case study as an “intensive study of a single unit or a small number of units (the cases), for the purpose of understanding a larger class of similar units” (Gerring 2007:37). The use of case studies has been widely debated, and I will discuss the potential trade-offs of using case-study in the next section. My thesis will use a comparative perspective that will implicitly compare my case with other cases (Collier 1991). My thesis is implicitly comparative by 1. Placing Angola in a pattern of Chinese engagement in Africa, and drawing on previous studies of Chinese engagement in other African countries. 2. It is also a comparison of the same unit over time- trying to explain whether and how the Chinese engagement in Angola has developed from 2004 to 2010. 3. I will also compare the resource for infrastructure mechanism in Angola with other African countries that have negotiated oil for infrastructure agreements with China.

3.4 Potential trade-offs

The use of case study as a method has just as other methods of inference some inherent potential trade-offs. Gerring identify eight main trade-offs between case studies and cross-case studies. I will relate these to the challenges with my own thesis (Gerring 2008:37-57). (1)The first trade-off is between generating hypothesis and testing hypothesis. My thesis is more concerned with generating hypotheses, and in the process not exclude what Ragin refers to as ‘casing’: “defining the topic, including the hypothesis(es) of primary interest, the outcome, and the set of cases that offer relevant information vis-a-vis the hypothesis” (Gerring 2007:40, Ragin 1997:127). I argue that such an approach is especially useful where there is a lack of a solid theoretical background

as in the recent field of “China in Africa”.

(2) Is external or internal validity prioritized? Internal validity is crucial and prioritized over its ability to generalize. While I hope to shed light on other cases with my study, the main concern is ensuring the internal validity. This is especially important as myths and inaccuracies have been widespread in the perception of Chinese engagement in Africa. (3) Is insight in causal mechanisms or causal effects more valuable? Causal mechanisms are prioritized as it is early to draw conclusions on a recent development. However, that does not mean that it is not possible to look for causal effects, but the result will be tentative (4) Is the scope of the causal inference deep or broad? In the classic choice between knowing more about less or less about more the aim is to know more about less as there are already numerous studies that have focused on less about more in the field (Alden 2007; Taylor 2008; Brautigam 2009) (5) Is the population of cases under study heterogeneous or homogeneous? Sub-Saharan Africa is a heterogeneous region with large differences between some countries. Comparability is thus not obvious. Snow emphasize that: “the new Sino-African encounter doesn’t lend itself to easy generalization”(Snow 2008:xvii). While resources for infrastructure contracts are present in several African countries, negotiations are always bilateral and thus the final result will always have variations. The success of such contracts in Angola and not in Nigeria emphasizes the challenges of transferability (6) Is the causal relationship of interest strong or weak? The topic of interest is whether the causal relationship is weak or strong. Examining the potential strength of the causality is part of the aim. (7) Is useful variation on key parameters within that population rare or common? Examining the amount of useful variation is also something that will be done while exploring the case. (8) Is available data concentrated or dispersed? The data availability is very important for my decision to do fieldwork in Angola, and will be discussed in the next section.

3.5 Data availability

To find reliable secondary literature I started with informal conversations with academics with knowledge in the field. This is considered a time-saving and effective approach in the exploratory phase of research (Bogner et al. 2008). Articles and books recommended by academics as well as published by recognized research institutions that focused on the field¹³ were natural starting

¹³ Chatham house, South African Institute of International Affairs, Stellenbosch Centre for Chinese Studies and the World Bank

points. An initial challenge for everyone that wants to say something about the Chinese involvement in Africa is data availability. Some suggest that a language barrier is responsible for some of the perceived lack of data by Western scholars. Sources are often published in Chinese, or in the language of the receiving country such as Portuguese or French. It is also suggested that the Chinese version of government pages contain more information than the English version (Brautigam 2009; Hubbard 2008:218). Information is difficult to obtain as there are little comprehensive or complete numbers of them publicized. The most common take on the lack of comprehensive data is to triangulate the available sources. Available sources include international and Chinese media reports, government sites and company sites. Some scholars have supplied this information with interviews with representatives from China and African governments and companies. As a result of the different methods of triangulation used by different scholars, some studies operate with different numbers than others. A study that adds together all the Chinese financing reported by international media such as the US government report by Lum et al. 2009 will inevitably find different numbers than the World Bank study by Foster et al. 2009 that only reported numbers verified by the Chinese government sites. Such studies are then sometimes challenged by researchers who have done country-specific fieldwork. In short, the landscape of Chinese financing can seem confusing, and challenging to systematize. The availability of information in Angola in general is also a challenge. The political landscape of Angola adds an additional layer to the access of relevant information (Orre 2010). This was underscored when I interviewed a World Bank employee about the Chinese credit-lines:

*We don't know. We don't get the information. We try as much as we can but the information is just not there. You might be able to get some information from me, but how do you certify it, how do you know that it's true? That's the thing because you go to the government and you just don't get the information, it is just not there.*¹⁴

Due to the aforementioned challenges regarding data availability both in the “China in Africa” field, and in Angola I argue the necessity of supplementing the secondary literature with fieldwork. My data will thus combine secondary sources such as academic publications and newspaper articles with primary sources such as government documents and interviews. This triangulation of primary and secondary sources brings inherent challenges. In case of

¹⁴ Interview with Ana Maria Carvalho, Communications and External Affairs at the World Bank, 27/1 2011

contradictory findings, what is regarded as more reliable? In such cases I will present the different information in my thesis, and discuss what sources are seen as most reliable on a case to case basis.

3.6 Interview as a method

In my fieldwork I used expert interviews (Bogner et al. 2009) to obtain information. According to Littig, the expert is defined by the researcher on the basis of the topic of research. Expert interviews are often confused with elite interviews, but differ by focusing on interpretive power rather than formative power. An informant is recognized as an expert due to his occupational or professional knowledge. This knowledge contributes to explicit or tacit interpretive knowledge, procedural knowledge and process knowledge. In other words, the know-why, know-how and processes of the topic of interest. The expert may typically have a lower hierarchical position than the economic and political elite. Insofar as the aim of the research is to obtain the know-how, know-why and process knowledge, the interview is an expert interview even when interviewing the elite (Littig 2009:107-109). There are three types of expert interviews: the exploring, the systematizing and the theory generating. The exploring type is used in a relatively unknown field, the systematizing is used to reconstruct “objective” knowledge, while the theory-generating type draw on not only knowledge, but also on the interpretive knowledge that the informant has obtained through professional practice (Littig 2009:101). I draw on both a systematizing and theory generating approach.

I was looking for information on the Chinese credit-lines, and also other credit-lines extended to Angola from other countries to map out the Angolan economic situation which I will argue was an important factor concerning the resources for infrastructure contracts to be negotiated in the first place. While news reports had been published about other credit-lines and mentioned in some studies, no further information was available. To uncover what credits other external agents are offering the Angolan government is crucial when you wish to identify what separate the Chinese approach from the rest. However, terms of export-credits are usually not ‘particularly transparent’:

“Even in the OECD countries, commercial bank loans and officially supported export credits are not particularly transparent. While the amount of loans and credits are usually reported, it has

long been common practice for export credit agencies to treat almost all other information about officially supported export buyers' credits and official guarantees as confidential due to its commercial nature” (Brautigam forthcoming(a):12).

Interestingly, the Chinese credit-lines proved to be more transparent than credit-lines from other external actors, possibly due to all the attention the Chinese credit-lines have gotten in the local and international media (Croese 2011)

3.7 Informants

Initially I mapped out who I should talk to with informal conversations with academics in the field, both local and international, that had already conducted fieldwork in Angola. Further, I used the “snowball” method, asking informants about who they thought I should talk to regarding my topic.

In Angola there was a need for a formal letter of introduction to gain access to government representatives. That letter is to be handed in, for example at the Ministry of Finance, and then you have to wait for a reply. This took about a week. That by itself was an initial obstacle that required the cooperation of a recognized and preferably local institution. It is not surprising that the University of Bergen is not a well-known institution in Angola, and therefore I used the Catholic University of Luanda for accreditation. Informants outside the government did not require any official letter or formal pathway of contact and was much easier to get interviews with. However, getting in touch with potential informants was a time-consuming and tedious affair as only landlines were posted on web pages and nobody would pick up the phone for days till suddenly you would get a reply. The most successful way of getting interviews was obtaining someone’s mobile number from someone who knew them. Then there was no problem in getting an interview.

I conducted 8 taped interviews, and four untapped interviews in Luanda, Angola. I also conducted two untapped interviews with scholars in the field in Bergen, Norway. In addition I conducted several informal conversations with informants that were not taped, but that broadened my understanding of the topic. My informants consisted of

1. Local and international academics. A “China in Africa” conference was arranged while I was in Luanda so I was able to have conversations with several leading scholars in the field. This also

brought me up to date on recent developments in the field, and I was able to get additional information that was not yet published.

2. Government representatives from different embassies and the Angolan government. This was to obtain information on the other credit-lines to compare them with the Chinese credit-lines.

3. Non Governmental Organizations. To get the civil society impression of the Chinese engagement, focusing on whether they saw China as a different external actor.

There were also potential informants I did not get the chance to interview. This is a weakness of the fieldwork. People who could have contributed to a fuller understanding are: Chinese government officials, private Chinese investors, more Angolans high up in Sonangol and the Angolan government. These were unfortunately difficult to get in touch with, and the ones I managed to get in touch with had little time to spare for interviews.

The validity of the information obtained through interviews is an obvious source of error. Informants can have their own agenda and may have deliberately or not shared inaccurate information. In the case of Angola: “Authorities routinely limit the access of private media to official information” (HRW 2011:1). Obviously, this limits the access to correct information.

Some informants were happy to share numbers in discussion, but would not let me quote them as they were for “internal use”.¹⁵ Several of my sources, including local academics confirmed that it was often difficult to obtain information in Angola¹⁶. That highlights the importance of previous research in the area to analyze the reliability of the information. Concerning triangulation of sources, there are some concerns when conducting fieldwork in a country like Angola. A driver that I used during the stay told me that he often drove foreign journalists and academics to interview the same people. There is thus a danger that some local individuals will bias the information by being among the selected few that researcher’s interview during field work. Triangulating secondary and primary sources based on interviews with the same group of people will not show the way to an enlightened image of the case. Repeating something does not necessarily make it true. However, keeping that in mind it is possible to analyze the available information.

¹⁵ Interview with source at the Angolan Ministry of Finance, 31/1 2011

¹⁶ Interview with Regina Santos, Economist Economist at the Catholic University in Angola, 19/1 2011

3.8 Conducting interviews

All interviews in Angola were conducted in Luanda during a period of three weeks. All my interviews were conducted in person, usually at the office of the informant. Interviews were semi-structured with open questions, and taped unless the informant objected to it. I used the same interview guide for all of the informants with slight modifications depending on the informant. There is an inherent quest for balance as the researcher has a dual duty: “to ensure the purpose of the scholarly investigation and a simultaneous duty to protect the research subject from harm” (Obelene 2009:185). To ensure that the informants were not negatively affected by participating in the study, all informants were informed of the purpose of the interview and offered anonymity. Informants were offered to confirm quotes that would be used, and while some informants saw that as a prerequisite, others did not care to do that. The interviews were mainly conducted in English with the exception of one that was conducted in Spanish. When the English proficiency was not ideal, correct words were identified through similar Spanish words. While Portuguese and Spanish share 80 percent of the vocabulary, it is by no means the same language. Because of this I have carefully screened interviews for such parts in the transcription process, and have contacted informants by mail if I have been in doubt of the meaning of word/context. As I had to take notes during some of the interviews that were not taped, this was especially important to avoid misunderstandings. Transcription is a prerequisite for analysis and I coded all of the interviews according to thematic categories. I based my coding on Aberbach and Rockman, separating between ‘manifest’ that involve direct responses, ‘latent’ that are responses that were not called upon directly by the questions, and ‘global’ where the coder is forming judgments from the interview of general traits and styles. Aberbach and Rochman suggest that on average, the ‘manifest’ items were most reliable, something I also experienced when I coded the interviews (Aberbach and Rockman 2002:675). Transcripts and tapes are stored and are available upon request.

3.9 My role in the interviews

Bogner and Menz argue that the interaction effects that are commonly treated as potential distortions in interviews should rather be viewed as elements that are essential in the process of data collection (Bogner and Menz 2009:45). Six different perceptions of the interviewer are identified. Co-expert, expert from a different knowledge culture, layperson, authority, potential

critic and accomplice. Abels and Behrens also emphasize the interaction effect of not only age, professional status, background experience and cultural factors but also of gender, especially in cultures where men dominate. They see it as a potential advantage that the female researcher is regarded as less intelligent and thus get more thorough and specific information (Abels and Behrens 2009:150). In my experience I did not obtain any advantages of being female, reinforced by the fact that several of my informants were women. One local academic said that it could be an advantage to be a foreigner to obtain interviews; however, it is difficult for me to verify whether it was easier without a relevant comparison¹⁷. I was seen as a foreign student with some knowledge rather than as an expert. I experienced that the motivation for my research was questioned by Angolans who always wanted to know why I studied Angola before I conducted the interview. Vines et al. (2010) noted an increasing fatigue amongst Angolan officials of the fixation in the West about the Chinese involvement in Angola. I experienced this to some degree, and it was also suggested by a local academic that I should study something else about Angola than the Chinese engagement.

To sum up, in this chapter I have argued that Angola is a good case to challenge the assumption that the resource for infrastructure mechanism is used to secure Chinese access to African natural resources. Angola is selected due to the depth and size of Chinese engagement, and because the resource used is China's largest external reliance, and therefore the most crucial commodity for China. I have further discussed the use of case-study, and data availability on the topic. Due to the challenges of data availability I have argued that the secondary literature had to be supplemented with primary sources. Last I discussed interview as a method, and my role in the interviews. In the next chapter I will draw on the hypotheses from chapter two, and use these to analyze the extreme case of Angola.

¹⁷ Interview with Regina Santos, Economist Economist at the Catholic University in Angola, 19/1 2011

Chapter four - It's the oil, stupid!

4. Introduction

What situation was Angola in when the Chinese resources for infrastructure credit was first extended? I will first present a short overview of Angola, and the Sino-Angolan engagement. Further I will present the origins and history of oil-backed loans in Angola to contextualize the Chinese oil-backed credit. Last, I will discuss how the resources for infrastructure mechanism functions in Angola. This is important both for the discussion of whether there have been any change since implementation, and not least what conditions were connected to the negotiations. Central to this discussion is whether oil equity was part of the resource for infrastructure negotiations.

4.1 Angola: oil rich, but dirt-poor

“It's a small minority that is benefitting from the oil. Maybe ten percent, maybe only one percent is benefitting. The rest are not”

Former Angolan Finance minister¹⁸

There were three core competing groups fighting for Angola before and after independence in 1975. The MPLA was mainly supported by the Soviet and Cubans, while the UNITA and the FNLA were mainly supported by the US and South Africa, but also at times by China.¹⁹ The war came to a final end with the death of UNITA's leader Joseph Savimbi in 2002, leaving the MPLA as the winners of the war. Angola is now formally an electoral democracy, and the MPLA last confirmed its position in the country with a landslide victory in the parliamentary elections of 2008. However, it is difficult to separate the state apparatus from the MPLA, and poor ratings in the Freedom House Index confirm that Angola can hardly be classified as a functioning democracy. Angola is also rated at the lower end of the scale by the Human Development Index (146 of 169 countries ranked) and by the Corruption Perception Index (168 out of 178 countries ranked).²⁰ According to UN data there were approximately 18 million people in Angola in 2008 and life expectancy at birth is estimated to be less than 50 years Nevertheless, estimates of

¹⁸ Quoted in presentation at Cristhian Michelsen Institute, Bergen by Jesse Ovidia 20/5 2010. Video of presentation available at CMI .no.

¹⁹ FLEC also played a minor role in the civil war, mainly concerned with the independence of the Cabinda-region.

²⁰ 2010 reports can be obtained from respectively freedomhouse.org, hdr.undp.org, transparency.org.

Angola's population and life expectancy are, like other figures for the country, uncertain.²¹

Angola is estimated to have one of sub-Saharan Africa's biggest oil reserves alongside Nigeria. Hodgens (2004) suggests that since independence, oil has had an exceptional significance in Angola, listing five examples of areas he claims have been affected by oil. The first and most obvious is the economy of Angola. Oil and oil related activities account for 85 percent of GDP, and 90 percent of exports. Because of the dependence on one commodity, Angola is enormously volatile in relation to the international oil market. The sudden plunge in oil prices in 1985-86 led to a debt crisis and in 1998-9 another fall in oil prices forced Angola to turn to the IMF. Second, oil revenue has been used to finance military expenditure and thus affected the course and outcome of the civil war. Le Billon also suggests that not only the oil, but also the accessibility of two abundant resources (oil and diamonds) controlled by opposing groups prolonged the civil war beyond its cold war context (Le Billon 1999).

Third, the quality of governance has been affected by vast rents accruing to the state from oil exploitation. This has facilitated a system of presidential patronage, and is suspected to have led to an enormous enrichment at the top of the state ladder. This is however difficult to prove as much of the oil revenue is off budget. Fourth, it has affected the international relations of Angola. Due to competition amongst international oil companies for oil blocks, industrialized countries have been cautious in criticizing the Angolan government. Concerns in the West about the volatility of Middle East oil supplies have fuelled the importance of maintaining good relations with other oil producers. The oil wealth has reduced the potential leverage Western donors and institutions could have had through 'conditionalities' imposed by the IMF and the World Bank for loans. Fifth, he suggests that the culture of the country has been marked by the regional and international status of oil, and the military capacity that oil could buy. The military strength acquired by oil facilitated interventions in the two Congo's in the nineties, helping to install friendly governments to end these countries positions as rear bases for the opposition groups UNITA and FLEC. The international and regional position has led many Angolans to believe that in spite of poor human development indicators and the destructions of the war, oil has made their country respected, or at least, is not to 'be bullied with' as other poorer African countries (Hodgens 2004:141-43).

The Angolan economy is a big paradox as living costs are high, while the majority of the

²¹ Data availability in Angola is discussed in chapter three.

population is poor. Angola imports a high percentage of its food, making food prices artificially high in the capital Luanda. Luanda was even rated as the most expensive city to live in for foreign business visitors in 2010, with Tokyo coming second. Several residents of Luanda mentioned to me the case of a \$100 dollar melon that had been sold in late 2010, and later made it to court as the buyer sued the seller for “profiteering.”²²In comparison, The Economist magazine suggests that an average Angolan laborer earns \$50 a week (as always, statistics in Angola should be treated with caution).

4.2 Overview of China in Angola today

*The rapid increase in bilateral trade flows in recent years remains by far the most notable feature of the increasingly intense relations between Luanda and Beijing.*²³

Chinese aid and assistance to African countries started in the 1950s (xinhuanet 2011). However, Angola, or the MPLA, does not have a long history of receiving Chinese assistance (Alves 2010:6). During the civil war China supported UNITA and FNLA in the 1960s and 1970s, as the Soviet Union was a close ally of the MPLA.²⁴In the early eighties, China-Angola relations improved after recovering Sino-Soviet relations, and diplomatic ties were established in 1983. Relations were mainly confined to military cooperation in the eighties and nineties. This was in line with Sino-African relations in general in this period (Alden et al. 2008:5). Until the early 2000s, Alves claims that the importance of the relationship between China and Angola was limited (Alves 2010:5). Bilateral trade between China and Angola rose from approximately \$1 billion in 2002, to \$25 billion in 2010²⁵. Because of these accelerated trade relations, Angola replaced South Africa as China’s major trading partner in Africa. In 2007, China also replaced the USA as Angola’s major trading partner, a position the USA had held ‘throughout most of the country’s modern history’. In 2008, 72% of total bilateral trade consisted of Chinese oil imports. Two thirds of Angola’s imports from China consist of construction materials and equipment used for infrastructure development. The rest consists of accessories, electrical appliances and furniture (Alves 2010:8-9).

The resource for infrastructure loans and the subsequent presence of Chinese construction

²² The case was dismissed on the ground of lacking evidence. The buyer had kept the receipt, but ironically, had eaten the melon (The Economist 2011b).

²³ Alves 2010:7

²⁴ China briefly supported the MPLA in the beginning of the civil war.

²⁵ Gov.cn (2011)

companies and workers are probably the most visible aspect of Sino-Angolan relations. According to Vines et al. (2009) the principal foreign labor force in Angola consisted of Portuguese workers until 2005. In 2006, nearly 15 000 Chinese workers in Angola made the Chinese the principal foreign labor force. Their number rose to 50 000 workers in 2008, and 40 000 of them were employed in official bilateral infrastructure projects. According to the Chinese ambassador to Angola, by 2011 there were approximately 50 state-owned and 400 private Chinese companies in Angola. There were about 60-70 000 Chinese expatriates working in Angola.²⁶ Usually these migrant workers come on one or two year contracts, they live in closed compounds and return to China when their contracts are over (Vines et al. 2009:20, 42). Chinese construction companies mainly engage in the infrastructure sector, and came to Angola through the resource for infrastructure mechanism. They engage in many different sectors, ranging from building schools and hospitals to railways and electricity.

While there is no accurate data on this, indicators suggest that there is less Chinese investment outside of the oil sector in Angola than in other, comparable African countries such as DR Congo. Angola is ranked number 18th in terms of the amount of Chinese FDI to Africa, and Chinese FDI only accounts for 0.25 percent of Angola's total FDI. The lack of Chinese FDI to Angola is a stark contrast to Angola's position as China's major trading partner in Africa (Corkin 2011:3). While the Chinese Eximbank has extended the bulk of official Chinese credit, the China Development Bank extended its first credit-line for the agricultural sector in 2008-9. The state-owned Industrial and Commercial Bank of China extended a loan to Angola in 2010. Official Chinese credits to Angola through the Eximbank, the ICBC and CDB are according to the Chinese ambassador to Angola \$14.5 billion.²⁷ There is also a group of private Chinese investors who have extended credit-lines similar to the official Chinese credits under the name of China International Fund, amounting to \$3.5 billion (Xiaoyang 2010:352).

We also see bilateral cooperation in other areas. According to Alves, bilateral cooperation beyond oil and construction mostly occurred in the aftermath of the 2004 resource for infrastructure credit (Alves 2010:6). Such bilateral cooperation includes scholarships for Angolan students to study in China, workshops for Angolan officials, and cooperation with the removal of landmines and in the agricultural sector. The Luanda General hospital was also financed by the

²⁶ Channelnewsasia.com 2011

²⁷ Ibid.

aid program as a gift.

The importance of bilateral relations is underscored by frequent visits by heads of state or central government representatives from both countries. Direct air flights between China and Angola were established in 2009. That makes China the only Asian country that has direct air flights to Angola. Even though the bilateral cooperation has many dimensions, oil and infrastructure construction dominate trade relations between the two countries.

4.3 Sonangol and oil-backed loans in Angola during the civil war

*During Angola's long civil war (...), Sonangol emerged as Angola's only competent state institution.*²⁸

To put the Chinese oil-backed loans in perspective, I will give a short description of the use of oil-backed loans in Angola during the civil war. Sonangol, Angola's state owned oil company was, and is, vital in such transactions. Sonangol, was founded in 1976 by key members of the MPLA, and key members of the MPLA continue to be in leading positions in Sonangol. Soares de Oliveira suggests that Sonangol is the only functioning state apparatus in one of the world's worst governed states (Soares de Oliveira 2007:595). In comparison to the MPLA that was Marxist to the end of the cold war, Sonangol operated on capitalistic principles from its beginning. Despite the MPLA's reliance on Soviet and Cuban support, the American Chevron remained an investor in the oil industry even as the US supported the MPLA's main opponent, the UNITA. The MPLA remained in control of the country's oil revenues during the whole civil war through Sonangol. Even when it was estimated that 80% of the Angolan territory was occupied by the opposition in 1993, Sonangol and the primarily offshore oil production was not damaged (Soares de Oliveira 2007:603). There is said to be a place between Sonangol, the treasury and the central bank that is referred to as the 'Bermuda triangle' where large parts of Angola's oil revenue 'disappear without a trace' (Hodgens 2004:142). According to the IMF, between 1997 and 2002 the Angolan government received at least \$4.2 billion from Sonangol they couldn't account for (IMF 2003).

Due to a massive external debt²⁹ to foreign creditors such as the Soviet Union, Brazil and members of the Paris club, traditional commercial forms of borrowing money became

²⁸ Soares de Oliveira 2007. It is possible to argue that the military also is a well-functioning state entity; however, Sonangol is seen by some scholars as the only functioning civilian institution.

²⁹ By 1995 external debt was more than US\$ 11 billion (Hodgens 2004:163)

unavailable to the Angolan government. From the early nineties oil-backed loans became the only way that Angola could secure credit. Credit was given by international banks and by export-credit agencies, guaranteed with future oil-supplies, mostly done by Sonangol on behalf of the state. Because of Angola's low credit rating these loans were costly³⁰. However, some argue that extra interest charges of US\$ 50-100 million a year was a small price to pay to keep the IMF at bay (Le Billon 1999:27). These trends quickly led all oil physically accessible to the government through Sonangol to be tied up into servicing oil-guaranteed loans by the end of the nineties. By 2000, oil-guaranteed debt accounted for 47 per cent of total external debt, or \$4.99 billion. Hodgens claims that the composition of Angola's debt, rather than the size of the debt, became the main problem. Fiscal revenue due from Sonangol was not paid to the treasury, nor recorded in the budget execution accounts because Sonangol was servicing debt on behalf of the state through its oil shipments. Oil-backed loans in Angola are thus according to him closely linked with problems of 'extra-budgetary operations and with the central issues of transparency and accountability in government finances' (Hodgens 2004:163-5).

This shows that oil-backed loans are by no means a new mechanism that China introduced in Angola; rather it was an established mode of financing because Angola did not have any other options for credit. What was new with the Chinese credit-lines was the tying of the credit to infrastructure construction. It is also suggested that such loans carry further implications than loans that are not oil-backed, specifically regarding the off-budget handling of such loans and the following problems with accountability and transparency.

4.4 Post-war Angola

*Angola is avoiding pressure to clean up corruption thanks to aid from China*³¹

After the end of the civil war, real GDP growth in Angola was rising as a result of the oil boom. However, the financial situation was rated by the IMF as 'very poor', poverty was widespread, the infrastructure was ruined and Angola was considered by the IMF to face 'a serious humanitarian crisis' (Croese 2011:10).

During the war, the Angolan government had, as mentioned above, accumulated numerous loans. The debt made it difficult for the Angolan government to get external financing,

³⁰ About 2 percentage points or more over London Interbank Offered Rate (LIBOR), is the 'benchmark rate' of international lending with short maturities of four years or less (Hodgens 2004:163).

³¹ News report cited in Brautigam 2009:274

at least without approval from an institution such as the IMF. However, it is important to note that Angola was not without options as it has often been portrayed in the media (Brautigam 2009:274). According to Brautigam, The Paris club expected Angola to come to an agreement with the IMF, and a “donor conference” was planned to work out how the situation could be solved. An IMF agreement was considered a prerequisite for financial assistance, and a united front was supposed to wait with financial support to Angola until after the IMF approved of Angola’s financial situation. The IMF wanted Angola to implement an IMF program, and to show good performance for three trimesters before Angola would qualify for financial assistance. However, the Angolan government did not agree with the conditions, and the negotiations fell through in 2004. This was not the first time negotiations between Angola and the IMF had collapsed. However, Angola was not completely without access to financing, though the access to concessional financing was unavailable (Vines and Campos 2009:202). Even before the negotiations with the IMF collapsed, Germany settled a debt reduction unilaterally and extended new export credits while a French bank extended an oil-backed loan of \$1.15 billion in 2003 (Brautigam 2009:275).

The Chinese credit-lines came as an addition to this other external financing. China Construction Bank and Eximbank had already funded US\$150 million for a number of infrastructure projects in 2002. However, in 2004, the same year as the IMF deal with Angola fell through; China extended the first oil for infrastructure credit line to Angola.

So, how does the Chinese Eximbank credit differ from other oil-backed credits previously extended to Angola? First of all, it gets a lot of attention. Brautigam writes that reports of “China in Africa” usually mentions the 2004 events in Angola as a “cautionary tale” against the consequences of China’s presence in Africa where financing from China is preferred to Western conditionalities. She also emphasizes that out of all the oil-backed credit Angola receives; only the credits extended by China makes the headlines. This seems to be the case also in Angola, where Chinese loans get the bulk of media attention.³² The oil-credit has been referred to as foreign aid numerous times, in academic studies (Kiala 2010) and news reports (Traub 2006). Technically, the Chinese credit was cheaper than the other credits Angola could obtain at the time. While Angola had been borrowing up to 2.5 percent over Libor, the Chinese loan was only 1.5 percent over the benchmark (Brautigam 2009:274-5). Libor is the London Interbank Offered

³² Interview with Regina Santos, Economist Economist at the Catholic University in Angola, 19/1 2011

rate, and is used as a benchmark for bank rates all over the world (Guardian 2007). Tying of the credit to infrastructure construction was also a new, unique feature that Brautigam, as mentioned in chapter two, suggests that China had learned through its own development experience.³³ As Brautigam points out: “Oil companies and private banks have provided oil-producing countries with oil-backed loans for decades, but there was no tying of the loans to developmental purposes. This model of finance used for development and repaid with resources grew in part from China’s earlier experience as the recipient of aid, particularly aid from Japan.” (Brautigam 2009:56).

4.5 Defining the mechanisms: how does it work?

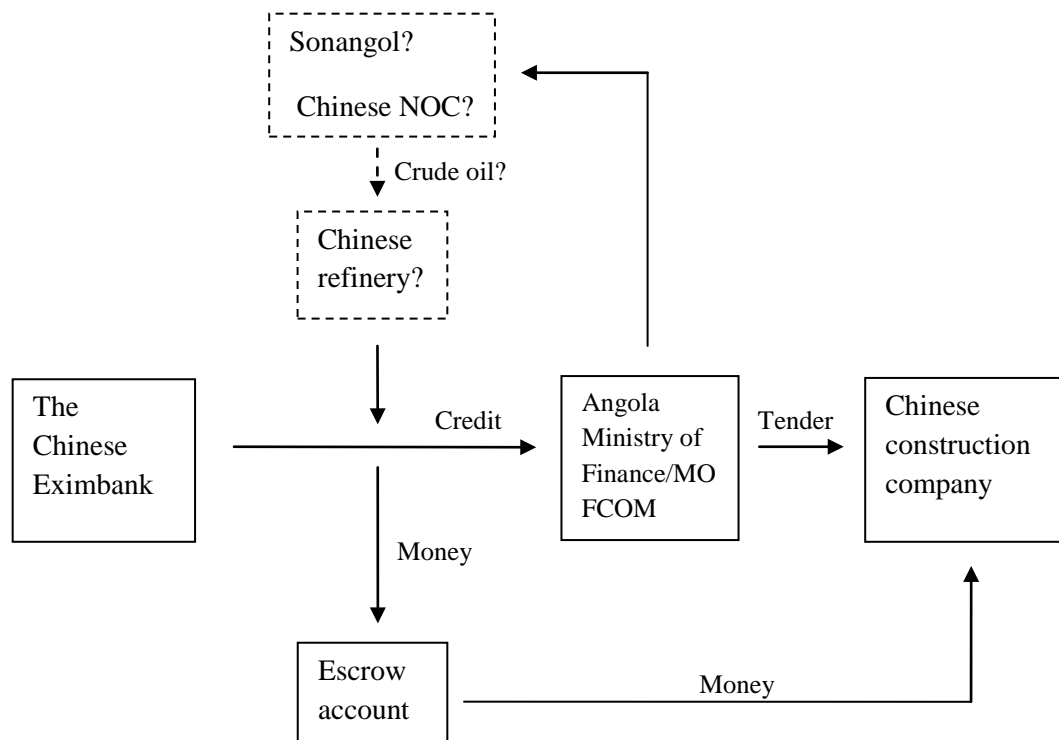


Figure 1: The 'Angola mode'. Based on authors interpretation of the existing literature on the subject.

The Chinese Eximbank extends the credit to Angola, and the credit line is according to Corkin jointly managed between the Angola Ministry of Finance, and the Chinese Ministry of Commerce (Corkin 2008:110-111). When a tender is announced, at least three pre-approved

³³ Japan used the same resource for infrastructure type of contracts in China (Brautigam 2009)

Chinese companies compete against each other for the project. The implementation is overseen by an Angolan state agency, the GAT³⁴, and sectoral ministries manage the public works by for example making sure that nurses are hired to a hospital that is built (Vines and Campos 2010:197). The available credit is held in an escrow account in China in the name of the Angolan government. Disbursements are made directly to the contractors by the Eximbank *after* the project is completed. Many commentators agree on this part of the resources for infrastructure contracts in Angola (Brautigam 2009; Corkin 2008; Vines et al. 2009). However, concerning the repayment to China there are different pieces of information. While we know that the Chinese Eximbank reimburses the construction companies, how is Angola repaying the loan?

According to Vines et al.: “*Revenue from oil sold under this arrangement is deposited into an escrow account from which the exact amount towards servicing the debt is then deducted*” (Vines et al. 2009:48). They do not cite a source, but presumably the information is from interviews conducted in Luanda for their report. They thus suggest that the revenue from Angolan oil is used to service the debt, but they don’t mention what oil company that extracts it (Angolan? Chinese? American?), or what oil block it is taken from.

A World Bank study claims that the Chinese credit lines are closely associated with oil production by a Chinese company in Angola. The study describes the process as a simultaneous process where infrastructure contracts are given to Chinese companies at the same time as a Chinese petroleum company is awarded rights to begin production in Angola: “The government of the beneficiary country instructs the Chinese contractor to undertake infrastructure works, supported by the Chinese Ex-Im Bank, *Repayment is in the form of oil produced directly by the Chinese petroleum company.*” (Foster et al. 2009:55, emphasis added). They cite themselves as the source of this claim, but they base their study on newspaper articles and information available from government websites.

According to Brautigam, “*Repayments for the loans spent to date have been made through direct shipments of oil from Block 18* (jointly operated by Chinese firm Sinopec, Angola’s state company Sonangol, a Hong Kong company China International Fund, and British Petroleum: BP)” (emphasis added). She cites Wikileaks as a source for this claim. Block 18 was the first Chinese NOC oil acquisition in Angola in 2004.

What to make of this? Unfortunately, there are no publicly available official documents

³⁴ Gabinete de apoio tecnico de gestão da linha de crédito da China

on the terms negotiated between the Chinese Eximbank and the Angolan government. The lack of a publicly available document makes it slightly more difficult to assess what the terms of the agreement are. As they may all have different puzzles of the picture, it is not possible to say who is right, or whether they all are. There is not enough public information to confirm or disconfirm any of these assumptions on the details of this part of the agreement. Unfortunately I was not able to shed more light on this mechanism through my interviews in Luanda. As the credit has been extended several times, it is also possible that there have been different conditions, formally or informally linked with the agreement. We do know that the credit is paid with oil, but we do not know if this is through direct shipment of crude oil, with revenue from oil, or how the amount is calculated. However, when assessing the available sources I chose to use Vines and Campos as the most reliable source as they have conducted fieldwork in Angola numerous times, and belong to a recognized research institution. The crude oil is probably shipped to a Chinese refinery, and the sale of the oil is then put into an escrow account in China. Thereafter, Chinese companies are paid from that account after the completion of each project.

While the credit is payable over 12 years at the concessional rate of 1.5 percent over Libor, how is the price determined? According to Brautigam: “China Eximbank president Li Ruogu has stated that his bank uses market prices in repayment arrangements for its commodity-secured lines of credit (Brautigam forthcoming(b):7)”. Corkin also claims that the oil price is not fixed, as it used to be in the more expensive oil-credits Angola got during the civil war. It follows the market fluctuations, and is thus not discounted in price. If this is the case, what do the Chinese gain from the oil-backing? According to Foster et al. “China is able to gain physical security over oil resources, normally at a slightly discounted price” (Foster et al. 2009:56). In this case I will use the official Eximbank statement, and assume that the oil is priced in accordance with market fluctuations. If this is so, the only oil gain for China seems to be that they were able to secure steady supply rather than as insuring against price increases. Nevertheless, it is possible to question why China would need such a contract as it would be easier to just buy oil from for example Angola at the international market to the same price. Why secure access to purchase a natural resource to market price when you could buy it at the international market at the same prices, and without complicated contracts?

One answer to this is access to oil equity. When Chinese NOCs first entered the Angolan oil equity market in the aftermath of the 2004 ‘resources for infrastructure’ contracts they did

experience some initial success. In 2004 the Chinese NOC Sinopec for the first time acquired oil equity in Angola. A 50 percent stake was for sale by Shell in block 18 operated by BP, and it was sold with some controversy. Initially, Shell had agreed in April 2004 to sell its stake to the Indian state-owned company Videsh. However, Sonangol decided to apply its pre-emptive rights on block 18, and a joint venture between Sonangol and Sinopec; Sonangol Sinopec International (SSI) was established. Sinopec holds a 55 percent stake in SSI, but the arrangement took place under the ‘umbrella’ of the private Chinese investors, the Queensway 88 group that also offered private credit-lines to Angola. Through Dayuan International Development LTd, the group holds a 31.5 percent share in SSI. The last 13.5 percent is held by China Sonangol International Holding, which is a Sonangol joint venture fully backed by the Angolan presidency. In 2006, SSI acquired three stakes in new ultra-deep-water blocks. The bids were the ‘highest ever offered for oil acreage anywhere in the world’ (Alves 2010:17-19). However, there seems to be some agreement in the literature that after an initial success in acquiring oil equity in the aftermath of the 2004 credit-line, Chinese NOCs have lately been unsuccessful in securing additional oil equity in Angola (Alves 2010; Corkin 2011). This has however not stopped new Eximbank credits from being extended to Angola, questioning the direct link between oil equity acquisition and the Chinese oil-backed credit. This will be further discussed in chapter five.

Tied to the loan is the agreement that 70 percent of the public tenders will be awarded to Chinese companies pre-approved by Beijing. The rest of the 30 percent is to be subcontracted to Angolan companies. However, in practice Corkin suggests that this is limited to make certain that 30 percent of contracted labor is Angolan. This will be discussed further in chapter five. 50 percent of procurement (materials etc) has to come from China (Corkin 2011:171). Corkin argues that Angola was far from a passive player in negotiations with China, and points to the 30 percent reserved for Angolan companies. As the Chinese credit is an export credit that aims to promote Chinese exports, she claims that 30 percent reserved to Angolan contractors was quite a large concession from China’s side. The Chinese export-credits are to my knowledge the only export-credits in Angola with this clause.³⁵

According to Corkin, the Eximbank’s lending policy is “to structure a loan so that there is a revenue stream that will be able to support the debt repayment” (Corkin 2011:173). The

³⁵ None of the representatives from the other countries I talked to with export-credits in Angola knew of such arrangements with their export-credit, this includes Germany, Brazil, Spain, Portugal, USA

Eximbank initially rejected the Angolan Ministry of Finance's offer of state guarantee, and demanded additional security. "It was only allegedly when the Chinese Ministry of Finance intervened to persuade Exim Bank to waive this insurance payment that the loans structure was agreed upon" (ibid). There is a power struggle internally in China, and it seems like the Eximbank leadership is more commercially oriented than the Chinese government perhaps would want them to. However, the Eximbank did change due to intervention from the Chinese government. So, the Eximbank follows a political agenda, but reluctantly, and this may change with internal power struggles.

Brautigam suggests that Sinosure is an essential part of the requirement of natural resource security. Sinosure is China's official export credit insurance company, and was established in 2001. According to Brautigam, this state agency refuses to insure export credit lines that are deemed too risky. However, insurance can be obtained with additional security: "To the Chinese, even resource-poor countries whose balance sheets may not look good sometimes have untapped capacity to service a future debt, if borrowing goes for productive projects" (Brautigam 2010a:15). Natural resources are an example of 'untapped capacity'. The Eximbank would thus not be able to insure the export credit to a country with poor credit, and without additional collateral.

4.7 China Eximbank versus the China International Fund

According to Corkin: "What is perhaps unique in Angola's situation is the presence of two seemingly parallel and unrelated financing structures directed from China to the Angolan government" (Corkin 2011:172). The Queensway 88 group is behind the China International Fund (CIF) credits to the Angolan government that operates similarly, but distinctively from the Chinese Eximbank. The group is portrayed to be a private, Hong Kong based firm, but the authors of a US commissioned report suggest that they have links to the Ministry of Public Security and the Ministry of State Security in China (Lewkowitz et al. 2009:ii). The group operates credits through CIF, and these credits are often reported as official Chinese credit by media and some scholars. These arrangements have three similarities 1) the size 2) the oil backing 3) that they are tied to infrastructure projects. They differ in administration, being managed by different Angolan institutions as the CIF credit is administered by the GRN office. They also differ in degree of transparency as the Eximbank loans are more transparent (Lewkowitz et al. 2009:15). However, it is difficult to prove that these credits are in fact extended

by the Chinese government and Chinese officials have denied any connection to the Chinese government (Vines et al. 2009:50). There have been some problems with the execution of the projects from the CIF, and construction on their projects in Angola came to a halt during long periods in 2007-8. According to Vines et al., financial and planning problems seem to have contributed to the delay and some funds from the Chinese Eximbank credit were used to start construction of CIF projects again (Vines et al. 2009:53). Because several of the same Chinese companies have worked both on Eximbank and CIF projects, the agencies have been difficult to tell apart in practice: “This situation has been complicated by the fact that most of the companies hired to undertake projects funded by CIF are the same ones working for projects under the EXIM Bank credit lines”(Alves 2010b:6). Keeping this in mind, it is important to note that all that looks like official Chinese credit and construction is not necessarily provided by the Chinese government. There is an additional layer of confusion because the investors behind the CIF credit holds a 31.5 share in Sonangol Sinopec International and additionally is in a joint venture with Sonangol through China Sonangol International Holding (CSIH).

Allegations of mismanagement of the Chinese funds appeared in the Angolan media both in 2004 and 2007(Vines et al. 2009). According to Angolan media, there was a struggle within the Angolan leadership for access to the 2004 Chinese credit line. While the official Chinese credit-lines are as mentioned administered by the Angolan Ministry of Finance, the private China International Fund credit is managed by a separate entity, the GRN that operate with off-budget funds. The GRN is the National Reconstruction Office, and was created by President dos Santos in 2005 to ‘manage large investment projects and ensure rapid infrastructural reconstruction prior to national election’. However, there was also said to be an assumption that ‘the ministries would not have the organizational and technical capacity to manage the large inflows of money directed to the National Reconstruction Program’. Rumors say that GRN was established after concerns from the Chinese side of rent-seeking Angolan officials. In 2007, during the trial of an Angolan security chief for insurrection he threatened to reveal names of persons in senior government positions who had profited from the Chinese credit lines. In response to this, the government published details of the credit lines managed by the ministry in 2007. However “Unlike projects managed by the Ministry of Finance, it is unclear how much money is directly managed by the GRN, how funds are allocated among projects, and how much money has been spent so far” (Vines et al. 2009:54-55). In the state budget of 2009, the figures reported concerning the

available CIF credit are significantly lower than the numbers reported by the World Bank and the media.³⁶ The amount of credit provided by this group was estimated by the World Bank to be \$9.8 billion, but recent information has suggested that it is \$2.9 billion. Vines et al. propose two possible different explanations for this. The first is that the projects are cut back because CIF was incapable of raising the promised credit. The second possible explanation is that a large part of the GRN expenditure could be off-budget (Vines et al. 2009:53). This overview shows that there is still uncertainty regarding the details of the complex resources for infrastructure contracts. While there is more information available on the official Chinese credits, there are still many uncertainties.

To sum up, in this chapter I have discussed the importance of oil and oil-backed loans in Angola to contextualize the Chinese credit. I have also looked at what type of situation Angola was in when the mechanism was negotiated. Further I have discussed how this mechanism works, and concluded that there are still many unknowns concerning the process. However, we do know that the Chinese Eximbank reimburses Chinese companies directly, but the links with oil equity acquisition of Chinese NOCs and how the oil is used in the repayment is still unclear. In 2004, the credits seem to be linked in some way with oil equity acquisition as both Chinese NOCs, and the group of investors behind the CIF credit gained inroads into the Angolan oil market. This will be used as a basis to discuss whether there has been any change in the mechanism, and whether the mechanism is indeed used to secure natural resources.

³⁶ Total amount in state budget: \$125 million

Chapter five - Analyzing evidence

5. Introduction

In this chapter I will first examine the first question in my research question: how has the resource for infrastructure mechanism developed since its implementation? Here I will focus on internal factors that have changed in Angola since 2004, and how this may have affected the development of the resource for infrastructure mechanism in Angola. In this process I will discuss the Angolan policy of diversification. In 2004, Angola had few other options for financing, making the official Chinese credit-line essential for Angola's reconstruction process. I will also discuss the development of Angola's economic situation. Now that Angola has improved its economy and actively sought to diversify its economic partners it may have an impact on the resources for infrastructure mechanism that was first negotiated when Angola had few other options.

Further I will discuss the second part of my research question whether the resources for infrastructure contracts are a mechanism to secure a steady supply of natural resources from Angola to China. As evidence is dispersed it is difficult to discuss the hypotheses separately. I will first examine the empirical evidence to collect indicators that will be used to discuss the hypotheses. I will look at the impact the oil for infrastructure loans have had on infrastructure in Angola, and oil supply and infrastructure contracts for China. Then I will compare the mechanism in Angola with other comparable countries which have engaged in resource for infrastructure contracts. In this process I will explore possible patterns of the resources for infrastructure contracts that lay the ground for formulating a new hypothesis. Last I will discuss the indicators from the empirical evidence in relation to the hypotheses formulated in chapter two.

5.1. China and Angola

Year	How much?	Who?	Oil-Backed	Purpose
2002	\$145 million	China Eximbank, China Construction Bank	No	Infrastructure
2004	\$2 billion	China Eximbank	Yes	Infrastructure
2007	\$2 billion	China Eximbank	Yes	Infrastructure
2007	\$500 million	China Eximbank	Yes	Infrastructure
2008	\$1 billion	China Development Bank	No	Agriculture
2010	\$6 billion	China Eximbank	Not known	Infrastructure
2010	\$2.5 billion	China Industrial and Commercial Bank	No	Not Known

Table 2: Chinese official financing to Angola³⁷

As we can see from Table 2, the oil-backed Eximbank loans are no longer the only Chinese official financing in town. Corkin argues that the resources for infrastructure contracts should be viewed as a moment in time rather than as an model of Chinese engagement: “Far from serving as a kind of ‘model’ for other resource rich countries’ relations with China, it has been suggested that the strategic partnership forged between Luanda and Beijing was done so at an opportune moment of equal need, for financing and oil resources respectively” (Corkin 2011:4).

Nevertheless, it could be a model of conjuncture when countries have complimentary needs. China’s need for oil resources has not changed since the implementation of the first oil for infrastructure credit extended in 2004. This could imply that any change in the relationship between China and Angola is driven by the changing needs of Angola rather than any change from China’s side. Or it could mean that Chinese agencies no longer saw the need for an oil backed credit as Angola’s economy improves. Some scholars argue that the ‘Angola mode’ is nothing new as oil-backed credits has been used in Angola for a number of years, and because oil-backed credits are common in the oil industry (Corkin 2011; Vines et al. 2009). However, while acknowledging that oil-backed credit has been widely used before, Brautigam suggests that the oil for infrastructure mechanism is a result of China’s own development experience of how countries can benefit from cooperating at different stages of development (Brautigam 2009:47). Even in China, this approach was used during its own development and was not an

³⁷ 2002 figure from Campos and Vines 2007:6. 2004 and 2007 numbers from the Angolan Ministry of Finance (2008). 2010 Eximbank figure and China Development Bank figure is from Corkin 2011:171. China Industrial and Commercial Bank figure is from ICBC (2010).

approach that is sustained today. We may see tendencies that also Angola has transcended the resource for infrastructure approach.

5.2. The Angolan policy of diversification.

*Considered a 'quick fix' at the time, Luanda is now wary of allowing Chinese interests to hold too much sway in the economy*³⁸

Angola has a stated policy of diversifying its financial partners, a policy that is influenced by the dependence the MPLA had on one economic partner, the Soviet Union, during parts of the civil war. Angola has made arrangements of export-credit with several other countries since the first Chinese oil-backed credit line was extended in 2004. Spain, Germany, Brazil, Canada, Portugal, Israel and India have all extended export-credits to Angola for 'public project investment' (Croese 2011). This suggests that Angola is not interested in relying solely on the Chinese credit-lines, and that the Angolan government is careful with letting one external actor have too much influence. Still, evidence suggests that these lines are not being used in full. Available credit does not automatically transfer into used funds. This seems to be because of a lack of ability or capacity from the Angolan side, as Angola may have more available export credit than they have been able to, or want to use. According to a source in the Angolan Ministry of Finance, the ability to draw from the credit-lines is huge, but not all of it is being used.³⁹ This was confirmed by representatives from several countries that had extended credit-lines to Angola. They expressed an interest from their side of more use of these credits.⁴⁰ In fact, the Angolan government announced in 2010 that no more agreements of export-credit would be made, underscoring the sufficient amount of such credits⁴¹. Both local academics and entrepreneurs have expressed skepticism towards the use of export-credits whether they come from China or from other countries.⁴² As one local academic said: "When they come they bring the infrastructure, but they don't bring the capacity for the people to do the same."⁴³ This underscores the problem of financing companies from other countries to do infrastructure construction with limited local participation. The diversification policy is not limited to securing export credits as the Angolan

³⁸ Corkin 2011:177

³⁹ Interview with Source at the Angolan Ministry of Finance, 31/1 2011

⁴⁰ Interview with Ladonna S.Sales, Economic Officer at the US embassy, 27/1 2011 and Manuel Sanchez Melero, Economic and commercial console at the Spanish embassy in Luanda, 24/1 2011

⁴¹ Interview with Ana Maria Carvalho, Communications and External Affairs at the World Bank, 27/1 2011

⁴² Interview with Manuel Alves de Rocha, Economist at the Catholic University in Angola, 28/1 2011

⁴³ Interview Regina Santos, Economist at the Catholic University in Angola, 19/1 2011

government has actively sought investment and support from other partners such as the IMF. This will be discussed further in the next section.

How do these other export-credits compare to the official Chinese export credits? Corkin argues that: "Chinese financing seems to have encouraged other countries to extend credit lines in order to allow their own companies to compete on similar footing" (Corkin 2011:3). This was in line with, and encouraged by Luanda in its quest not to let a single foreign trade partner dominate their economy. Angola's poor credit and consequent problems of getting other types of financing combined with Angola's huge need for infrastructure after the civil war is a combination of factors that seem to have triggered the extent of export-credit. All the export-credit functions as export-credit do: by financing companies from the countries that extend credits to operate in the receiving country. Even though they are mainly used for infrastructure construction, they are not all sector specific (such as the German credit line⁴⁴). While the Chinese credit-lines may have worked as a catalyst for other credit-lines, few of them are backed by oil, which is a central mechanism of the 'Angola mode'. This is due to a clear intention from the Angolan side of using state guarantees instead of oil as security. Portugal is an example of a country that used to extend oil-backed credits to Angola, but that now accepts state guarantees instead. According to an employee at the Portuguese embassy: "In the past, the Portuguese credit-lines were linked up with oil. Now it's not anymore because the Angolans don't want it."⁴⁵ The Brazilian and Israel export-credits are strikingly similar to the Chinese export-credit as they are backed up by oil. The Israeli credit-line of \$750 million is however extended by a private enterprise located in Israel (LR Luminar Finance Limited).⁴⁶ The Brazilian credit-line is on the other hand extended by Brazilian Proex (\$580 million), and the Brazilian Development Bank (\$750 million), both of which are state agencies. It is paid with a contract of oil supplies, and used to finance infrastructure construction from companies from Brazil and Israel.

The Brazilian credit-line is similar to the Chinese oil for infrastructure mechanism as it is both oil-backed, and provided by state agencies. As Vines et al. note: "for years Brazil has enjoyed a credit arrangement, backed by the production of 20,000 b/d, under which Banco do Brasil provides payment guarantees for major construction projects" (Vines et al. 2009:46).

⁴⁴ Correspondence with German embassy in Luanda 2/3 2011

⁴⁵ Interview with Maria Teresa Gomes Mateus, Counselor for Economic Cooperation at the Portuguese Embassy, 18/1 2011

⁴⁶ Croese 2011:32. No date provided as to when it was negotiated.

However, Croese writes that: “It must be noted that contrary to the Exim Bank loans, information on the management and execution of projects carried out with Brazilian funds has not been made publically available” (Croese 2011:15). The availability of information of the Chinese credit-lines may be due to the media attention, and allegations of embezzlement concerning the Chinese credit-lines. However, this also makes it more difficult to compare the Chinese and Brazilian approach. Here we see a similarity in opacity between the Brazilian credit lines, and the CIF credit lines. A representative of the Brazilian embassy said that they employ more locals than the Chinese do, and that they followed the Angolan labor law limiting the amount of foreign workers on projects.⁴⁷ If this is the case, it does not seem like the Brazilians have negotiated the same exception from the Angolan labor law as China has. Unfortunately there is no official, reliable statistic on how many Angolan workers are hired in all of the different projects construction firms, so it is difficult to confirm. The amount of local workers on Chinese projects will be further discussed in section 7.2.

The group of private investors has copied the mechanism used by the Chinese government. Nevertheless, as noted in section 4, there is more opacity regarding the CIF-credits, so it is difficult to know whether the agreement is comparable in terms of percentage reserved to Angolan companies. We can thus see that several agents have offered similar contracts internally in Angola; backed by oil, tied to exports and used for infrastructure development. However, this model may not be sustainable internally in Angola, and can be seen as a moment in time as well. There is no doubt that Angola was in dire need of infrastructure on a scale that only a 27 year long war can create. The oil for infrastructure contracts has expanded further than the official Chinese government credits internally in Angola. However, some argue that there is in fact nothing unique with the Chinese oil for infrastructure contracts. Vines et al. suggest that “The only unique thing about the ‘Angola mode’ is that Chinese engagement has been quick and the loans have been large” (Vines et al. 2009:57).

5.3 Angola’s economic situation

Several sources suggest that when China offered financing through the Eximbank in 2004, Angola had no other alternative. A World Bank employee stated that: “They were desperate”.⁴⁸ As discussed in chapter four, Angola did have access to some other financing, still, it was

⁴⁷ Interview with Edson Santiago, Secretary of the Brazilian Embassy in Luanda , 21/1 2011

⁴⁸ Interview with Ana Maria Carvalho, Communications and External Affairs at the World Bank, 27\1 2011

expensive and not on the scale that Angola needed to rebuild the war-torn country. Nevertheless, Angola's international financial situation seems to have changed dramatically from 2004 to 2010. This we can see clearly in the differences between the IMF agreement that fell through in 2004, and the IMF agreement that was implemented in 2010. In 2004, the IMF demanded a Staff Monitoring Program (SMP) due to Angola's economic situation. According to Human Rights Watch, the IMF had already tried negotiating SMP in Angola four times between 1995 and 2000. However, each time it failed, either during negotiations or under implementation. A SMP is a set of economic reforms negotiated with the IMF that the government implements and that the IMF further monitors over six months, or longer. A SMP is a precursor to formal IMF lending (HRW 2004). In 2009\2010 on the other hand, Angola's economic situation was far better, and the government negotiated a Stand-By Agreement (SBA). SBA is the IMF's main lending instrument for emerging economies. Rates are non-concessional, but usually lower than market rates (IMF 2010). Angola was thus able to secure an IMF loan without implementing any SMP because the government had improved the economic conditions by themselves.

It is suggested that the presence of the Chinese credit-lines have increased the leverage of the Angolan government internationally to resist Western conditionalities due to the alternative of Chinese financing (Soares de Oliveira 2008). However, according to Alves and Alden, it has been Angola's oil revenue rather than China's credit-lines that has ensured Angola's freedom. While they support the claim that the Chinese credit lines helped keep IMF 'at bay' in 2004, Angola's oil revenue is the reason that Angola has gained 'independence of action'. The oil revenue has allowed the government to repay large amounts of its outstanding debts, increase budget spending with 30 percent, and negotiate oil-backed loans from both public and private institutions. However, the oil-backed loans are intended to be 'gradually replaced' with issuing of treasury bonds that will finance further infrastructure reconstruction" (Alves and Alden 2009:19).

It is suggested that the Chinese credit-lines have facilitated an avoidance of issues of accountability and transparency in Angola. We can nevertheless see signs that Angola is improving in terms of international financial standards. Human Rights Watch suggests that since 2009, falling oil and diamond prices and the global economic crisis has 'forced' Angola seek more support from institutions such as the IMF. They cite the standby-agreement with IMF of 2009 as evidence of this (HRW 2011). There seems to have been an increased degree of transparency because the Angolan government wishes to borrow from the international market

rather than relying on oil-credit.⁴⁹ In 2010, Angola was for the first time rated by three independent financial rating agencies, Moodys, Standard&Poor and Fitch. Angola was rated with a B+ by Fitch and Standard & Poor, and a B1 from Moodys. According to Standard and Poor, the rating was “supported by the outlook for oil production, strong economic growth prospects and low levels of government debt” (Reuters 2010). Standard and Poor differ between speculative and investment grade debt. Investment grade is regarded as a ‘suitable investment’ while speculative grade indicates: ‘ability to pay, but faces significant uncertainties’ (Standard and Poor 2010:10). The B+ is approximately three steps below investment grade, but is nonetheless impressive considering the financial situation Angola was in after the civil war. Angola needs such ratings to be allowed to borrow from the international financial market, and the rating is a first step towards that. Angola has announced its intention to raise \$4 billion in the international market, and is clearly working towards that goal. To be able to be rated by international credit agencies, the agencies need insight into government budgets so this rating may have increased transparency. As a source from the Angolan Ministry of Finance said: “It is difficult to lie to Moodys”⁵⁰

What has changed since 2004? There is additional Chinese financing that is not secured by oil. Angola has improved its economy, and actively sought to diversify its financial partners. Evidence such as the IMF agreement, ratings from international credit agencies, the announcement of a stop in additional export-credit lines, and that the existing credits are not being used in full, suggests that the Angolans are eager to obtain other types of financing than the established resources for infrastructure mechanism. Angola’s economic situation has changed from one where the country had an enormous debt and little available credit to a situation where it no longer needs an oil guarantee to secure credit from external actors.

5.4 What does the ‘Angola mode’ mean for Angola’s infrastructure development?

“Three companies bid on a construction tender. An Angolan minister opens the bids. A Chinese company offers to do the work for \$3 million: \$1 million for labor, \$1 million for equipment, \$1 million profit. A European company says it can do the job for \$6 million: \$2 million for labor, \$2 million for equipment, \$2 million for profit, but the quality will be better. An Angolan contractor

⁴⁹ Interview with Source at the Angolan Ministry of Finance, 31/1 2011

⁵⁰ Interview with Source at the Angolan Ministry of Finance, 31/1 2011

bids \$9 million: \$3 million for you, \$3 million for me, and \$3 million for the Chinese to do the work.”

This is a joke that according to Brautigam (2009:153) was circulating amongst contractors in Angola. I also heard it mentioned several times when I was there. Brautigam suggests that the mechanisms where the money is paid directly by the Chinese Eximbank to the Chinese construction firms could bypass embezzlement opportunities and ensure that the Angolan oil translates to development projects for the Angolan people: “for the first time, there was hope that some of Angola’s riches might actually be translated directly into development projects” (Brautigam 2009:276).

But what has actually been built as a result of the Chinese credit lines? I will first look at projects financed by the Chinese Eximbank, then at projects financed by the CIF.

Sector	Number of projects phase 1	Number of projects phase 2	Complimentary financing	Total
Health	9	7	3	19
Education	20	33	7	60
Energy and water	8	4	5	17
Agriculture	6	4	0	10
Fisheries		3	1	4
Transport	1	0	0	1
Communication	0	4	1	5
Public works	0	2	1	3
Total	44	53	18	119
Total value	\$1,000,000,000 ⁵¹	\$1,104,931,344	\$ 546,717,590	\$ 2651648934

Table 3: Completed Eximbank projects as of 2008⁵²

The numbers from Table 3 are from the Angolan Ministry of Finance, and they are publicly available online. All projects are infrastructure construction projects in different sectors. Unfortunately the numbers were last updated in June 2008, so it does not include projects that could have been completed at a later stage. However, with such a list of projects it is possible to see how the first \$2.5 billion extended have been utilized. The first \$2 billion credit-line from the Eximbank that was extended in 2004 was used in two tranches, phase 1 and phase 2. The complimentary financing is the \$500 million credit that was extended by the Eximbank in 2007.

⁵¹ Numbers from phase 1 is not specified as accurate as phase two and complimentary financing on the overview from the Angolan Ministry of Finance.

⁵² Angolan Ministry of finance (2008)

Phase 3 consists of the \$2 billion extended by the Eximbank in 2007, and there is available a framework of projects, but no information concerning how far the implementation has gone. In the third phase, projects include rehabilitation and expansion of electricity networks in Luanda and five other cities, improving water supply to Luanda, and infrastructure construction in unspecified sector in three regions. The proposed projects in the framework agreement are not included in the table. From the table we can see that building of schools have been a priority as this sector has the largest number of projects, followed by the health and energy sector.

While it is possible to find a list over proposed GRN projects from 2007, it is not possible to find breakdowns as to which projects are financed or co-financed with the credit from China International Fund, or of which projects that are completed. Because of this, projects from the CIF credit lines that are managed by the GRN are more difficult to track than the projects financed by the Eximbank. It was announced that the credit was to be used for large scale prestige projects such as: “the Luanda International Airport, the Caminhos de Ferro de Luanda railway project, drainage systems in the capital and studies on the new city of Luanda, as well as work on the Luanda-Lobito, Malanje-Saurimo, Saurimo-Dondo and Saurim-Luena highways” (Macauhub 2007). In 2007, the year before the elections, the Angolan government even promised to build ‘1 million houses’ in Angola by 2012. CIF was supposed to be one of the main financiers of this project. However, it became known in the aftermath of the 2008 CIF construction delays that the Angolan government had reduced the estimate of the available CIF credit by two thirds, and some of the proposed projects became open for other contractors. In September 2010, president dos Santos announced the end of GRN. The management of the housing projects run by GRN would be relocated to Sonip, a ‘subsidiary of the state oil company that manages its real estate’. The infrastructure projects in other areas such as roads, railways and rehabilitation of social infrastructure would be transferred to other ‘relevant entities’. The problem with assessing the progress of the GRN projects is according to Croese that: “Concrete public information on the actual progress made on the objectives of the National Urbanism and Housing Program is extremely hard to come by” (Croese 2011:22). While the CIF credit-lines are not extended by the Chinese government, they are perceived as the same by the public, and they use many of the same Chinese construction firms. The completion of infrastructure projects is just one dimension of the ‘Angola mode’. Just as important are other parts concerning the mechanisms of this engagement such as long-term sustainability and local content.

Long-term sustainability

We can identify three dimensions of long-term sustainability; quality and maintenance and operation. While many projects have been completed, concerns have been raised of the quality of the Chinese projects. There are no clear numbers, but some anecdotic evidence has been used to construct the argument of the poor quality of Chinese construction. The Luanda General Hospital has been used in several news reports as an example of the poor quality of Chinese construction. The hospital was finished in 2006, but was closed already in 2010 due to subsidence. According to Brautigam, the Chinese government sent out a team to investigate this and concluded that the problem was ‘partly Angolan and partly Chinese’. They concluded that it was a result of inadequate geological data provided by the Angolans that made the design by the Chinese architects flawed. In addition, the Chinese company took responsibility for not adequately supervising the Angolan labor force on the projects (reported to be 90 percent). The Chinese government has taken full responsibility, and announced that the hospital will be repaired. However, she also emphasizes that this hospital was part of the aid program which is regarded as an important tool of diplomacy, and that’s why the Chinese government took the financial responsibility of financing the new construction of the hospital.⁵³ This is one example that continues to circulate in news reports, while no other concrete examples are given.⁵⁴ However, allegations of poor quality of construction do not seem to be a unique Chinese phenomenon in Angola. It was suggested to me in an informal conversation in Angola that the roads that Brazilian companies built were not of the same quality in Angola as the roads they built at home, just as the Chinese were capable of constructing better buildings than they do in Angola. According to the Angolan journalist Marques de Morais, poor construction work is nothing new in Angola as Brazilian and Portuguese companies have exploited an environment of corruption and disregard for public safety for years. There is even a separate vocabulary for the resulting public works in Angola such as ‘disposable roads’ and ‘Styrofoam bridges’ that was established in Angola long before Chinese construction firms entered Angola (Marques de Morais 2011)

Lack of maintenance of physical infrastructure is a problem throughout Africa. Due to the requirement of the use of Chinese goods, spare parts sometimes have to be ordered from China if something is broken. I experienced this myself when I was in Angola. At the

⁵³ Brautigam in chinaafricarealstory.com (2010)

⁵⁴ Used in Marques de Morais (2007), Redvers (2011)

Catholic university in Luanda all the air-conditioners were changed. I was told that it was because one air-conditioner was broke, and they would have to order a container of spare parts from China to fix it. Thus it would be just as expensive to buy new ones. While the new air-conditioner may have other explanations, the extent of parts that has to be ordered from far away represents an obvious challenge for Angola to maintain the infrastructure that is built.

What Angola will use the new infrastructure for is another question. While it is still early to draw conclusions, concerns have been raised of the operation of the new structures. As the Chinese ambassador to Angola said: “Now they have schools but lack teachers. They have hospitals but no doctors.”⁵⁵ As Corkin point out: “There are also fears that the massive infrastructural spending planned by the government will be misdirected if it is not complemented by capacity-building and training programs to improve Angola’s ability to absorb investment of such magnitude” (Corkin 2011:171). The fact that Chinese construction companies bring in a large amount of Chinese workers obviously represent a challenge in terms of local capacity building.

Local content

China has often been criticized for bringing in a large amount of Chinese workers to construction projects in Africa. In Angola there seems to be a higher degree of Chinese workers than in other African countries (Corkin et al. 2008). This may be due to the language barrier or the lack of human capital in Angola after the long civil war. According to a report by the Centre for Chinese Studies at Stellenbosch University, Chinese enterprises that operate under the official credit lines are exempted from the Angolan labor law, so they are not required to follow the limit on expatriate workers (Hon et al. 2010:4-5). That means that fewer locals are hired, and in addition, the ones that are hired usually perform menial tasks. Several scholars have suggested that the 30 percent participation for Angolan companies may be limited to ensuring that there are 30 percent Angolans on the workforce. However, evidence suggests that the numbers of Angolan workers are in fact much higher than 30 percent on average.

⁵⁵ Channelnewsasia.com (2011)

Financed by	Chinese	Angolan	Others	Total	Local employment (%)
Eximbank	1264	1872	0	3136	59.7
GRN	1580	2030	0	3610	56.2
Private Business	509	1580	36	2125	74.4
Total	3353	5482	36	8871	61.8

Table 4: Differences in local employment in Chinese companies in Angola (from Xiaoyang 2010⁵⁶)

Table 4 is an overview of 3353 of an estimated 60 000 to 70 000 Chinese expatriates working in Angola. There can be big variations between projects, and it is not possible to know if these numbers are representative. Nevertheless, it shows that the local labor force may not be as small part of the workforce as assumed, and that there are indeed less local employees employed in the projects that are administered directly by the Angolan Ministry of Finance or GRN.

The same study claims that if a Chinese company had been in Angola for five years, the ratio of local workers were twice as big as for companies that had just established themselves in Angola (Xiaoyang 2011) There are mainly three ways that Chinese companies use when they enter the Angolan market, through the Eximbank credit-line, through the CIF credit-line, or on their own. There are a smaller percentage of Angolan workers employed through the official credit line than through private Chinese companies that enter the Angolan market on their own. All private businesses operating in Angola must register at the National Agency for Private Investment⁵⁷, which requires that 70 percent of the labor force is Angolan. Companies working for governmental projects are not subject to this rule, and are directly controlled by the Ministry of Finance or other corresponding ministries. The exception is made under the consideration that: “national reconstruction projects such as water supply and road construction are urgently needed for Angolan’s daily life and should be finished as soon as possible; while other projects, such as power plants and telecom, require large number of skilled technicians, which Angola cannot provide for the time being” (Xiaoyang 2010:353). So, only the companies that work under the official credit line are exempted from this rule, and when they move on to private projects in Angola, they must again follow this rule. It is not known what conditions the GRN projects have, but the table suggests that they operate under the same exemption that the Eximbank-credit does.

⁵⁶ Names and layout of the table have been changed for consistency as Xiaoyang referred to the Eximbank credits as ‘the framework agreement’ and the GRN as Cabinet of NR in the table.

⁵⁷ Agência Nacional para o Investimento Privado in Portuguese.

This shows that the amount of Angolan workers on Chinese projects may increase with time. However, there is a lack of local industry to supply the construction sector in Angola. The low profit margins that Chinese companies operate under seem to hinder an extended use of local content because they cannot afford expensive local subcontractors and personnel. According to Corkin “Angolan companies are now sourcing Chinese construction materials because they are more freely available and at lower cost” (Corkin 2008a:183). Skilled Angolans are scarce due to the prolonged civil war, and the ones that have the right education are so in-demand that their wages are too high for Chinese companies that by far do not pay the same wages as Western companies (Xiaoyang 2010:358). The lack of joint ventures will make it challenging for Chinese companies to contribute to technological transfer. Corkin state that: “Currently, little evidence exists to suggest that Chinese companies will enter into joint venture partnership with Angolan firms beyond contracting Angolan site-workers” (Corkin 2008a:184). According to Corkin this is not only due to the low local skill base, but also because of the language barrier. The most common second-language in China is English, and it is not common for Angolans to be fluent in English. This is a challenge as Angolan companies usually don’t have the capacity to execute large-scale infrastructure projects. Prior to the 2004 Chinese credit, the Angolan construction sector was dominated by large Portuguese firms. Both Brazilian and Portuguese firms had usually been supported and secured by oil-backed loans of approximately US\$300-500 million. China’s entrance has thus according to Corkin, to a certain degree displaced traditional foreign commercial interests rather than Angolan companies (Corkin 2008a:172).

Chinese construction companies

In Luanda it is difficult not to notice the influx of Chinese construction companies and workers. The guesthouse where I stayed was built by Chinese workers, maintenance work was done by Chinese workers at the Catholic University, and we often drove past Chinese construction sites. Corkin suggests that without the Chinese credit-lines it would have been difficult for the first Chinese companies to establish themselves in Angola. Angola is known to be a challenging country to do business in, and is rated 168 out of 181 in the World Bank ease of ‘doing business’ list. “There is little wonder therefore that most Chinese construction companies’ entry into Angola’s market has been through a tightly managed high-level bilateral agreement between the

Angolan government and China Exim Bank or CIF” (Corkin 2011:177).

Because previous studies of Sino-Angolan relations have mainly focused on oil; there is little information available to measure the accomplishment of Chinese construction companies. The establishments of Chinese construction companies are taken for granted by some scholars when considering the large numbers of Chinese companies and workers that have established themselves on Angola during a short period of time. A few studies have focused on Chinese construction firms in Africa in general (Corkin et al. 2008; Chen et al. 2007), or in other African countries (Chen 2009), but the focus in Angola has mainly been in the oil sector, with the exception of Corkin 2008a and Xiaoyang 2010.

Chinese construction companies in Africa are known to be cheaper than construction companies from other countries. Chinese workers usually live on-site, and work long days all week. Chinese construction companies pay less than other foreign companies, and import the bulk materials from China. As Corkin et al. notes: “while local and foreign construction companies operate on profit margins of 15-25 percent, Chinese companies usually operate on margins of under 10 percent, thereby making them extremely competitive on price” (Corkin et al. 2008:5). Chinese construction companies have a long history in Africa, but not in Angola. The established position that Chinese companies have gotten in Angola is evident in all the subcontracts they get: “Chinese companies are subcontracted by companies from all countries because of their competitive prices” (Xiaoyang 2010). According to Brautigam, there have been incidents where work subcontracted to Angolan companies is actually executed by a Chinese company in the end. This happens because Angolan companies have in an interesting twist subcontracted the job to another Chinese company.⁵⁸ According to Corkin, over 20 Chinese companies established a ‘Chamber of Commerce for Chinese Companies in Angola in 2006, indicating that the companies viewed their presence in Angola as long-term. The Chinese companies consisted mostly of construction companies, but also Chinese NOCs participate. According to her research, Chinese firms anticipate that they will secure more contracts once they are established in Angola (Corkin 2008a).

⁵⁸ Interview with Deborah Brautigam, Researcher at American University in Washington, 13/5 2011

5.6. What does the ‘Angola mode’ mean for China’s access to Angola’s resources?

Year	NOC?	What	Who?
2004	Yes	50 percent stake in block 18	Sonangol Sinopec International (SSI)
2005	No	25 percent stake in block 3(05) and 3(05a)	China Sonangol International Holding
2006	Yes	20 percent stake in block 15/6	Sonangol Sinopec International (SSI)
2006	Yes	27,5 percent in block 17/06	Sonangol Sinopec International (SSI)
2006	Yes	40 percent in block 18/06	Sonangol Sinopec International (SSI)
2006	Yes	Agreement to develop a refinery	Sonangol and Sinopec
2007	Yes	Refinery deal fell through	Sonangol and Sinopec
2009	Yes	Sonangol blocked the purchase of a 20 percent stake in block 32	Sinopec and CNOOC won the bid, but Sonangol blocked the transaction
2011	No	10-15 percent stake in block 19, 20,36 and 38	China Sonangol International Holding

Table five: Chinese oil acquisition in Angola⁵⁹

China Sonangol International Holding (CSIH) is a joint venture owned 70 percent by the group of private Chinese investors that extended the CIF credit, and 30 percent by Sonangol. This venture was according to Alves created in 2004 to expand the Hong Kong groups energy projects in Angola, and to allow Sonangol to access funding (Alves 2010:28). This cooperation is between Sonangol, and Chinese private investors, and is not a Chinese state-owned enterprise. CSIH did gain oil equity the same year as they extended the CIF credit (2005). However, this is not a Chinese state-owned company, so it cannot be used to argue that China has gained access to oil equity just because Chinese investors have. Nevertheless, this points to a direct link, formal or informal between the extending of Chinese credits, official or not, and the acquisition of oil equity in 2004 and 2005. The oil environment continued to be friendly to Chinese state-owned companies until the refinery deal fell through in 2007. Since then Sonangol has blocked attempts by Chinese NOCs at acquiring additional oil equity. However, the Chinese private investor venture with Sonangol has had recent success in acquiring stakes in four additional blocks.

Several scholars argue that the lack of oil equity gain by Chinese NOCs after the

⁵⁹ Oil acquisition from 2005 to 2009 from Alves 2010. 2011oil acquisition from Macauehub (2011)

initial success of 2004 point to a ‘souring of relations’ or a ‘changed relationship’ (Corkin 2011; Alves 2010). However, there is no evidence that access to Angolan oil equity was a part of the ‘resource for infrastructure’ contracts in Angola, only strong indications.

Acquisitions of oil equity in Angola, as in other countries, are highly political. According to Downs, more than three quarters of the World’s oil reserves are closed to foreign equity investments. African oil producers have been open to investment in exploration and production at a time when ‘other countries are reasserting state control over their oil industries’ (Downs 2007:45). This makes the African market especially important if acquiring oil equity is a goal. There is also a wish amongst oil-dependent countries to diversify away from the volatile Middle East region (Obi 2010:181).

Even though African oil producers remain open to acquisitions, it does not mean that they don’t exert any control over ownership. In Angola, Sonangol has the right of first refusal, giving the company influence whenever a stake is sold. Securing oil supplies can be done by both ownership of oil equity, and by long-term contracts. While ownership of oil equity is preferable, it is challenging to achieve in foreign countries. Chinese National Oil Companies (NOC), the main ones established in the 1980s (Sinopec, CNOOC and CNPC), are not perceived to be very competitive internationally: “Chinese decision-makers are painfully aware of the inferior prowess of their oil firms on the global stage. They possess neither the bountiful reserves of the NOCs of oil producing states nor the technical expertise, financial weight and business savvy of European and American IOCs” (Soares de Oliveira 2008:87). Thus to acquire overseas oil equity, which according to Soares de Oliveira is a stated goal in China’s energy security policy, China has to find other ways of presenting their companies as attractive partners in the oil business. The oil for infrastructure deal has been viewed by several scholars as a method not only to supply China with oil, but also to secure China more oil equity (Alves 2010).

However, this did not last long as Chinese NOCs unsuccessfully tried to acquire more oil equity. Alves writes that: “Several blocks that various Chinese national oil companies had shown interest in were denied them”. She further suggests that while this may be due to the lack of technical expertise by the Chinese NOCs, it clearly sends a strong political message to Beijing. This stands in stark contrast to the favorable oil equity environment that met the Chinese NOCs in the aftermath of the first oil for infrastructure credit-line: “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" (Alves 2010:24). Sonangol is, as previously mentioned closely linked with the Angolan elite. She further points out that it is unclear whether this is due to Sinopec's withdrawal from the Sonaref project, or because Sonangol is trying to protect the market and steer clear of a decline in oil prices. It is also a possibility that pragmatic concerns of the inexperience of the Chinese NOCs are driving the decision to block Sinopec. According to Corkin: "Angola is balancing the need to retain China Exim Bank as a financing partner with denying the less experienced Chinese national oil companies access to exploration blocks that they cannot operate" (Corkin 2011:4). This shows that the lack of technical expertise on the Chinese side may be hindering the acquisition of more oil equity for the Chinese NOCs. Sonangol and Sinopec also signed a partnership agreement in 2006 to develop a refinery together that was supposed to be built in Lobito in 2010. However, in 2007, the cooperation fell through and Sonangol decided to continue with the project without Sinopec. Corkin suggests that this could be due to disagreements over which markets the refinery should supply. Technical differences limit the destination to Asian or Western standards. Angola's main objective with the refinery was for domestic use; hence, the oil could not be shipped to Asia (Corkin 2011). Alves suggests that the main issue was not the question of supply destination; rather, it was because profit prospects were low for Sinopec. She writes that: "The project failed because of strictly business consideration that set the Chinese and Angolan interests apart" (Alves 2010:19-20). Further, in 2008, Sinopec in cooperation with China National Offshore Oil Cooperation put in a bid for a 20% stake relinquished in bloc 32. The offer outbid the other offers, and the deal was expected to close by the end of 2009. However, Sonangol blocked the access for the Chinese companies by announcing that they would exercise its right of first refusal. Alves suggests that the reason was that the market was not good enough and Sonangol expected to sell the stake at a higher price later. Nevertheless, her source also admitted that political considerations could change the picture (Alves 2010:21).

In spite of a lack of success in gaining more oil equity, Alves emphasizes that the accomplishments are impressive if one considers the timeframe as Chinese NOCs are completely novel players in the Angolan oil sector (Alves 2010:21). Vines et al. also emphasizes that China has been fairly successful when comparing the entrance of Chinese NOCs in the Angolan oil market with other Asian latecomers. India has unsuccessfully tried to enter the Angolan oil-

market in the same period, and a Japanese NOC with longer experience in Angola has only managed to get hold of minor stakes (Vines et al. 2009). However successful Chinese NOCs have been considering the timeframe, it is clear that the initial success of 2004-6 has not been a continuing trend. This is summarized by Vines et al.:“despite China’s efforts, to enter the oil sector, production is still dominated by Western companies” (Vines et al. 2009:56). However, the recent success of the private China Sonangol International Holding in acquiring oil equity raise new questions regarding the details of the resources for infrastructure negotiations. Nevertheless, I argue that the connection between Chinese NOCs acquiring oil equity and the official Chinese credit-line remain speculations. After all, the lack of additional oil equity for Chinese NOCs did not stop the Chinese Eximbank from extending more credit through the ‘resource for infrastructure’ mechanism.

To sum up, there is no comprehensive overview over all of the completed projects, even though it is easy to find lists of contracted projects up until 2008. It is difficult to say how many projects that have actually been implemented to date. However, we do know that according to the Ministry of Finance, 118 Eximbank projects have been completed in the areas of health, education, energy, agriculture, fisheries, transport, post and telecommunication and public works since 2004. While more projects have probably been completed, we also know that there have been problems with the CIF projects. In 2008, over \$2.5 billion of the Eximbank credit had been used, and there were over 100 Chinese companies in Angola, and 40 000 Chinese workers were employed by Chinese companies under the official Chinese credit-line. In the previous section I sketched the development of the Chinese resources for infrastructure contracts in Angola since 2004, and applied energy security and win-win perspectives to analyze the oil gains for China, and the infrastructure gains for Angola. It seems that the resource for infrastructure mechanism is a conjuncture in time, dependent on the stage of development for the country that use natural resources as collateral/repayment. What we have seen is that China’s strategy has not changed, while Angola’s has, and Angola may be outgrowing this mode of financing. So, how has this mode of financing played out in other African countries’ that has negotiated resources for infrastructure contracts?

5.9 How does the ‘Angola-mode’ compare to other oil-for infrastructure credits in Africa?

It seems like the extreme case of oil for infrastructure engagement, Angola, is actively seeking other modes of finance that is not backed by oil. This is probably because they now have the

option, as opposed to in 2004 where there were few creditors willing to lend Angola money without any oil-security. While the official Chinese credit was offered at a very good rate, it was still 1.5 percent over Libor. The assumption made by the World Bank study (Foster et al. 2009) is that this is a model that is increasingly used in resource rich African countries. But how do these mechanisms compare? Are we talking about the same model? Are these credits a mechanism to secure Chinese access to natural resources? In this section I will draw on the experiences of the other African countries with experiences from oil for infrastructure engagement with China. I will use this as a basis to discuss potential patterns concerning these contracts. In this process I will also explore the external validity of the Angolan case. The countries are: Nigeria, Sudan and Congo-Brazzaville. As there is little information available on the oil for infrastructure contracts that have been negotiated in these countries, a thorough comparison of all the relevant dimensions is not possible. However, I will focus on the second part of my research question, if this has been a mechanism to secure Chinese access to African oil in these countries, or if it is a mechanism to ensure mutual benefit.

5.9.1 Oil for infrastructure in Nigeria

Sino-Nigerian relations have some of the same trademarks as Sino-Angolan relations. Nigeria is, and was, also in 'dire need' of functioning infrastructure, from railways to gas pipelines. It is also, like Angola, a country with large oil reserves. There has also been an exponential trade growth between China and Nigeria, extensive Chinese migration and high-level political visits between the two countries (Wong 2009:28). In Nigeria, Asian NOC's (China, Japan, South Korea and India) were invited by then president Olusegun Obasanjo to acquire oil blocks in exchange for infrastructure development in 2005. The proposal was thus a Nigerian initiative, and was not only offered to China, but also to other Asian NOCs. In comparison to Angola where there is no evidence of the credit being directly linked with oil equity acquisition, this was a stated part of the agreement in Nigeria. In exchange for oil equity for Asian NOCs, infrastructure would be developed and financed by Asian countries. In contrast to other national oil companies around the world, Nigeria's state-owned oil company, the Nigerian National Petroleum Corporation (NNPC), has 'always welcomed foreign equity participation', and that's why IOC's own 98 % of Nigeria's oil reserves (Wong 2009:10). 2005 was the first year that Asian NOCs participated in a licensing round in Nigeria. South Korea, India, Taiwan and Malaysia all entered into strategic deals with president Obasanjo that offered lucrative blocks for strategic investments. Right of

first refusal was introduced, favoring the Asian NOCs that had already negotiated deals beforehand to the annoyance of Western oil companies. This was offered reportedly because President Obasanjo was ‘fed up with the Shells and Exxons’ that had repeatedly declined to build new refineries, on grounds of cost, or to otherwise invest in job-creating projects outside their core business” (Wong 2009:14).

In 2006, the Chinese NOC China National Offshore Oil Cooperation (CNOOC) bought contractor rights in a ‘lucrative block’, OML 130 on the Akpo field. This was China’s first oil acquisition in Nigeria, and it was followed by a \$1.6 billion loan from the Chinese Eximbank to CNOOC to develop the field (Wong 2009:19). During three bidding rounds, Chinese NOCs secured oil blocks in return for commitments of rehabilitation of a refinery, the construction of a railway, and a hydroelectric power station (Mthembu-Salter 2009). However, when President Obasanjo left office in 2007, his successor President Umaru Musa Yar’Adua reversed or cancelled many of the projects implemented by the former president, including the ‘oil for infrastructure projects’. According to Mthembu-Salter:

“The new government has cited a variety of concerns, but the key issues are that it wants to trade oil blocks for cash and not infrastructure, and that the new political elite will delay infrastructure projects, no matter how important, until its members (rather than its predecessors) receive the bulk of the benefit.”(Mthembu-Salter 2009).

There has been no result in the ground of the physical infrastructure negotiated through the oil for infrastructure deals, and they were reversed with the new government. The oil for infrastructure mechanism seems to have failed miserably in Nigeria. If this mechanism is not working in one of the countries with the most important natural resource for China, why is that?

Some scholars have suggested that the lack of success in Nigeria as opposed to Angola is related to power alternation. Is the ‘Angola mode’ limited to regimes without turnover? Could the model be dependent on lack of power alternation? While the same political party was in power in Nigeria during both the negotiations and the collapse, term limits of four years had new players changing the playing field. Chinese NOCs and the Chinese Eximbank experienced that when the governments change, so does their business partners. The attractiveness of stable political regimes is underscored by Mthembu-Salter, “If ‘oil for infrastructure’ agreements are secured between African governments and Chinese investors, the latter should take into account the

possibility of substantive renegotiation or even cancellation in the event of a change of government” (Mthembu-Salter 2009:1). According to Alves, the attractiveness of the Angolan oil industry rests on low operational costs, high exploration success rate, and the suitability of Angolan oil for China’s refining complex. Further, there are prospects for stability in the oil industry. The stable political environment is reinforced by the new constitution of 2010 that enable President dos Santos to remain in power till 2020 (Alves 2010b:4).

As the oil producing country in sub-Saharan Africa with the largest reserves of oil, Nigeria would be a prime target for the resource for infrastructure mechanism if the intent was to secure oil equity/oil supply. Yet, this has failed in Nigeria as opposed to in Angola. Mthembu-Salter suggests that this is because the Chinese oil-for infrastructure model is not compatible with the power alternation in the Nigerian government. Wong suggests that: “The oil-for-infrastructure concept has succeeded elsewhere in Africa. But in Nigeria it was poorly conceived and poorly implemented- and above all, it was distorted by political considerations” (Wong 2009:28).

Rather than being dependent on lack of power alternation, I will argue that these mechanisms are dependent on predictability. There is regular turnover in a democracy, but that does not make it common to cancel contracts negotiated by the previous government. A regime built on patronage and clientilism would need to satisfy a new group of friends that helped them to power in a turnover situation. Contracts negotiated may have benefitted friends of the former government. Wong argues that the Nigerian case is not an example that illustrates any aggressive pursuit of African oil: “This has not been a case of the aggressive Asian pursuit of oil.” (Wong et al. 2009:28). There is no doubt that China is seeking to secure a supply of oil, and that they encourage Chinese NOCs to acquire oil equity. It is however doubtful as to if the resource for infrastructure mechanism is a method proposed by China to achieve this.

In comparison with the Angolan case, the Nigerian case was contingent on Chinese NOCs acquiring oil equity. This is a crucial difference between these contracts in Nigeria and Angola. Interestingly, the oil equity part was proposed by Nigeria. Even though agreements were cancelled it did not exclude Chinese companies from participating in the Nigerian oil field. The China Petroleum and Chemical Corporation for example bought the Canadian company Addax, which had substantial Nigerian oil assets in 2009 (Mthembu-Salter 2009). Chinese NOCs are not dependent on oil for infrastructure deals to buy the way into more oil equity. As a mechanism to secure natural resources, the case of Nigeria shows that the oil equity part was proposed by the

Nigerian side, not only to China, but to other Asian countries as well. In this deal, the oil equity was publicly a part of the deal. This stands in comparison to Angola where assumptions of oil equity agreements have been made based on ‘coincidences’ of credit extension and oil equity acquisitions. The Chinese credits to Nigeria have been used to construct the argument that China offers credits to gain access to African resources. Still, it was Nigeria that used access to resources to get Asian countries to invest in infrastructure construction as the Western IOCs declined to do so. This does not fit into the picture of China as the driving force in the relationship between China and African states.

5.9.2 Oil for infrastructure in Sudan and Congo-Brazzaville

Can Sudan and Congo-Brazzaville shed light on the resources for infrastructure mechanism? The president of Sudan, Omar Hassan al-Bashir came to power through a military coup in 1989 and has ruled ever since. Sino-Sudan relations are probably the ones that have been most widely criticized by Western media. CNPC started to export oil from Sudan in 1999. China has assisted Sudan with oil infrastructure (not the same as oil *for* infrastructure) including the construction of an oil pipeline to the Red Sea, and an oil refinery (Obi 2010:184). According to Foster et al., China (through the Eximbank) has financed close to \$1.3 billion in infrastructure projects ranging from thermal generating capacity to rail and water sectors (Foster et al. 2009). Of these \$1.3 billion, they could only identify oil for infrastructure agreements in one instance. This was a project in 2001 amounting \$128 million dollars. Oil was used as collateral for the loans in the first two phases. Credit was used to construct the El-Gaili power plant, and the project is completed. (Foster et al. 2009:57). Oil for infrastructure has thus not been the dominating pattern of infrastructure financing in Sudan. Rather, Eximbank loans that were not secured by oil were more common. Chinese NOCs has been quite successful in acquiring oil equity in Sudan. Acquiring oil equity is not usually as easy as it was for Chinese NOCs in Sudan: “The early success in the Sudan in acquiring such oil may have vetted Chinese companies, but it has become clear that equity oil in the form of concessional agreements granted to a foreign oil company is a rarity” (Lee and Shalmon 2008:132).

It is not possible to find any official links between the acquirement of oil equity and the Eximbank resource for infrastructure loans. However, the existence of Chinese credit may have created political goodwill towards Chinese investors. The ease in acquiring oil equity may also be because there was little competition in Sudan. Western oil companies withdrew from Sudan due

to increased domestic pressure and US sanctions against the Sudanese government for human rights violations.

The President of Congo-Brazzaville, Denis Sassou Nguesso is one of Africa's longest-serving leaders. 16 percent of China's oil imports from Africa were from Congo-Brazzaville in 2006. According to the World Bank the building of the Congo River Dam was backed by crude oil guarantees. This was financed by a \$280 million credit and is completed. There is a lack of information of the oil for infrastructure deal in Congo-Brazzaville, but the existing information suggests that it is limited. The small projects in both Sudan and Congo-Brazzaville gave little oil supply for the money. And again, why would they use this mechanism to secure oil if it could be bought for the same price at the international market?

Angola, Sudan and Congo-Brazzaville have had the same leader during both the negotiations and the implementation of the resource for infrastructure mechanisms. While the mechanisms have been much smaller in size and scope in Sudan and Congo-Brazzaville than in Angola, it has nevertheless been completed. In Nigeria on the other hand, leaders were changed, and the resource for infrastructure deals were cancelled. On this background it is possible to construct the following hypothesis:

The oil for infrastructure mechanism is contingent on political predictability to be implemented.

Both stable democracies and stable authoritarian regimes have predictability. Even if there is turnover in a democracy, you would not expect the government to not uphold agreements made with the previous government. In a regime with turnover, but with extended corruption the new government may have different groups they need to cater to. Perhaps contracts were awarded to companies that were owned by friends of the former president.

This is a hypothesis limited to countries that use oil to secure Chinese infrastructure credit. It is possible to imagine that oil gives African countries better bargaining power than other natural resources that have been used to secure Chinese credits such as cocoa (Ghana)⁶⁰. This shows that some dimensions of the Angolan resources for infrastructure mechanism (contingent on predictability) may have validity outside of Angola. However, using the case of Angola for further generalizations will only be fruitful when comparable cases are taken into account. Other

⁶⁰ Ghana has finished negotiating a new, large credit line from the Eximbank and CDB where some repayments will be in the form of exports, possibly oil (SOURCE!)

dimensions of the resources for infrastructure mechanisms in Angola were quite different from the other oil for infrastructure countries, and are potential sources of error.

What make these contracts different in different settings may be the individual African countries as negotiations are bilateral. Brautigam suggests that individual African countries rather than China will decide the impact of Chinese engagement: “the developmental impact of Chinese aid and economic cooperation will almost certainly vary country by country and sector by sector. The deciding factor is likely not to be China, but individual African countries and their governments” (Brautigam 2009:21). This stands in contrast to the picture of African countries as passive players in Sino-African relations. The type of resource may also have an impact. According to Alden and Alves, there is a difference between oil and other resources: “The fact that the Chinese are latecomers seems to be more of a hindrance in the oil sector than in minerals, seeing as Chinese companies have accessed major deals in the latter sector (e.g. in Gabon, the DRC and Zambia) in a shorter time frame (Alves and Alden 2009:16). The comparison between Nigeria and Angola show that there are quite different dynamics at play in cases one could expect would be more similar regarding the resource for infrastructure mechanism. The resource for infrastructure mechanism seems quite country specific in their differences.

5.10 Comparing theoretical perspectives

I will now explore the hypotheses from chapter two, using the indicators from the previously discussed oil and infrastructure engagement in Angola to analyze the assumptions of the hypotheses. Building on the dependency/energy security perspective we have H1: *The 'Angola mode' is a mechanism to secure a steady supply of natural resources to China from Africa.* An underlying assumption of this perspective is that the use of Chinese construction firms is mainly to mitigate risks: *The use of Chinese construction firms is used to minimize the exposure to risks such as local corruption and labor costs.* We also have the underlying assumption that: *Angola is a passive player in this relationship.* Building on the win-win perspective we have H2: *The resource for infrastructure contracts is a mechanism to secure contracts for Chinese companies and infrastructure development for Angola.* In this hypothesis we also have some underlying assumptions: *Oil is used to mitigate the risk of extending a credit to a country with poor credit ratings and both China and Angola gains from this arrangement.*

In Chapter 2 (2.10) I outlined some expectations of what indicators one would expect to

find to support H1 and H2. To support H1, an important indicator concerns oil gains for China. This could be in the form of oil equity for Chinese NOCs, or agreements of a steady oil supply to China. We would also expect that Chinese construction firms leave after a short period, and earn little profit as they are primarily used to mitigate risk. In addition we would expect to find mainly state-owned companies, and that Chinese companies mainly employ Chinese workers. The Angolan government would also be passive players in this relationship. According to H2 we would expect to find some quite different indicators in Angola. We would find that Chinese companies are established in Angola because of this credit. We would also find evidence to support the notion that oil is used to mitigate the risk of extending credit instead of oil being the primary reason for the contracts. Last, we would expect that both China and Angola has achieved mutual benefit from this arrangement. I will primarily focus on internal indicators in Angola, but I will also present external indicators from the case of Nigeria (and to a smaller degree Sudan and Congo-Brazzaville) to elaborate on the hypotheses where suitable. The indicators will be examined in the following order; oil equity and oil supply gains for China, the role of Chinese construction companies, the role of the Angolan government in negotiations, if oil is used to mitigate risks, and if there has been mutual benefit for China and Angola.

Oil equity and oil supply gains for China

In Angola there was a coincidence of oil equity gains by Chinese NOCs and the extension of the first Chinese oil-backed credit in 2004. This laid ground for speculations that the Chinese oil-backed credits were directly linked with oil acquisition by Chinese NOCs. However, one problem with this assumption is that the success of Chinese NOCs in Angola has not continued after 2006. The refinery deal fell through in 2007, and Sonangol blocked the purchase of further oil blocks for Chinese NOCs Sinopec and CNOOC in 2009. Even though Chinese NOCS were blocked from oil equity acquisition by Sonangol, the Eximbank continued to extend further credit to Angola in 2010, and other Chinese actors such as the CDB and the ICBC have extended credits to Angola. It may be that there was an initial linking of oil equity and the resources for infrastructure contracts, but this connection does not seem to present anymore, nor are there any publicly available documents or statements that supports this from the Angolan or the Chinese side. While Chinese NOCs, have accomplished less in terms of oil equity the recent years, the

Chinese private-owned joint venture with Sonangol (CSIH) has had recent success acquiring oil equity. It may be that the private owned CIF has linked its credits on oil equity acquisition, but the opaqueness of the CIF contracts hinders further insight in this. The difference between CIF and the Chinese Eximbank are important to uphold. As there is no evidence that the private investors behind the CIF group are directly connected to the Chinese government, it is not fruitful to operate on the assumption that both CIF and the Eximbank answer to an elaborate plan by the Chinese government. It is argued that while China's oil equity gains may have been limited, China did manage to secure a steady supply of oil. Assuming that crude oil is supplied to Chinese refineries and then sold it is clear that China did indeed manage to secure a steady supply of oil. However, as this is sold at market price, the gains of securing crude oil in this manner are dubious. Why not just buy the crude oil at the international market for the same price?

When looking at external indicators as presented in resources for infrastructure contacts in Nigeria, Sudan and Congo-Brazzaville, we do not see the contours of the exact same model. In the Nigerian case, oil equity was directly connected to infrastructure development, but the deal was cancelled by the following president. In Congo-Brazzaville and Sudan the contracts were used to finance one project and are thus not directly securing a steady supply of oil, or connected directly to oil equity. However, it is possible to argue that such contracts also serve the purpose of creating political goodwill to facilitate oil acquisition so there could be an indirect link between these contracts and oil acquisition by Chinese NOCs. Nonetheless, as seen in Nigeria, Chinese NOCs has a better tactic to acquire oil equity than such through such complicated mechanisms: purchasing other oil companies with strategically important assets.

H1 was a more probable explanation in 2004 than it is in the aftermath of Sonangol denying purchase of oil equity by Chinese NOCs. Likewise, H2 is not capturing the 'coincidence' of Chinese NOCs gaining Angolan oil equity for the first time right after the extension of the oil-backed Eximbank credit in 2004. In Nigeria, Chinese NOCs gained no oil equity through the mechanism because the deal was cancelled. However, it did not hinder a Chinese NOC from buying an oil company that had important assets in Nigeria and gain oil equity in a more traditional way. Initially, the Nigerian case support H1 as it was clear that oil access and infrastructure construction was linked. Be that as it may, the Nigerian case was the only case examined where there was a direct, public linking with Chinese acquisition of oil equity in exchange for infrastructure construction, and it failed.

The role of Chinese construction companies

Low margins of profit and the amount of Chinese workers support the argument that the Chinese companies are mainly there to mitigate risks. The first companies that came to Angola were state-owned, but now there are 50 state-owned and 400 private Chinese companies in Angola, so it is clear that we don't mainly see Chinese state-owned companies in Angola. Chinese companies do bring own employees to a large extent, and the amount of Chinese workers are bigger on the projects financed by the Chinese Eximbank and the CIF. But is this really used as a method to secure oil? The Chinese companies seem to be establishing a long-term presence in Angola. The fact that many companies stay in Angola and take on subcontracts outside of the Chinese credit lines support the notion that they are not only there to facilitate access to oil for China. The creation of the Chamber of Commerce for Chinese companies also supports the notion that the Chinese construction companies are not about to leave Angola. However, the Chinese Eximbank credit-line also seems to be established with a long-term perspective, so it is possible that they have a continued presence to go on mitigating risks. The presence and success of the Chinese construction companies in Angola support H2. H1 seem to be supported by the low margins of profit and the amount of Chinese workers. Nevertheless, the evidence for H2 seems much stronger concerning the role of Chinese construction companies. There are strong indicators suggesting that the Chinese Eximbank facilitated the entrance of the Chinese companies through the credit-lines such as the Chamber of Commerce, and the long-term perspective of the Chinese construction companies in Angola.

Has the Angolan government been passive players in the negotiations?

In Angola it is argued that the 30 percent of the Chinese Eximbank contracts that are reserved for Angolan companies is a large concession considering that the Eximbank credit is an export credit. However, it is not uncommon for foreign companies that use export-credit to subcontract to local suppliers. It is also indicated that the 30 percent reserved for the local industry is a victory on paper more than in practice. Nevertheless, it is indicated that Angola has by no means been a passive player in these negotiations. Externally we find that also in Nigeria the government played an active role in the negotiations. The Nigerian government proposed the agreement, and it did not seem like a consorted effort by China to gain inroads in the Nigerian oil industry as they reluctantly participated after a Nigerian initiative presented not only to Chinese NOCs, but also to

other Asian NOCs. This indicates that Sino-Angolan relations are not dominated by the ‘Chinese dragon’ and that Angola, as well as Nigeria have been actively negotiating instead of passively accepting terms imposed from the Chinese side. This does not support the H1 assumption that Angola has been passive players in negotiations with China. The evidence from Nigeria is also suggesting that they were not passive players in the resources for infrastructure mechanism.

Has oil been used to mitigate risks?

Did we find evidence that oil is used to mitigate risk? The additional Chinese financing that is not oil-backed indicate that oil may have been used to mitigate the risk of extending credit to a country in such a financial state that Angola experienced in 2004. Angola’s economic situation at the time limited all but oil-backed financing. China isn’t the only country that has required oil-backing to extend credit to Angola, but oil-backed lending seems to have decreased as Angola has improved its financial situation. The oil-backing in the case of Angola may just be a security demanded by Sinosure to insure the export credits to Angola. The ‘secure oil supply’ to China is priced at market rate, which makes it necessary to ask what the Chinese gained from this mechanism in terms of oil supply that they could not have achieved through buying oil at the international market. But if it is not about the supply of resources, why go into the bother of making complicated resource for infrastructure contracts? Is it to promote Chinese export? Is it to facilitate market entrance? In Angola there is no doubt that the credit-lines have facilitated the establishment of Chinese construction companies. However, do the Chinese companies need these credits to establish themselves in Africa? Several indicators support the assumption in H2 that the oil was used to mitigate the risks of extending credit to a country in a difficult economic situation. The Sinosure requirement and the fact that other agencies also demanded oil security from Angola to extend credit support this assumption. While the 2004 ‘coincidence’ of oil equity support H1, this has as earlier noted not continued to be the case.

Has there been mutual benefit for China and Angola?

Mutual benefit is a vague concept to assess. What lies in this statement? Both parts may have expected more from this engagement. Angola has gained a lot of infrastructure construction, but

does the cost outweigh the benefits? It may be that China had expected continued preferential treatment for Chinese NOCs. The credit-lines are not used in full, and Angola has a huge ability to draw from existing credit-lines if they want to. While it is possible that the Chinese government expected more than they got for the resources for infrastructure contracts, over 400 Chinese companies, and 60-70 000 Chinese workers in Angola are not insignificant. China's official Africa policy presented through FOCAC and white papers are extensive as discussed in chapter two. However, as we have seen in chapter four and five. China's dominant form of engagement with Angola has been oil and infrastructure development. The limited amount of engagement outside the natural resource and construction sector points to a relationship that is for now limited to certain sectors. So does the small amount of Chinese FDI in Angola. There are no plans of a Special Economic Zones in Angola, even though it is China's biggest trading partner. When China was in Angola's position and engaged in oil for infrastructure contracts with Japan, China had a local industry and workers able to exploit such an arrangement. As this may not be the case in Angola, the long-term gains for Angola from this arrangement may be questionable. The low amount of local workers and lack of joint ventures with local companies on the CIF and Eximbank projects indicate that the benefit for Angola could have been higher. The quality of the Chinese projects are largely based on rumors, and while there may be some truth to it, there is little evidence that Chinese construction projects are decisively worse than for example Brazilian construction projects in Angola. It is indicated that there has been some mutual benefit in accordance with H2 as Angola has managed to obtain essential infrastructure in a range of sectors that Angola did not have the capacity to construct them. However, the long-term gains for Angola from this arrangement are not certain, and the lack of local participation and limited amount of technological transfer questions the long-term benefit for Angola. While the intentions from the Chinese government and the Chinese Eximbank may be good, Chinese companies, state-owned and private, are the ones that in the end execute the policies, and they are primarily driven by profit rather than concerns of 'mutual benefit'.

Which perspective has been most fruitful to use to analyze empirical evidence?

While H1 seemed like a plausible hypothesis in 2004, developments since then have changed the landscape. H1 fails to capture why Chinese NOCs has not continued to gain more oil equity in

Angola. The Chinese resources for infrastructure mechanism have not stopped as a result of this. In fact, China continues to offer financing to Angola through new agencies as the credit-line extended by the CDB and the loan from the ICBC demonstrate. This indicates that the 2004 coincidence of oil equity and the Chinese Eximbank credit may have been a moment in time. When using H1 to analyze the resources for infrastructure contracts, the focus on oil equity acquisition/long-term oil supply overlooks alternative explanations to the oil component in the mechanism such as the Sinosure requirement of additional guarantees for insuring credit to countries with poor credit. The Chinese Eximbank need insurance from Sinosure, and is therefore unable to provide credit to countries with poor credit without additional guarantees. Acquisition of oil equity was not as far as publicly known part of the resource for infrastructure contracts. Therefore, the declining success in gaining oil equity does not really say anything about the viability of the resource for infrastructure contracts. Further financing from China that is not backed by oil confirms this assumption that Angola is evolving from the moment when oil-backed loans was all they could obtain. There may have been some initial linking of Chinese NOCs acquiring oil equity, however, if so, it has not continued to be the case, and it does not seem to be an essential part of the resource for infrastructure mechanism in Angola today.

While H2 explains the establishment of Chinese construction companies in Angola in line with China's official 'go out' policy, this hypothesis fails to capture potential challenges concerning the amount of Chinese workers in Angola, and the lack of technological transfer. The exemptions provided to Chinese companies for projects financed by the Chinese Eximbank and CIF credits may go both ways. While this is possibly an efficient method to ensure rapid infrastructure construction that may remove essential infrastructure challenges, concerns are raised at the lack of local content and technological transfer. This is a trend that may change as Chinese companies continue to participate in the Angolan construction sector outside of the CIF and the Eximbank credits. If all projects are supervised by ANIP instead of getting special rules from state agencies, the content of local labor in projects executed by Chinese companies are likely to be higher, and the gains for Angola will increase.

Taking into account the lack of further oil equity gains, and that the oil reserved for China through this arrangement is sold at market price I argue that the indicators from the empirical evidence support H2 rather than H1. It is indicated that the Chinese construction companies are establishing in Angola as a result of the resources for infrastructure mechanism, and important

infrastructure projects in several sectors in Angola has been completed through this arrangement. However this does not mean that H2 captures all the dimensions of Sino-Angolan engagement. H2 fails to capture pitfalls with the large infrastructure projects such as the limited amount of technical transfer and quality of the completed projects. Oil is important for China, and Chinese NOCs actively seek both oil equity and long-term supply. However, in Angola, it does not seem like the resources for infrastructure contracts have provided Chinese NOCs with substantial oil gains except for in the initial phase.

Chapter six – conclusion

6. 1 Concluding remarks

In this thesis I have investigated the Chinese resources for infrastructure mechanism in Angola. I chose Angola as a case due to the size and scope of the resources for infrastructure mechanism in Angola, and because oil is China's largest external reliance. Because the Chinese resource for infrastructure mechanism was so much more evident in Angola than in other African countries that had engaged in this mechanism I argued that Angola was an extreme case. This was particularly important to explore the second part of the research question. If the resources for infrastructure contracts are used to secure Chinese access to natural resources, one would expect to see this at play in oil-rich Angola where this mechanism has been the largest of size and scope of all the African countries that China has engaged in this arrangement with. Similarly, if this has been a mechanism to ensure mutual benefit, we would expect to see evidence of this in Angola. I also drew on indicators taken from other countries that have engaged in oil for infrastructure agreements with China, allowing me to explore the external validity of Angola, and collect additional external indicators concerning the resources for infrastructure mechanism. This shed additional light on the country-specific differences in the use of the resources for infrastructure mechanism. Like this mechanism was a moment in time for China, it may be a moment in time for Angola as well. The resource for infrastructure contracts seems to be relevant in a certain conjuncture between countries at different stages of development. However, comparing with other cases you find that the mechanism is not automatically universal. I argued that Nigeria was in the same conjuncture as Angola. Nigeria initiated negotiations, needed infrastructure, and had the oil to pay for it. This laid the basis for a new hypothesis: *'The oil for infrastructure mechanism is contingent on political predictability to be implemented.'* The lack of success in Nigeria underscores the limitation of this conjuncture model, and of using the resources for infrastructure contracts in Angola to generalize over comparable contracts between China and African countries.

This study has demonstrated that Angola alone is not a good case to use to generalize over Sino-African relations. Of the countries that have engaged in resource for infrastructure mechanisms with China, Angola is often used to illustrate this engagement. As an extreme case of one mode of Sino-African engagement, it can be a source of many incorrect assumptions of

Sino-African engagement in general. Angola is neither a miniature Africa, nor a representative case. Using Angola to generalize in other cases where China is engaged in significant natural resource extraction may be contrary to its purpose. In Angola the oil for infrastructure mechanism has dominated Sino-Angolan trade and relations. This does not seem to be the case in other comparable oil-rich countries where the use of this mechanism has so far been limited. The resource for infrastructure contracts seems to have been a small part of the Chinese engagement in Sudan and Congo-Brazzaville, and a failure in Nigeria. The resource for infrastructure mechanism, which is complicated to negotiate, seems to be country-specific with different factors at play. Therefore, drawing on comparable cases is crucial to gain a deeper understanding of the resources for infrastructure mechanism. More information is needed on the Chinese resources for infrastructure mechanism in other African countries to be able to make a thorough comparison of the mechanism.

Main findings

A main finding is that evidence indicates that the ‘Angola mode’ is not a mechanism to secure oil; rather it seem to be used to mitigate the risk of extending loans to a country with poor credit. While there seem to have been some initial linking between oil equity acquisitions by Chinese NOCs in the beginning, this was not publicly a part of the arrangement. The steady supply of oil is offered at market price, questioning the oil gains for China. Access to buy Angolan oil on the international market for market price is by no means limited. The credit-lines have facilitated access to Angola’s oil supply that is unnecessary to secure supply. While natural resources are by no means unimportant for China, the resources for infrastructure mechanism may not mainly be a method to secure a steady supply of oil in Angola. There seems to be little advantage to using a complicated mechanism to purchase oil at market rate. Unfortunately, there are still many unknowns about the resource for infrastructure mechanism. While this mechanism may not be aimed at securing resources, other actions by China and China’s companies certainly are. It may be misleading to present the resource for infrastructure mechanism as a method to secure China access to natural resources, but that does not suggest that access to natural resources are not important for China. It just indicates that in Angola, there are doubts as to whether the resources for infrastructure mechanism are used mainly for that purpose.

Contribution of the fieldwork

A main finding from my fieldwork was that the export-credit offered to Angola was not used in full, and informants indicated that this was due to a lack of interest or capacity from the Angolan side for using all of the available credit. The Angolan government actively sought alternative sources of financing that was not as closely connected with promoting the exports of other countries. Internal changes in Angola such as the policy of diversification and the improvement of the economy seem to have made the Chinese resource for infrastructure contracts less important. This supported the notion that Angola is evolving from the oil-backed credits, and that the arrangement in 2004 was a moment in time rather than a model of Sino-Angolan engagement.

Contribution of the thesis and suggestions for further research

I have explored the usability of the two dominant perspectives on Sino-African engagement in analyzing the use of resources for infrastructure contracts in Angola. Both perspectives fail to pick up on important factors in this arrangement. Neither the Angolan government, nor the Nigerian government seems to have been passive players in these negotiations. This challenges the perception of the dependency/energy security perspective of the African states as passive participants. However, while African governments may be active players, this does not ensure that any pattern of resource extraction will be changed. While the local elites seem to have been active players, the resources for infrastructure mechanism is indeed an example of traditional patterns of natural resource extraction and import of value-added goods. There is an import of not only Chinese construction materials, but also of Chinese companies and workers. The dependency/energy security perspective needs to take into account that Chinese engagement in Africa go beyond natural resource extraction. While natural resources are by no means unimportant, the narrow focus on natural resources overlooks other important dimensions of Chinese engagement such as the implications of the establishment of Chinese companies and Chinese migrants in African countries. Explaining this presence with China's hunt for natural resources limits the analysis. Likewise, the mutual benefit South-South perspective fails to capture pitfalls with the resources for infrastructure mechanism. While China was a developing country when it participated in a similar agreement with Japan, China had the capacity to exploit these opportunities. Time will show if African countries have the capacity to do the same. Evidence indicates that the lack of technological transfer and joint ventures may be a serious

impediment for Angola to benefit from this arrangement in the long run.

As 'China in Africa' is still a recent field and Sino-African relations are continuously evolving, there are many topics of these relations that have not yet been sufficiently covered in the literature. Unfortunately, lack of information is a serious impediment to a thorough reliable analysis. There is a need for more case studies in other resource for infrastructure countries to collect data that may serve as the basis for a quantitative analysis, or comparative qualitative analysis. A systematic comparison of all the countries that have engaged in resource for infrastructure contracts is necessary to establish how this mechanism works across different countries. It remains to be seen whether the result of China's presence in Angola will be mutual benefit, or if China is just reinforcing established patterns. While it may be a classic relationship, it has the potential to be something more just as it was for China and Japan. The resources for infrastructure contracts do not seem to be a mechanism primarily to secure Chinese access to natural resources. How challenges related to technological transfer and local content are handled in the future are likely to be a key influence on whether Angola will actually experience long term mutual benefit from the resources for infrastructure contracts in the end.

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Appendix A - Interview guide

I used this interview guide as a basis for my interviews. I did not ask all of my informants all of the questions; they were modified depending on the informant and the time available.

Questions concerning how the mechanism has developed since implementation

- What do you know about the Chinese credit-lines
- Has there been a change in the resources for infrastructure mechanism since 2004?
- How has the Angolan policy of diversification affected Sino-Angolan relations
- How has Angola's financial situation affected Sino-Angolan relations
- Are there any political consequences of China's credit lines?

Concerning mutual benefit

- Do the resources for infrastructure contracts provide mutual gains?
- Do you see China as a different development partner for Angola?
- Is the 30 percent reserved for Angolan companies implemented?
- How do the Chinese credit-lines differ from the other credit-lines extended to Angola?
- How is China different than other external actors in Angola?
- Has the credits facilitated oil supply for China?
- Are the Chinese construction companies established in Angola
- How is the quality of the Chinese construction?
- Do you think that the Chinese construction will provide Angola with long-term benefits
- Did the Angolan government play an active role in negotiations with China?

Questions for countries that had extended export-credits to Angola

- How are your export-credits different from China's credit line?
- Are there any political conditions attached to your credit-line?
- Are your export-credits backed by oil/oil guarantee?
- Were the credits previously backed by oil/oil guarantee
- Are the credits being used to the extent expected?
- How many local workers do you have employed on officially financed projects?

Appendix B - List over informants

Maria Teresa Gomes Mateus, Counselor for Economic Cooperation at the Portuguese Embassy in Luanda, 18/1 2011, Luanda, Angola

Regina Santos, Economist at the Catholic University in Angola, 19/1 2011, Luanda, Angola.

Manuel Alves de Rocha, Economist at the Catholic University in Angola, 28/1 2011, Luanda, Angola

Manuel Sanchez Melero, Economic and commercial console at the Spanish embassy in Luanda, 24/1 2011, Luanda, Angola.

Zé Alves Pereira, Economic and Commercial advisor at the EU delegation to Angola, 24/1 2011, Luanda, Angola.

Sergio Calundungo, director at the Angolan civil society organization Adra, 26\1 2011, Luanda, Angola.

Ana Maria Carvalho, Communications and External Affairs at the World Bank in Angola, 27\1 2011, Luanda, Angola.

Emilio Londa, Economist at the Catholic University in Angola, CEIC, 17/1 2011, Luanda, Angola.

Source at the Angolan Ministry of Finance, 31/1 2011, Luanda, Angola

Edson Santiago, Secretary of the Brazilian Embassy in Luanda, 21/1 2011, Luanda, Angola

Randal Peterson, Mission director for USAid in Angola, 27/1 2011, Luanda, Angola

Ladonna S.Sales, Economic Officer at the US embassy in Luanda, 27\1 2011, Luanda, Angola

Deborah Brautigam, Researcher at American University in Washington, 13/5 2011, Bergen, Norway