

## **Angola flexes newfound muscle**

By Lucy Corkin

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AS CHINA increases its diplomatic and commercial presence in Africa, one of the most strategic Sino-African partnerships to have emerged has been between China and Angola. In previous years, Angola has experienced difficulties in securing public financing, disqualified by international financial institutions due to poor standards of governance and transparency. China was seen as a welcome alternative loan source to a country desperately in need of the financial means with which to rebuild a war-torn economy.

For China's part, cultivating relations with Angola, the second-largest African oil-producing country after Nigeria, was particularly important in terms of potential oil exploration contracts. In January 2005, China's Exim Bank offered the Angolan government a now infamous \$1bn loan at 1,7% interest over 17 years. This loan has been extended and refinanced several times, with the interest lowered to 0,25%, effectively allowing China Exim to monopolise Angola's public financing. Official statements place the loan currently at \$6bn, but independent estimates put the total amount at \$9bn. Tied to this loan is the arrangement that 70% of all public enterprise contracts financed by Chinese money will be built by Chinese companies.

The consequent rapid entry of China's state-owned enterprises into several key sectors of the Angolan economy has put China at the forefront of Angola's reconstruction. This has been met with criticism, as it is feared that the closed-door nature of such bilateral negotiation will do little to encourage accountability and will erode what little leverage western donors possess in their engagement with the Angolan government.

Recent developments, however, suggest that Angola has seized the political and economic leverage afforded it by the rising global demand for oil.

In March last year, a joint venture was announced between Sonangol and Sinopec, Angola and China's respective state-owned oil companies, to develop a refinery in Lobito. The project, named Sonaref, worth \$3bn, was expected to reach a capacity of 240000 barrels a day when on full stream, almost tripling the capacity of Angola's current refinery. The joint venture, known as Sonangol-Sinopec International (SSI), also tendered for oil exploration contracts. The announcement this month that the negotiations around the SSI joint-venture had collapsed, pose some interesting questions regarding the developing dynamics surrounding Angola's oil reserves.

According to reports, SSI talks unravelled over a disagreement over the target markets for the proposed Sonaref refinery's products, 80% of which was supposed to go to the export market, despite the fact that Angola's domestic market regularly suffers shortages of oil by-products.

In addition, Angola became a fully-fledged member of the Organisation of Petroleum Exporting Countries in January. It is now in Angola's interests to restrict oil output to maintain current high prices, so it would make perfect sense to short-circuit the construction of a refinery whose capacity would increase Angola's current production levels of 1,4-million barrels a day and whose products were not aimed at Angola's domestic demand.

China's involvement in Angola's oil industry is far from terminated, as the China Exim Bank loan is oil-backed, securing 10000 barrels a day of Angolan oil for China.

That Angola might go it alone in developing domestic extractive infrastructure could mean a number of things. First, the Angolan government may have realised the need to stimulate national industrial capacities, not only in oil extraction, but other sectors well placed to benefit from oil-induced growth.

Second, Angola may be starting to realise the potential leverage afforded it by rising commodity prices. Shifting global dynamics as China and India come on stream will ensure that oil will become a

more and more precious commodity, until such time as biofuel technology catches up with global demand.

The threat of political instability is not over, and the commercial risk in Angola is not to be underestimated. Angola, however, is in a position to harness the increasing need for fossil fuels to boost its own economic growth and rehabilitation so desperately needed after nearly three decades of civil war.

While the Angolan government is a long way from ensuring the transparent management of the country's natural resources, it seems that the potential for economic self-determination has been realised, setting a potential precedent for Africa's future engagement with China in particular, and the global economy in general.

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