

# Chinese Construction Companies in Angola: A Local Linkages Perspective

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**Making the Most of Commodities Programme (MMCP)**



**Development  
Policy and  
Practice**



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# MAKING THE MOST OF COMMODITIES PROGRAMME

Like many other developing economy regions, Africa is benefitting from a sustained boom in commodities prices. Received wisdom has been that commodities production is an inherently enclave activity and that it undermines the viability of industry. The Making the Most of Commodities Programme challenges this negative view of the commodities sector. It's research analyses the determinants of backward and forward linkages, identifying policy responses which will broaden and deepen them. In so doing it contributes both to achieving sustainable growth and the spreading of benefits to a wider population. By incorporating younger researchers, building a research network, and dialogue with policymakers, the MMCP also seeks to build analytical and policy capacity, and to influence policy outcomes.

The MMCP focuses on a diverse range of commodity sectors in a number of African economies, as well as on key infrastructural determinants of effective linkage development. A number of common factors are identified which will increase linkages beneficially and which lend themselves to policy intervention - the role of ownership, the nature and quality of infrastructure, the national system of innovation, spillover of skills to and from the commodities sector, linkages in regional economies and the nature and consistency of policies directed towards the commodities sectors.

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## **Abstract**

*China tends to spearhead its economic overtures to African countries through high-level bilateral negotiations. The prevailing view is that Chinese companies operating in African countries do not use local labour, materials or any other inputs in the undertaking of their contracts.*

*Focusing on the strategic orientation of large Chinese companies state-owned enterprises (SOEs) operating in Africa's infrastructure sectors, the report seeks to focus on the determinants of their sourcing behaviour, the manner in which this reflected in their use of local inputs, and in their linkages to the national system of innovation (NSI) in an African country.*

*Using the case study of Angola, the objective of this report was to firstly understand how Chinese construction companies develop their sourcing and procurement strategies in their African operations, what factors affect these strategies and whether there is anything unique in the way in which local linkages with the host country are developed or avoided. Secondly the research seeks to determine how Chinese construction companies can be further encouraged to pursue local linkages in their operations.*

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## EXECUTIVE SUMMARY

*According to the research findings of this report, the larger state-owned Chinese companies have entered Angola largely on the back of Chinese government loans, as these state financing structures mitigated the risk that would otherwise have prevented these Chinese firms from entering the little known Angolan market. Smaller private firms have followed in the wake of the larger companies, willing to subcontract and readily act as suppliers in a value chain that although showing signs of becoming localised geographically, as yet has few areas in which value is added by Angolans themselves. Findings of the study indicate that in the case of Angola, Chinese construction companies' local linkages are very weak. This is due to a number of factors:*

- 1) The nature of the Chinese government loans which are specifically a mechanism to ensure that a large proportion of the procurement comes from China (thus reducing China's trade deficit with Angola).*
- 2) Attempted risk mitigation due to Chinese companies' lack of local market knowledge*
- 3) Angola's weak institutional framework, lack of political will and vested interests preventing local content policy implementation*
- 4) Lack of capacity in the local market*

*Although some of the larger state-owned firms engage in training of local Angolans, in most cases it is unclear as to whether the trainees are incorporated into the training companies' work force as there are no monitoring structures to ensure this. National reconstruction is seen as an urgent priority by the Angolan government, eroding political will to encourage local content development as this is perceived to slow projects down. Consequently there is a contradictory policy environment. Vested interests of political elites in the economy who may view economic diversification and local content and capacity development as a potential threat to their power also hinder this.*

*In many cases the Chinese companies' competitive advantage lies in their ability to deliver projects faster and cheaper than their competitors, encouraging quick builds to maximum cost efficiency and time. This leaves little room for local content development. Loans from foreign governments linked to purchase their national companies' goods and services, especially such as those from China, further reduces the ability of local firms to enter the value chain. A dire lack of training and capacity in a working population that has just emerged from more than three decades of civil worsens the situation. This may not always be the case. There is a growing awareness among Chinese companies of the lack of stability in enclave projects and thus the need for local linkages (in the sense of Angolan value-addition) to mitigate their commercial risk. Early indications suggest that the more time spent in market, the more willing Chinese companies will be to train up locals and incorporate them into their work force. Industrial zones are being built outside Angola's major cities which are encouraging Chinese companies among others to relocate their factors of production here, rather than deal with an under-capacitated port infrastructure. There are also indications of a tougher stance on the part of the Angolan government in terms of enforcing local content provisions, but it remains to be seen whether this will bear fruit.*

## 1.1 Introduction

China's growing role in Africa in terms of aid, trade and investment flows has been well-documented in recent years. Despite accounting for less than three percent of China's total trade, the unprecedented growth of commercial exchange between China and the African continent has drawn increasing attention from the media, scholars and policy-makers alike.

Significantly, Chinese state-owned financial institutions such as China Export-Import Bank (China Exim Bank) and China Development Bank (CDB) have become large-scale lenders in Africa, rivalling the World Bank and the International Monetary Fund in terms of development finance outreach (Imparato & Shalendra, 2009). According to the Chinese Ministry of Commerce, in 2008, African countries were the destination of 9.82 percent of China's total outward foreign direct investment flows (FDI) (Chinese Ministry of Commerce, 2009). While this is a small percentage, it is a doubling of the previous year's figures, which in turn were themselves twice the Chinese FDI to Africa in 2006. Construction (15.8 percent) is comprises the third largest portion of Chinese FDI to Africa after mining (29.2 percent) and manufacturing (22.09 percent)<sup>1</sup>.

China tends to spearhead its economic overtures to African countries through high-level bilateral negotiations. The prevailing view is that Chinese companies operating in African countries do not use local labour, materials or any other inputs in the undertaking of their contracts.

Focusing on the strategic orientation of large Chinese companies state-owned enterprises (SOEs) operating in Africa's infrastructure sectors, the report seeks to focus on the determinants of their sourcing behaviour, the manner in which this reflected in their use of local inputs, and in their linkages to the national system of innovation (NSI) in an African country.

Using the case study of Angola, the objective of this report was to firstly understand how Chinese construction companies develop their sourcing and procurement strategies in their African operations, what factors affect these strategies and whether there is anything unique in the way in which local linkages with the host country are developed or avoided. Secondly the research seeks to determine how Chinese construction companies can be further encouraged to pursue local linkages in their operations.

This report is presented in nine separate sections. Section one will outline the Angola's political and economic context, leading to a background on Chinese construction companies' entry into Angola, followed by a description of the methodology used in this study. Sections two through to eight comprise an in-depth discussion of the nature of linkages regarding Chinese construction companies in Angola, paying particular attention to the specific hypothesised linkage drivers of ownership, policy, infrastructure, regional factors, skills and national systems of

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<sup>1</sup> Information Office of the State Council White Paper on China-Africa economic and trade co-operation, published 23 December 2010. Full text available: [http://news.xinhuanet.com/english2010/china/2010-12/23/c\\_13661632.htm](http://news.xinhuanet.com/english2010/china/2010-12/23/c_13661632.htm) [28 December 2010]

innovation (NSI). The final section will provide a synopsis of the research findings followed by recommendation and conclusions.

## 1.2 Background to the study

### 1.2.1 China's global construction footprint

In little more than three decades, Chinese construction companies have made a considerable impact on the global market, particularly in developing countries. Until 1985, the only Chinese entities of consequence which had legal foreign dealings were the state-owned import-export companies, as well as provincial and municipal enterprises which fell under the auspices of the State Import and Export Regulation Commission or the State Foreign Investment Commission. By 1993, these functions were consolidated under the Ministry of Foreign Trade and Economic Co-operation (MOFTEC), later renamed Ministry of Commerce (MOFCOM) in 2003. The central government encouraged technological upgrades and propagated what was known as its “two resources, two markets” approach in the 1990's, encouraging the utilization of both the domestic and the international markets to strengthen the firms' commercial position. At the 15<sup>th</sup> Chinese Communist Party Congress in 1998, further development ensued with the policy of “grasping the large, releasing the small”, allowing all but the largest state-owned enterprises (SOEs) or those concerning national security interests to be privatized. The State Assets Supervisory and Administration Commission (SASAC) acts as government shareholder and regulator of the 123 SOEs of which the central government has retained ownership (Shankleman, 2009).

Since the 2002<sup>2</sup>, the ‘going global’ (zou chuqu) policy has actively encouraged Chinese enterprises to expand overseas. The government has cherry-picked 50 of its largest and most promising industry leaders to act as ‘national champions’; as such they qualify for additional assistance in this endeavour (Gill and Reilly, 2007:40). While in theory this list does not exclude private companies, in practice it is dominated by state-owned enterprises. The reform of SOEs in China, as yet incomplete, is still a considerable concern.<sup>3</sup> Although the stake the Chinese government holds in SOEs has been reduced, the SOEs are still hybrids – publicly traded on the stock exchange, but still majority-owned by the government. In 2006, the top 10 SOEs were eight times bigger than the top 10 private firms. Compounding this problem, the government's discriminatory regulatory treatment of private or “non-state entrants”, means that the SOEs negatively affect the overall economy by their special treatment (Sharma, 2009).

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<sup>2</sup> Brautigam (2009:74) asserts that the ‘going global’ policy began far earlier than the turn of the millennium

<sup>3</sup> A Chinese ministry official commented: ‘SOEs make their own money, they do not give it to the state (or very little), but if they run at a loss, the government will cover it up.’ There is indeed growing concern that SOEs are beginning to operate according to their own agendas outside of the central government's strategic objectives (Gill and Reilly, 2007; Chen, 2008). Another researcher commented that though many SOEs that have been established in Africa, they had lost money. Alternatively, the private companies manage themselves better, as they have to stand on their own (implicitly, at least) and can't depend on the government to bail them out.

**Figure 1.1: Top 20 Chinese overseas contractors (2009)**

Rank	Company	Total Overseas Turnover (US\$ billions)
1	Huawei Technologies <sup>4</sup>	6.542
2	China State Construction Engineering Corporation	4.225
3	CITIC Construction	2.941
4	Shanghai Zhenhua Port Machinery Company Ltd	2.616
5	Sinohydro	2.228
6	China Petroleum and Engineering Construction Company	2.076
7	China National Machinery and Equipment Import and Export Corporation (CMEC)	2.058
8	China Harbour Engineering Company Ltd	1.845
9	Sinopec Engineering and Construction	1.318
10	China Petroleum Group Great Wall Drilling and Engineering Company Ltd	1.087
11	China Road and Bridge Corporation (CRBC)	1.061
12	Shanghai Electrical Group Ltd	1.042
13	Shandong Electric Power Construction Corporation	1.012
14	China Petroleum Pipeline Bureau	0.995
15	Dongfang Electric International Co-operation Group	0.972
16	China Gezhouba Water Resources and Hydropower Corporation	0.891
17	Dongfang Geophysical Exploration Ltd	0.881
18	China Civil Engineering Construction Corporation	0.874
19	China Railway Group Ltd Bureau 18	0.882
20	Shanghai Construction	0.801

*Source: Department of Outward Investment and Economic Co-operation, MOFCOM<sup>5</sup>*

The flux of institutional and structural frameworks affects not only the operations of the companies themselves, but the government's ability to regulate them and these effects reach their overseas operations. Consequently, Chinese companies, even state-owned ones, do not necessarily follow a mandate from Beijing. As one ministry official remarked: 'We have to be patient, I am not saying it must or will all privatise [sic], that is not the answer, but reform is very important. I think SOE reform is the most difficult in China... Because of the reform in China, Ministry to Ministry communication is difficult. We need to have follow-up on the other end in order to co-

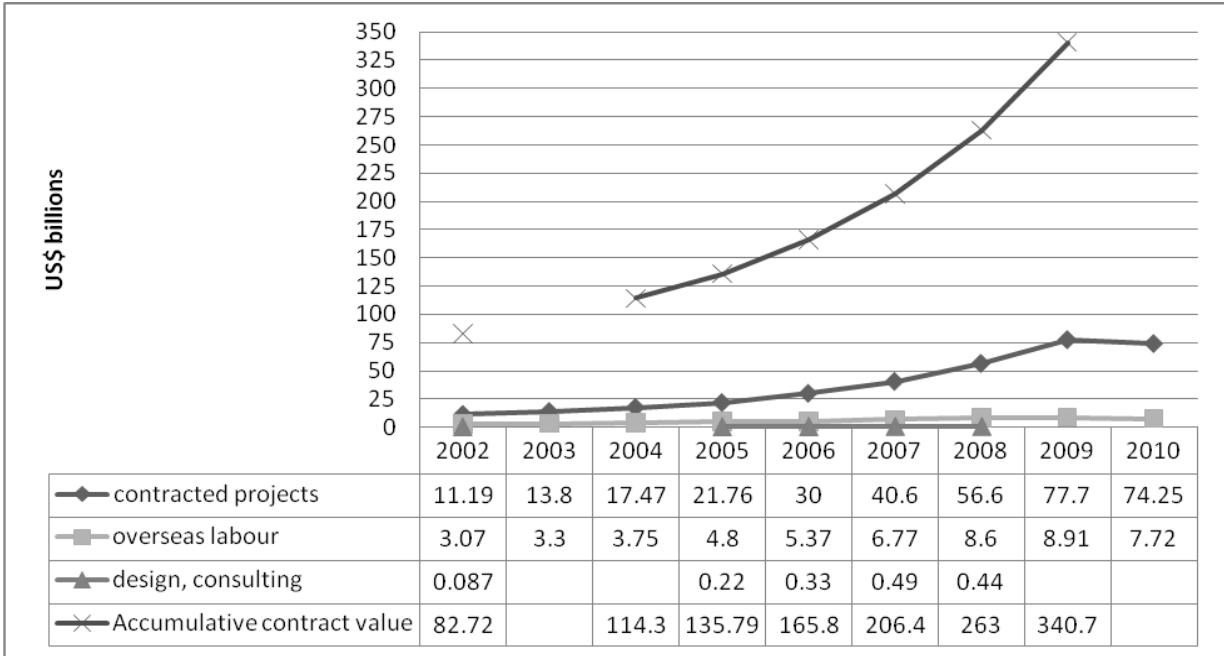
<sup>4</sup> Of interest is the fact that Huawei, the Chinese company with the largest overseas turnover is actually termed a 'private' company as the Chinese government does not have a controlling share. Huawei, despite not being state-owned, is considered a 'national champion' and receives the same preferential treatment as other state-owned companies would. (see Jakobsen, 2009) This has important implications for differentiating between state-owned and private companies (see ownership section 3.2)

<sup>5</sup> <http://hzs.mofcom.gov.cn/aarticle/date/201001/20100106756026.html?1433883605=4143967516> [22 December 2010]

ordinate...This is a market economy. There is a lack of mechanism to control and coordinate.<sup>6</sup>

Excess domestic capacity in most sectors, including construction led Chinese companies to seek overseas markets. Developing countries, often due to weak institutional and regulatory frameworks, as well as a much lower level of competition, are seen as soft options for Chinese companies with their sights set on accessing developed country markets in the global North.

**Figure 1.2: Chinese companies' overseas contract value, US\$ billions (2002-2010)**



Source: Various reports, Department of Outward Investment and Economic Co-operation, MOFCOM

Chinese companies' design and consulting is still only a negligible value of their overseas contract work (See Figure 1.2). Their core competency, in many respects, remains their cost advantage. However of interest is the fact that despite a steady increase in Chinese companies' accumulated contract value, the level of Chinese labour contracted overseas shows no such corresponding increase and in fact has decreased steadily from 27.4 percent in 2002 to 10.4 percent in November 2010.<sup>8</sup> Productivity per Chinese expatriate worker has therefore increased. This indicates in effect that Chinese companies have progressively begun contracting more and more non-Chinese labour on their projects and may be a sign of an increase in the use of local labour on overseas projects globally. This contradicts the widely held view that Chinese contractors only use Chinese labour, and suggests that over time Chinese companies may employ more and more local labour.

<sup>6</sup> Interview with Ministry of Foreign Affairs official, 29 October 2009

<sup>7</sup> <http://hzs.mofcom.gov.cn/date/3/dyncolumn.html?293045238=4140501534> [22 December 2010]

<sup>8</sup> Values for 2010 are only as far as November 2010 as these were the latest statistics available at the time of writing

## 1.2.2 The Angolan Construction Industry and Legislation

Angola's construction industry was until the financial crisis the economy's strongest non-oil industry. Although it was largely driven by government spending for the Public Investment Programme (PIP), as of 2007, the industry attracted 30 percent of inbound non-oil FDI (ANIP, 2007). The sector has previously been dominated by Portuguese (Soares da Costa, Teixeira Duarte, Mota-Engil) and Brazilian contractors (Oderbrecht, Camargo Corrêa), both of whose governments have been extending credit lines linked to buying the respective countries' goods and services<sup>9</sup> (see Figure 1.4 below).

It is no longer obligatory under Angolan law for foreign investors to form local partnerships (Queiroz, 2008). Private investment up to US\$ 5 million is subject to a contractual regime administered by the National Agency for Private Investment (ANIP<sup>10</sup>), whereas investment above US\$ 5 million requires approval of the Council of Ministers prior to receiving a private investment certificate of registration (CRIP) (ANIP, 2007). According to Article 22 of the Basic Private Investment Law, companies are only entitled to incentives if certain social goals are met.<sup>11</sup> However any projects that are funded by the China Exim Bank credit line, a bilateral government agreement, are outside of the jurisdiction of ANIP and thus are not required to adhere to these regulations. This relinquishes them from the requirement of using 70 percent local labour as stipulated in Angola's Basic Private Investment Law, Article 54/1 (Tang, 2010:353). Despite the large volumes of loan financing via China Exim Bank, reported Chinese FDI to Angola (thus those volumes under the jurisdiction of ANIP) is remarkably low (see Figure 1.3)

Although it is highly likely that these figures are under-reported, this tends to suggest to Chinese companies are as yet unwilling to venture into the Angolan market outside of the Chinese credit line. This holds important implications for the Chinese companies' appetite for risk that will be discussed in later sections. Furthermore, given the exemptions the credit line holds from normal investment procedures as regards local content, this currently limits potential policy impact on encouraging Chinese companies to create local employment and local value addition.

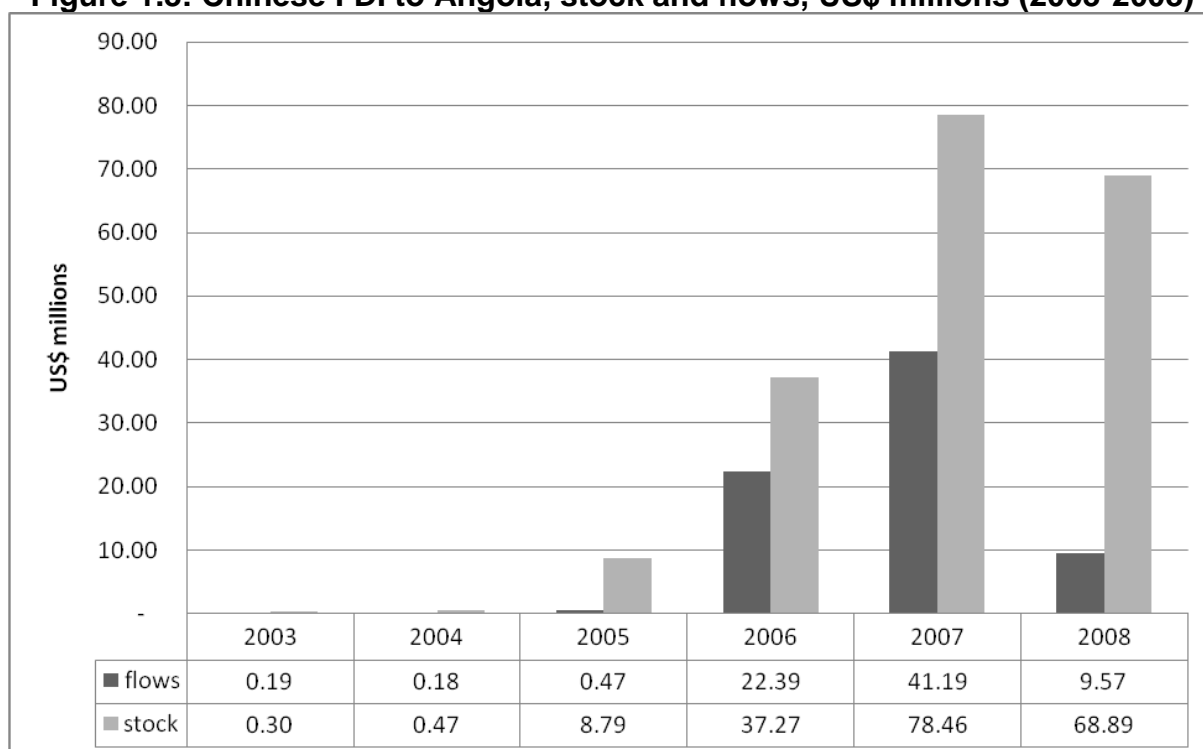
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<sup>9</sup> This contextualises the Chinese credit line, to be discussed in further sections.

<sup>10</sup> Agência Nacional para Investimento Privado

<sup>11</sup> See Angolan Basic Investment Law: <http://www.angola.org/laws.html> [27December 2010]

**Figure 1.3: Chinese FDI to Angola, stock and flows, US\$ millions (2003-2008)**



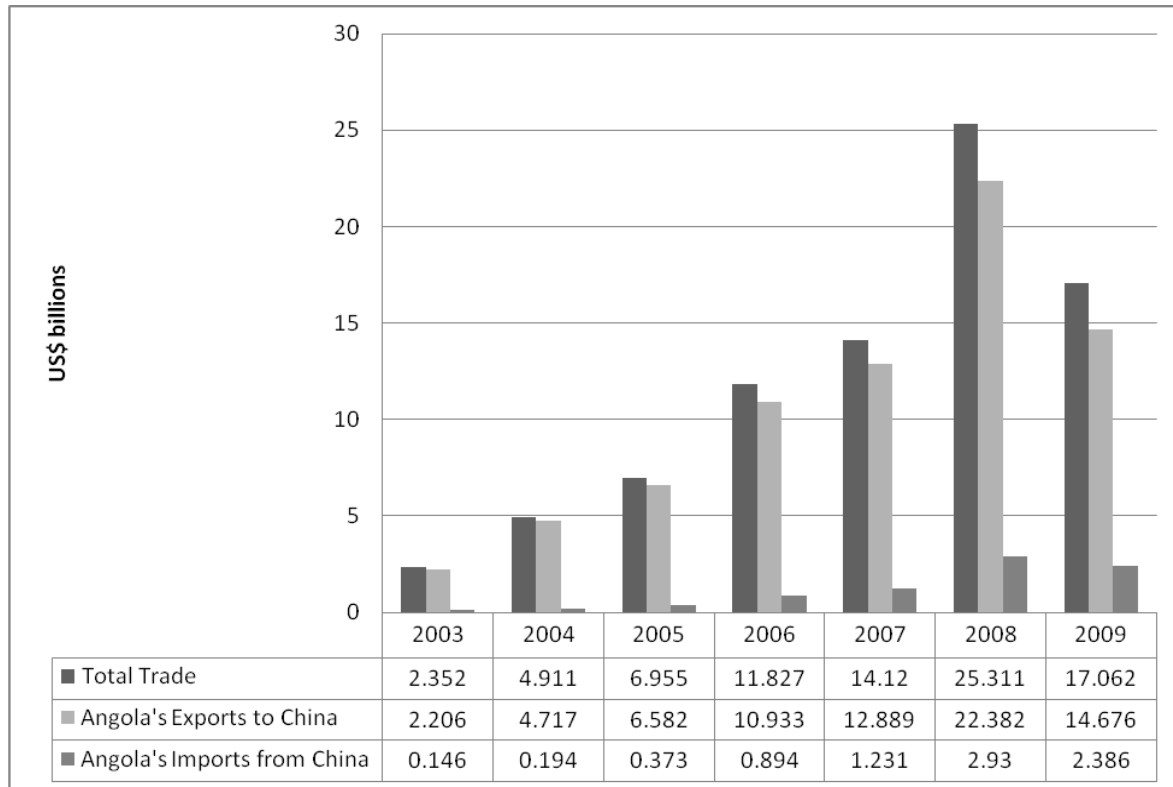
Source: Various Chinese Ministry of Commerce Statistical Bulletins on Chinese Outward Investment

### 1.2.3 China's Market Entry into Angola

After the death of Jonas Savimbi and the collapse of UNITA resistance in 2002, the MPLA government was desperate to access funding to rebuild the country after the war. The end of the Cold War had lost Angola its earlier strategic significance, resulting in a lack of interest by the parties that had previously been so involved in Angola's political landscape. The IMF, on the other hand, while prepared to offer loans, was insistent on increased transparency and a macro-economic stabilization policy, aimed at reducing inflation by cutting public expenditure. Consequently, on their watch, any large-scale infrastructure reconstruction programme would have to wait until Angola had achieved a healthier fiscal situation (Lee and Shalmon, 2008: 124). Neither condition was acceptable to Angola, so in 2002 President Dos Santos appealed to China.<sup>12</sup> China Exim Bank's role in Angola as a financier of large-scale development projects since 2004 has received considerable media attention.

<sup>12</sup> Interview, Beijing, 28 October 2009

**Figure 1.4: Angola-China Trade, US\$ billions, (2003 – 2009)**



Source: 商务部对外投资合作国别指南：安哥拉（2010），  
[MOFCOM Country Guide to Foreign Investment and Co-operation: Angola (2010)]

Angola is currently China's largest African trading partner, primarily due to China's hunger for crude oil, which accounts for more than 99.9 percent of Angola's exports to the China. According to the Angolan Ministry of Petroleum's (2010:29) latest available statistics, 39 percent of Angola's crude exports went to China, accounting for 15.7 percent of China's total oil imports (EIA,2010). Angola is reportedly the fifth largest African market for Chinese exports (CAITEC, 2010: 10), but these are dwarfed by Chinese imports of crude oil (see Figure 1.4), resulting in a China running a large trade deficit with Angola. The Chinese Embassy in Angola has made it a priority to increase Chinese exports to Angola in order to balance trade figures (*Exame Angola*, 2010b)<sup>13</sup> As a result, the lion's share of the financing measures provided by China Exim Bank for Chinese companies to enter the Angolan market contain a strong Chinese procurement requirement.

### 1.2.4 China Exim Bank's Loans to Angola

In the Angolan case, negotiations began in 2003 and the first loan agreement with China Exim Bank came into effect on 21 March 2004. Between 2004 and 2007, China's Exim Bank extended a total of US\$ 4.5 billion in oil-backed credit lines to the Angolan government (Corkin, 2008b:110). In July 2010, the Angolan Minister of

<sup>13</sup> Corroborated by interview, Luanda, 15 July 2010,

Finance confirmed that negotiations were underway to finalise a further US\$ 6 billion from China Exim Bank to assist with Angola's reconstruction.<sup>14</sup>

The loans extended by China Exim Bank are targeted specifically towards facilitating public investment in Angola and are managed by the Angolan Ministry of Finance (Burke et al, 2007; Vines et al, 2009). According to the terms of the loan, Chinese companies are largely contracted to undertake required projects and are paid directly by China Exim Bank, which writes down the contract amount against the loan available to the Angolan Government. The loan is repayable at Libor<sup>15</sup> + 1.5 percent over 17 years, including a grace period of 5 years.<sup>16</sup> These terms render a less expensive financing option than the oil-backed loans extended to the Angolan Government by previous financiers.

**Figure 1.5: Cumulative Bilateral credit pledged to Angola, US\$ millions**

Creditor Country	Loan Value
China	14,400 <sup>17</sup>
Germany	2,200
Portugal	1,900
Brazil	1,800
Canada	1,16
Spain	600
South Africa	255
US	120
UK	70
India	50

Compiled from: US State Department - <http://www.state.gov/e/eeb/ifd/2008/100819.htm>; media reports

<sup>14</sup> Angolan Minister of Finance, Carlos Albert Lopes, broadcast on Radio Nacional de Angola, 4pm, 9 July 2010

<sup>15</sup> Interest rate is quoted according to the Angolan Ministry of Finance. Libor, according to the British Banker's Association, is the most widely used benchmark or reference rate for short term interest rates.

<sup>16</sup> Interview, Luanda 30 May 2007

<sup>17</sup> This includes credit lines from China Exim Bank US\$ 10.5 billion, China International Fund Ltd US\$ 2.9 billion and China Development Bank US\$ 1 billion (Corkin,2009)

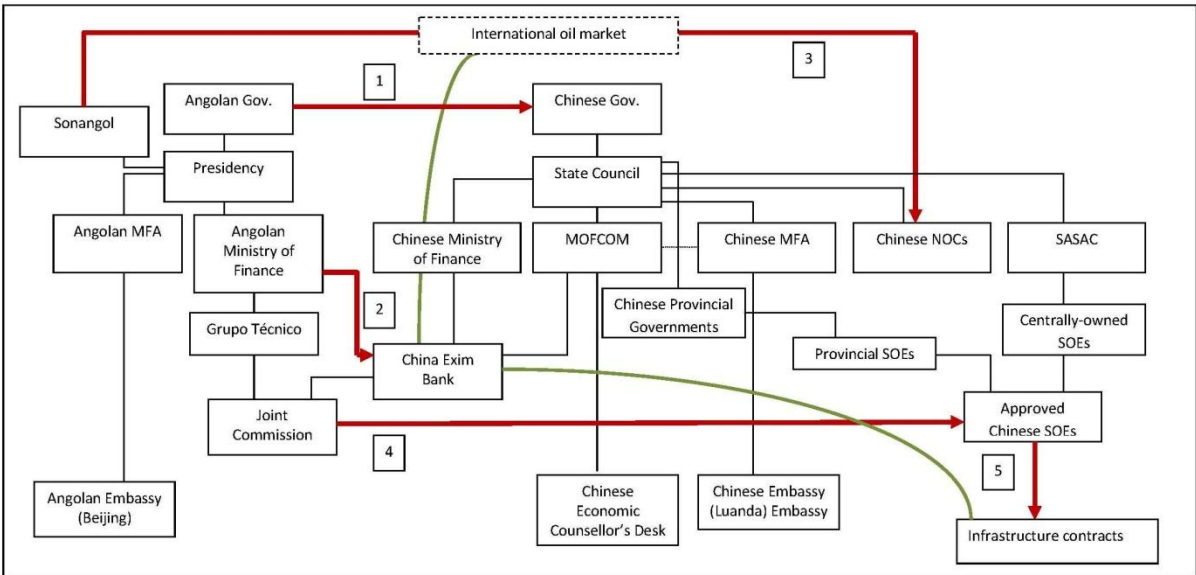
Tied to the China Exim Bank loan, is the agreement that the construction contracts Angola’s reconstruction will be awarded to Chinese enterprises approved by the Chinese Government. However, up to 30 percent of the contracts may be subcontracted to local companies.

As can be observed from the Figure 1.5 above, China is not the only country to extend credit lines to the Angolan government. Brazil and Portugal have for years extended oil-backed credit lines to facilitate the importation of their companies’ products and services, particularly in the construction sector (Burke and Corkin, 2006:16). Particularly in the last few years, on the back of a strong oil price and Angola’s debt normalisation, Luanda has approved an increasing number of credit lines from a number of countries. These are primarily geared towards facilitating infrastructure construction, a stated priority of the Angolan Government. In many cases, it is only the size of the Chinese credit line that differentiates it from these other actors. All the credit lines are contingent on their use to purchase products and services from their own companies respectively.

### 1.2.5 Chinese Construction Companies in Angola

Chinese construction companies in African countries have received wide media coverage, particularly with reference to China’s growing role in infrastructure development across the continent. Although Chinese companies’ overseas activities are the subject of considerable academic analysis, both within China and externally, there are few studies of Chinese construction companies in Africa (Chiu, et al, 2007; 2008; Forster et al (2008); or indeed in Angola in particular, Burke and Corkin (2006); Tang (2010) that include primary research and field work interviews, primarily due to the difficulty of fieldwork undertakings.

**Figure1.6: Decision-making chain of China Exim Bank-funded projects**



The red lines indicate the steps taken for the Angolan government to acquire a loan from the Chinese government. The green lines indicate the flow of finance

In an interview the Chinese Ambassador estimated that there were 30-40 state-owned companies in Angola, with another 60-70 private companies<sup>18</sup> rendering 100 companies in total<sup>19</sup>. However, 5 months later, he was quoted numbering the SOEs at above 50 and the private companies 400 in number (*Macauhub*, 2010e). The Chinese Economic Counsellor lists the top contractors as the following:

**Figure 1.7: Chinese companies in Angola (May 2010)**

Rank	Name	Investment Type	Sector	Locally Registered	Head Office
1	Sinohydro	Contract	Civil Engineering	In process	Beijing
2	China National Construction and Agricultural Machinery Corporation (CAMC)	Contract, Trade	Mechanics	In process	Beijing
3	Sinomach	Contract	Civil Engineering	No	Beijing
4	China North Industries Group Corporation (NORINCO)	Contract	Technology Industry Investment	Yes	Beijing
5	ZTE	Trade, Contract	Communications Engineering	Yes	Shenzhen
6	Sinopec	Resource Exploration	Oil Exploration	In process	Beijing
7	CITIC Construction	Contract	Contract Engineering	In process	Beijing
8	China Jiangsu International	Contract	Investment, Trade	Yes	Nanjing
9	CGCOC Group	Contract	Engineering, Trade	Yes	Beijing
10	Chongqing Guangsha	Contract	Contract Engineering	Yes	Chongqing
11	Golden Nest International	Contract, Manufacturing	Engineering, Manufacturing	Yes	Xi'an
12	Highsee Iron and Steel Group Company Ltd	Contract, Manufacturing	Contract Engineering	In process	Dandong

<sup>18</sup> Another Chinese industry specialise estimated that there were 'officially' 30-40 Chinese private companies in operation

<sup>19</sup> Interview, Luanda, 10 May 2010

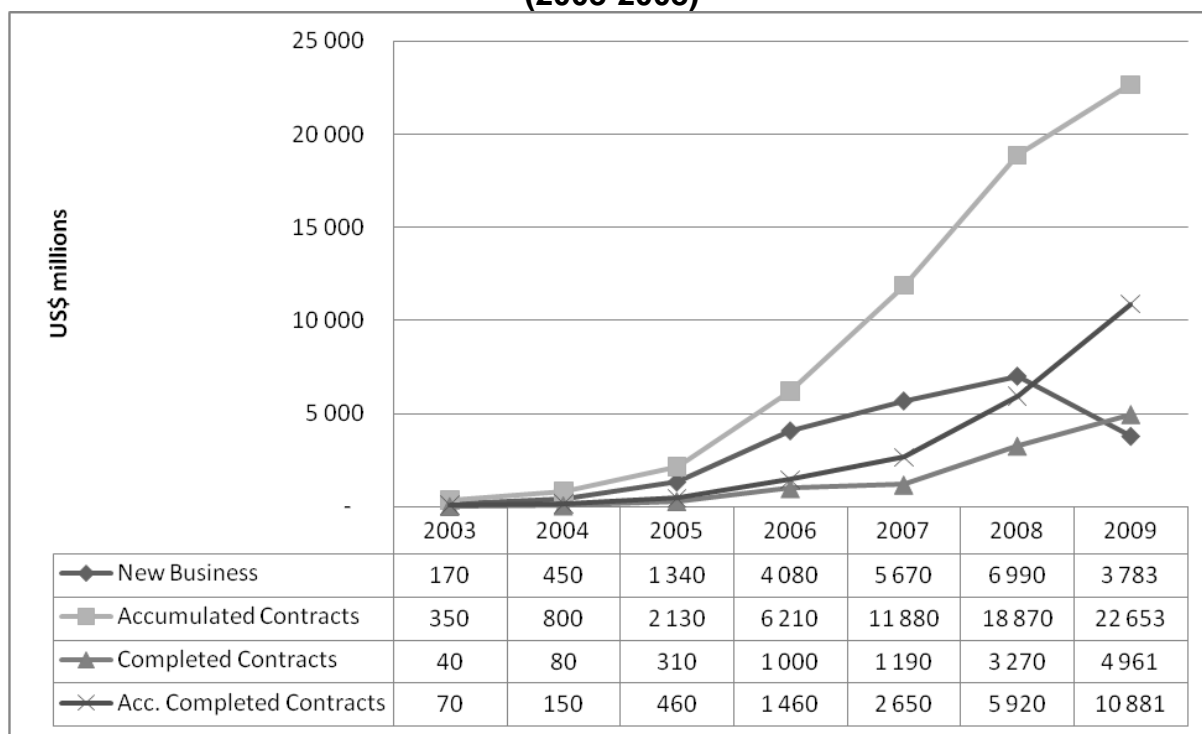
13	Nanjing Zhongtai	Contract	Contract Engineering	Yes	Nanjing
14	Angola Huafeng	Contract, Property Developers	Engineering, Trade	Yes	Qingtian, Zhejiang province
15	Fujian Sanming Auto Industry	Processing	Manufacturing	Yes	Sanming, Fujian province
16	Zhejiang Zhongsheng	Trade Developers	Building Materials Freight	Yes	Hanzhou
17	Guangde International Company Ltd	Construction, Trade	Construction, Trade	Yes	Beijing
18	Anan International Holdings Ltd	Contract	Contract Engineering	Yes	Hefei
19	Huaxi-Haishan International Group	Contract, Trade	Contract Engineering	Yes	Nantong, Sichuan
20	Guangxi Water Resources and Electric Power Group Co. Ltd,	Construction	Contract Engineering	Yes	Nanning
21	Guanxi Tiezhou Fish Industries	Manufacturing, Trade	Fishing, Processing, Sales	Yes	Dalian
22	Tianhe Chemicals	Transport/Freight	Customer Goods Freight	Yes	Liaoning
23	China Road and Bridge Corporation	Engineering Company	Contract Engineering	Yes	Beijing
24	Huawei Technologies	Communications	Contract Engineering, Sales	Yes	Beijing
25	Pan-China Construction	Construction	Contract Engineering	No	Shenzhen
26	China Railway 20 <sup>th</sup> Bureau	Construction	Contract Engineering	Yes	Xi'an
27	China Railway 4 <sup>th</sup> Bureau	Construction	Contract Engineering	Yes	Beijing
28	Transtech Engineering Company	Construction	Contract Engineering	Yes	Chengdu

29	China Harbour Engineering Company Ltd.	Construction	Contract Engineering	Yes	Beijing
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Source: 商务部对外投资合作国别指南：安哥拉 (2010)  
[MOFCOM Country Guide to Foreign Investment and Co-operation: Angola (2010)]

Goldstein (2007) lists other construction market players as China National Overseas Engineering Corporation (COVEC), China National Machinery Industry Complete Engineering Corporation (Complant), Shanghai Urban Construction Group, Hunan Engineering Group Corporation, Qingdao Construction Group Corporation. The Angolan Consulate in Macau lists in addition as 'large Chinese companies with projects in Angola': China State Ship-building Corporation (CSSC), Sinosteel Corporation, Top Builders International Angola Lda<sup>20</sup>, Wuhan Iron and Steel, China International Machinery Building International, China International Fund, Geocapital.<sup>21</sup>

**Figure 1.8: Chinese companies' contract value in Angola, US\$ millions, (2003-2008)**



Source: 商务部对外投资合作国别指南：安哥拉 (2010)  
[MOFCOM Country Guide to Foreign Investment and Co-operation: Angola (2010)]

Chinese construction companies have historically focussed on the lower-value, labour intensive part of the construction value chain, lacking the consulting expertise

<sup>20</sup> Based in the Special Administrative Region of Macau

<sup>21</sup> Report issued by the Angolan Consulate in Macau: 'Angola' (2010)

for higher value services (Liu & Wu, 2008:24). According to one respondent, there is only currently one Chinese construction design firm in Angola and 80 percent of the projects won by Chinese SOEs are sub-contracted to this firm for design work.<sup>22</sup> Angola is seen as a largely unsaturated market by Chinese companies.<sup>23</sup> The Chinese companies, as with elsewhere in Africa, generally engage in EPC contracts, thus they largely bring in their own equipment, materials and labour.<sup>24</sup>

It is apparent that Chinese companies however retain popularity because of their cheaper bids relative to market competitors. According to one respondent, Chinese construction companies have brought down the price of the construction; having 'broken the monopoly of the Portuguese and Brazilian companies.' Indeed, people approach Chinese companies in their private capacities to attain cheaper bids on smaller projects such as private residential housing construction.<sup>25</sup> As one respondent put it: '... using a Chinese company, leaves the African country in question with more funds as the contract prices are cheaper.'<sup>26</sup> This is not without problems however. There is already evidence of buildings constructed only a few years ago that are already showing signs of structural damage, such as several apartment blocks in the Viana area, just outside of Luanda, and the much-publicized Luanda General Hospital, which had to be evacuated in July 2010 for fear of collapse.

### 1.3 Methodology

The research was guided by the following questions:

- 1) Does the ownership structure (private versus public, central government versus provincial government, Chinese wholly-owned subsidiary or Joint-venture with Angola partner) affect the extent to which these Chinese companies engage in local linkages?
- 2) To what extent does the level of local skills affect Chinese companies' use of local labour and do they engage in training programmes?
- 3) To what extent does the existence or absence of NSI institutions affect the use of local inputs?
- 4) To what extent, if any, do the operations of South African, Brazilian and Portuguese firms in Angola's infrastructure sector affect the use of local inputs by Chinese firms?
- 5) What policy incentives could be implemented to augment the extent to which Chinese companies develop local linkages?

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<sup>22</sup> Interview, Luanda, 7 July 2010

<sup>23</sup> Interview, Luanda, 10 August 2010

<sup>24</sup> Interview, INEA, Luanda, 17 August 2010

<sup>25</sup> Interview, Luanda, 4 May 2010; Interview, Cabinda, 8 May 2010. It is in these cases of smaller construction and renovation projects that Chinese construction companies may threaten Angolan firms whose capacity is not yet sufficient to compete on the larger public investment projects.

<sup>26</sup> Interview, Chinese journalist, Beijing, 6 December 2009

A further set of questions, specific to this study were also posed:

- 1) Do Chinese infrastructure companies operate differently in different African countries?
- 2) Does the nature of the financing available to these Chinese companies, for example the so-called 'Angola Model', affect the extent to which these Chinese companies engage in local linkages and procurement?

Fieldwork comprised six months in the field in China July 2009 to January 2010 and three months in the field in Angola; April-May 2010 and June – August 2010<sup>27</sup>. Due to the sensitive nature of the research<sup>28</sup>, most interviews were conducted on condition of anonymity. I did not use a dictaphone to record interviews, choosing instead to write notes, where this was permitted by the respondent. Given the sensitivity of the topic under discussion, I felt that even should a respondent have agreed to be recorded, the presence of the dictaphone would have altered his or her attitude in the interview and possibly have compromised the quality of information that he or she was willing to surrender.

China field research took place in Beijing and Shanghai, during which interviews were held with a total of 71 respondents, from various sectors including several ministries in the Chinese government such as Ministry of Foreign Affairs (MFA), Ministry of Commerce (MOFCOM), National Development and Reform Commission (NDRC), China Export- Import Bank (China Exim), African diplomats, non-governmental organisations, (NGOs), state-owned enterprises, (SOEs), and foreign consultants. The spread of respondents is reflected in the table below (Figure 1.9). Interviews were collected and arranged through snowball sampling and conducted in English, Chinese and Portuguese. The interviews were semi-structured lasting from 40 minutes to 3 hours, rendering primarily qualitative data. A more structured questionnaire was prepared for interviews with the Chinese SOEs and private companies, but this approach did not meet with much success.

As can be observed from (Fig.1.9), the sample is heavily skewed towards academia/think tanks (35.2%), and government ministries (28.1%), this is generally a function of access; as access to the SOE head offices was particularly difficult. Representativeness is affected considerably in the case of the SOE head offices, of which only 2 interviews (out of an identified 10). Consequently not all of the research questions were satisfactorily dealt with in China. The sample is however strong on policy questions, bearing in mind that most of the academics interviewed are policy consultants for ministries and the State Council.

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<sup>27</sup> The prohibitive costs of living in Angola prevented a longer stay. According to a Mercer 'Cost of Living' study Luanda was rated the most expensive city for an expatriate in 2010 (*Financial*, 2010)

<sup>28</sup> At various times, several respondents in both China and Angola referred to the sensitive nature of my research and the fact that much of the data I sought was considered a 'state secret'. Brautigam (2000:2) also found this in her research of Chinese aid to African countries.

**Figure 1.9: Breakdown of respondents in China**

	<b>African</b>	<b>Chinese</b>	<b>Western</b>	<b>Total</b>	<b>Percentage</b>
<b>Gov (diplomats, NDRC, MOFCOM, MFA, CDF)</b>	4	16		20	28.1
<b>Int. Institutions (WB, IMF)</b>			2	2	2.8
<b>Private companies/consultants</b>	2	2	8	12	16.9
<b>SOEs</b>		2		2	2.8
<b>NGOs</b>		2	3	5	7
<b>Media</b>		2	3	5	7
<b>Academia/think tanks</b>	3	19	3	25	35.2

Angola-based field research took place entirely in Luanda. A total of 90 interviews were collected from a range of respondents including the Angolan Ministry of Foreign Affairs, Ministry of Finance, Ministry of Petroleum, Ministry of Planning, foreign diplomats and employees of various Chinese firms, both state-owned and private. In the case of Angola, the sample is skewed towards private companies/consultants (35.6%) (See Figure 1.10). This is largely because most respondents ‘wear several hats’ and appeared to prefer to meet me in their personal rather than in an official capacity. Government officials and diplomats are also well-represented (28.9%). This was again a function of access. Although particularly with the Angolan Ministries there was a strict protocol for interview requests, once made and followed up on, these met with remarkable success (50%).

**Figure 1.10: Breakdown of respondents in Angola**

	<b>African</b>	<b>Chinese</b>	<b>Western</b>	<b>Total</b>	<b>Percentage</b>
<b>Gov officials, diplomats</b>	11	2	13	26	28.9
<b>Int. Institutions (WB, IMF)</b>			1	1	1.1
<b>Private companies/consultants</b>	8	18	6	32	35.6
<b>SOEs</b>	2	5		7	7.8
<b>NGOs</b>	8		2	10	11.1
<b>Media</b>			1	1	1.1
<b>Academia/think tanks</b>	10		3	13	14.4

## 2. Nature of Chinese companies' local linkages in Angola

### 2.1 Overview

In general, instances of local employment and local value addition in the construction sector in Africa as regards Chinese companies are extremely weak. This is consistent with Gu's (2009:576) findings. The European International Contractors (EIC) Association has criticised donors for awarding Chinese companies contracts despite questionable local benefit (Sleight, 2008).

In Angola, this is not necessarily exclusive to Chinese companies, or the construction sector. Indeed, the oil industry, which has had a policy framework to encourage local content development for several decades has very little to show for it. As the business development manager of one oil company remarked: 'There should be a huge number of small Angolan companies that can provide services to the oil industry, but there are very few.'<sup>29</sup> Barriers to local construction companies' entry into the supply chain are lack of experience, lack of capacity and the tendency for larger companies to use preferred suppliers with a proven track record.<sup>30</sup>

Another barrier to local companies' entry is the delayed payment time for construction contracts, reportedly a normal occurrence in Angola: 'At home, 30 days non-payment is fine, 40 days you get worried, 60 days you red-flag and 90 days you pull out – that is how it works. Here, we have sometimes been working for a year and not been paid, you have to be huge to ride that out.'<sup>31</sup> This prevents smaller companies, both Angolan and foreign-owned from viably entering into contracts if payment is so delayed.

There is an embryonic local construction industry developing. A local magazine featured the story of a young entrepreneur who had started his own construction company using Chinese labourers to maintain competitiveness and relying on the extensive network of contacts developed during his 3 and a half year stay in China (*O Pais*, 2010). While this is an encouraging trend, it is telling that even Angolan firms rely on Chinese inputs in order to remain viable.

### 2.2 'Degrees of 'Local Content'

It is important to note that even where local content laws are applied, there is a substantive difference in the way that this is done. The experience of the oil industry is instructive in this regard: an oil industry local content manager candidly admitted, what he called 'true local content' - company that is locally owned, locally managed and employs locals, probably captures 5 percent in terms of his company's spend. However, if used in the legally defined terms, (local base and local partner) it is probably much higher – about 40-50 percent.<sup>32</sup>

This report distinguishes 'locally procured' (Angolan sourcing agent) from 'locally produced' (local value addition) and 'local labour' (employment of Angolans) and sub-

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<sup>29</sup> Interview, Luanda, 4 May 2010

<sup>30</sup> Interview, head of local content division, Sonangol, 2 August 2010

<sup>31</sup> Interview, Projects Manager, foreign construction consultants, Luanda, 6 July 2010

<sup>32</sup> Interview, Luanda, 12 July 2010

contracting to a local company<sup>33</sup>. Each of these instances is considered local linkages to varying degrees.

In the context of Angola, so little is produced in-country that often only 'locally procured' materials, rather than 'locally produced' materials are available. Materials that are locally manufactured are cheaper than imported inputs, but the paucity of supply results in procurement of these requiring political connections. Furthermore, excess demand places upward pressure on these goods' pricing.<sup>34</sup>

The situation is improving. According to construction company director, many of the more basic materials are available in Angola due to both increased localised production and an increased network of importers; a situation very different from 5-10 years ago. In terms of cement, there are 4-5 well-known suppliers; as well as suppliers of aggregates and block work. They do not appear to keep up with demand however. Not only Chinese companies, but other foreign companies look to China for their procurement shortfall. Cement was the most imported product in the second quarter of 2010, with more than 600 000 tonnes coming through Angola's ports. China was the largest source of this import. (Exame Angola, 2010a; CNC, 2010). More value-added inputs such as 'finishings' (tiles, stone, granite, marbles, lighting) and 'specialities' (security systems, speciality lighting) have yet to be produced locally. Most finishings and specialities come from Europe (Portugal, France) and occasionally Brazil, generally because of established market connections. The sourcing generally depends on the requirements of the client stipulated in contract – most especially as regards the project deadline and the level of quality. A respondent admitted that if the client was too rigorous on the quality, his company would source from China as the inputs were sometimes as much as 50 percent less in price as compared to other sources. According to him, about 10-15 percent of the Chinese goods are very bad, but the quality is improving and one could sometimes find materials of a 'reasonable quality'. If the quality stipulations were higher, the preference was Portugal.<sup>35</sup> The most important thing is delivery time and cost. 'The only people who can guarantee these things are the Chinese companies'.<sup>36</sup>

Another respondent concurred:

'With Europe, you are talking months, maybe years to get things delivered, whereas with China it is a matter of weeks. Take Volvo trucks – 420 HB, which from Europe are about 120,000 Euros [US\$ 158,000]. A similar Chinese head truck is US\$ 45,000. Even if it breaks, on paper and in reality it is cheaper. The local drivers will break it regardless; no trucks survive in Africa for more than 10 years: the parts get stolen, the engine gets cannibalised, and there are accidents. It is gone in time on the road. Even if the European offers a better loan and less time in the shop, it is difficult to beat the Chinese prices. The needs are paramount and they want quantity and immediately. Europeans will say, well it's summer now, so we can't process the order until September, and

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<sup>33</sup> In Angola a company can be considered 'local' and qualify for related incentives if Angolan ownership is at least 51 percent.

<sup>34</sup> Interview, Luanda, 7 July 2010; 12 July 2010

<sup>35</sup> Interview, director, Macau-based company, Luanda, 6 May 2010

<sup>36</sup> Interview, director, Macau-based company, Luanda, 6 May 2010

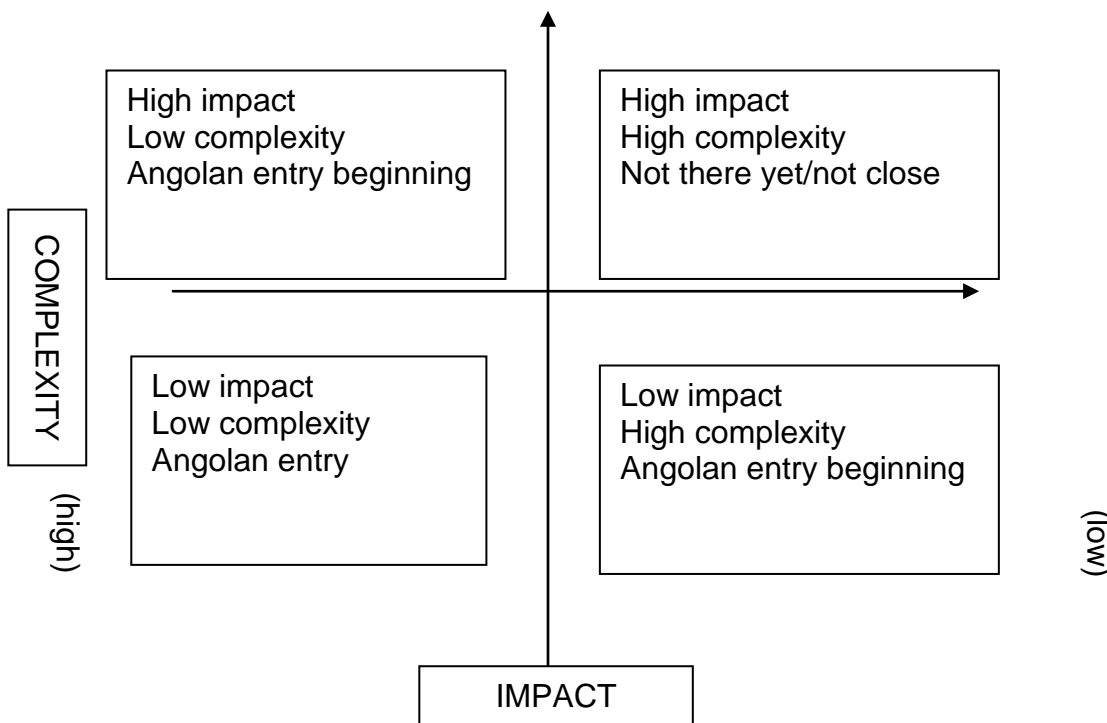
then it is Christmas and so it will be pushed to early next year. The Chinese would have it here by the end of August. The Angolan government cannot delay in its “conquest of the country”, and now there is no turning back. It is even not as fast as they want it to be, but it is what can and could be done – only China can keep up this pace.<sup>37</sup>

This is consistent with Chen et al (2007)’s findings. The cheaper Chinese equipment has often completely depreciated by the end of a 2-3 year project, avoiding the situation of more expensive, longer-lasting equipment with residual value lying idle. One foreign project manager estimated that about 15 percent of total spend would be sourced locally. This would generally comprise basic materials such as cement, bitumen, stone and sand, and occasionally paint, corrugated iron and timber.<sup>38</sup>

### 2.3 Typology of Locally Acquired Inputs

A typology of construction industry inputs has been constructed adapted from observations by a respondent regarding the oil industry and tested against respondents working in the construction industry in Angola.

**Figure 2.1: Matrix for local value-added inputs**



The two axes are impact and implementation. Impact relates to how crucial the inputs are for the company to function. Implementation relates to the ability of the service provider to deliver it on time at a competitive price. According to several respondents in the construction and related service industries, local producers struggle to deliver quality and quantity.<sup>39</sup>

<sup>37</sup> Interview, foreign procurement operator, Luanda, 22 July 2010

<sup>38</sup> Interview, project manager, foreign construction contractor, Luanda, 6 July 2010

<sup>39</sup> Interview, Luanda, 6 May, 2010; Interview Luanda, 15 July 2010.

## 2.4 Chinese Companies' Procurement Practices

Several large Chinese companies have their Angolan subsidiary devise their procurement strategies, although these must be approved by the head offices in China.<sup>40</sup> According to one respondent from a state-owned company, some basic inputs such as electricity, cement, gravel and charcoal is sourced from Angola, but often lack of supply or quality force them to procure from elsewhere. He estimated that less than 5 percent of locally-sourced materials make up the final spend as they are all very basic, low value products.<sup>41</sup> However, local quality is also still apparently an issue, with companies preferring to import from South African than use local materials.<sup>42</sup> China remains one of the largest sources of imports.

All the larger contractors, such as CITIC construction, CMEC and China Jiangsu due to the volume of their needs, are forced to bring much of their own materials and workers from China.<sup>43</sup> CMEC appears to have an agreement with another large contractor, Sinohydro in terms of importing equipment. Inquiries as to the percentage of the contract value made-up by equipment imports were evaded.<sup>44</sup>

Some Chinese companies have begun setting up their own factories to manufacture bricks and inputs made from locally available materials such as wooden door frames, windows and balustrades. This localised production is a development dating from approximately 2008<sup>45</sup> and may become a trend, as one industry consultant mentioned: 'What it comes down to is that some materials are cheaper to produce if they are heavier – like bricks and cement – so the companies might be interested to produce these locally; also construction timber.'<sup>46</sup> According to its website, Golden Nest International has five separate factories fabricating steel, concrete blocks, sand products, paint and alnico.<sup>47</sup> Furthermore, China Exim Bank is financing one of Angola's planned industrial 'poles', which is likely to further encourage Chinese companies to relocate their production of construction materials (see NSI section). The localisation of various inputs from China to Angola is an encouraging trend. Of concern therefore is the fact that those parts of the value chain that have been localised geographically are still controlled by the Chinese contractors, with very little local input. Unless such enterprises incorporate local labour or ownership, however, this may have limited impact on local value-add.

The Chinese brick-making machinery has reportedly replaced Angolan brick-manufacturers in the market.<sup>48</sup> As a result, local producers are generally only used in

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<sup>40</sup> As he put it 'The procurement strategy is a subordinate department. I It puts us in a favourable position here. (Interview, General Manager's Assistant, large Chinese SOE, 16 August 2010)

<sup>41</sup> Interview, General Manager's Assistant, Chinese state-owned company, Luanda, 16 August 2010

<sup>42</sup> Interview, CICIR, Beijing, 16 October 2009

<sup>43</sup> Interview, former China Jiangsu employee, Luanda, 2 August 2010; Interview, executive administrator, Chinese state-owned construction company, 12 August 2010

<sup>44</sup> Interview, executive administrator, Chinese state-owned construction company, 12 August 2010

<sup>45</sup> Interview, marketing manager, Chinese private company, Luanda, 2 August, 2010; interview, vice-president, Chinese private company, Luanda, 7 July 2010

<sup>46</sup> Interview, Luanda, 11 May 2010

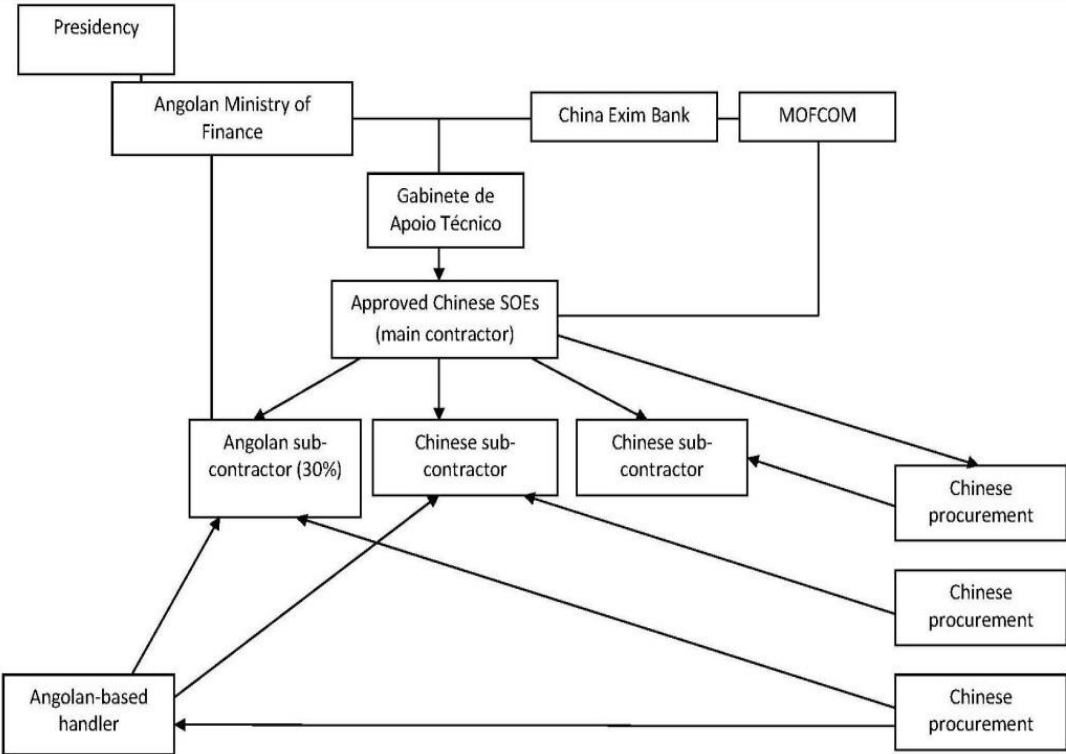
<sup>47</sup> See 'Golden Nest Angolan Company: [http://www.goldennest.net/en/2\\_15.asp](http://www.goldennest.net/en/2_15.asp) [28 December 2010]

<sup>48</sup> Angolan brick-makers used to manufacture so-called hydro-form bricks in a kind of –'auto-construção', where building materials are made on-site. (Interview, foreign diplomat, Luanda, 27 April 2010).

an emergency to make up a short-fall, if material quantities were under-estimated.<sup>49</sup> This also extends to basic consumables such as vegetables. One Chinese company on its website proudly reports the self-sufficiency of the Chinese workers in growing their own produce. It appears that some of these Chinese vegetable gardens actually supply urban households in Luanda, actively expanding beyond a purely subsistence basis.<sup>50</sup>

The current lack of Angolan value-add may change over time. As will be discussed in later sections, Chinese companies with a longer presence in other African markets have shown increasing adeptness at developing deeper local linkages. This is consistent with Tang’s (2010) findings. It must be remembered that the earliest projects undertaken by Chinese construction companies in Angola were as late as 2002, following the cessation of civil conflict.

**Figure 2.2 Chinese contracting and procurement process in Angola**



**2.5 A Chinese supply chain**

The smaller, mostly private Chinese companies only began entering China a few years after the initial larger Chinese entrants have followed in the wake of the SOEs.

<sup>49</sup> As an example, in November 2009, the market price on cement in Angola was US\$ 220 per tonne. The company sourced cement at US\$ 160 per tonne from China but at short notice had to make up the shortfall with cement from a local supplier sourced through Turkey at US\$ 240.( Interview, vice-president, Chinese private company, Luanda, 7 July 2010)

<sup>50</sup> The Angolan Ministry of Agriculture apparently leased 50 hectares of land to the China Railway Construction Corporation in order to start a vegetable garden to supplement the workers’ diets. (See CRCC press releases <http://www.crcc.cn/357-1548-3395.aspx>; <http://www.crcc.cn/434-1344-7942.aspx>). It appears to sell commercially too. The researcher during fieldwork came across a flyer advertising a range of vegetables (in Chinese and English, but interestingly not in Portuguese – suggesting an expatriate market) with contact details for orders and delivery.

However, China Exim Bank's financing of large infrastructure projects earmarked to be undertaken by large Chinese SOEs marked a new phase of economic relations between China and Angola. Smaller private Chinese companies began following increasingly rapidly in the wake of the larger Chinese firms to provide distribution of Chinese products and services required for the construction industry.

Generally less able to take on construction contracts of the magnitude required in Angola's public investment program (especially as main contractors), these companies subcontract from the larger companies and also set up the procurement chain in order to provide equipment and materials from China. Several have expanded their businesses to other consumables. One of many private Chinese businessmen explained how he entered Angola by supplying air-conditioning units to Chinese-constructed buildings and had since branched out to white goods and other 'items of daily use' which he sold at several outlets locally.<sup>51</sup>

A private consultant who worked extensively with Chinese private companies explained that Chinese private companies worked 'in parallel' to Chinese SOE activity, providing 'complementary actions' to SOE projects. He observed that smaller projects and investment from private Chinese companies follows the initial bigger projects financed through China Exim Bank.<sup>52</sup> Essentially he described a scenario whereby the state financing attracts the larger, more politically connected Chinese companies to tender for infrastructure contracts. This activity leads the smaller, private Chinese companies and entrepreneurs to establish themselves in the market in order to provide the goods and services required by the main contractors.<sup>53</sup> This ensures that the value chain is quickly established, but more significantly for this research is transplanted almost in its entirety from China, isolating itself from the risk of the local context, but also limiting local content. This is consistent with Horizon Consulting's (2007:180) findings, which distinguish three steps in the progression of the value chain:

- 1) Exporting Chinese goods and services directly to the host country
- 2) Investing in industrial chains whereby parts are imported from China to be assembled in the host country
- 3) Establishment of industrial zone for manufacturing.

It is apparent that while many Chinese companies are still engaged in the first phase, steps towards phase two and even phase three are underway (see section on NSI). For example, Dongfang Nissan established a car assembly plant in Luanda in the Viana Industrial Zone (Brautigam, 2009:209). Other Chinese companies, as previously mentioned, are investing in their own factories to assemble or manufacture certain inputs.<sup>54</sup>

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<sup>51</sup> Interview, Luanda, 15 July 2010

<sup>52</sup> Interview, private African consultant, Luanda, 26 July 2010

<sup>53</sup> This was corroborated by several smaller Chinese service companies, who were attracted to Angola through the market that had been stimulated, the success of other Chinese firms and through observations of the kinds of imports Angola began to require (Interviews, Luanda, 23 July 2010, 3 August 2010).

<sup>54</sup> Interview, Chinese businessman involved in the zone's construction, 19 August 2010

### 3. Ownership

The nature of ownership is one of the most important drivers of local linkages in this case. This is less to do with the ownership structure of the Chinese companies involved as originally hypothesised, but rather as regards the ownership of the project financing. This section will briefly trace the domestic context leading to Chinese companies' expansion overseas, followed by a discussion of the importance of finance ownership. Several other observations regarding the company ownership are also made.

#### 3.1 Disaggregating 'China' in Africa

Particularly since the most visible actors to-date have been state-owned policy banks and large scale state-owned enterprises, initial analyses of China's commercial relations with Africa have been premised on the assumption that China is a monolithic actor in its dealings with African countries. Consequently, in their eagerness to uncover broad trends and patterns in the development of China-Africa relations, researchers have treated 'China' as a singular unit. However, efforts to decentralize the management of state-owned enterprises and allow the private sector room to develop have witnessed a growing multiplicity of Chinese actors, in both a domestic, but progressively more in an international context.

#### 3.2 Ownership of Chinese Companies in Africa

Prior to fieldwork a matrix was developed in an attempt to distinguish the various different types of Chinese actors operating in Africa according to ownership<sup>55</sup> (see Figure 3.1). The most important defining characteristic is the level of ownership (centrally state-owned<sup>56</sup>, provincial government-owned<sup>57</sup> or private<sup>58</sup>).

It is important however to realise that any typology is inherently dynamic and individual companies can move fluidly between categorisations. This is particularly because is it not possible to categorise companies definitively as 'private' and state-owned due to continuing domestic restructuring in China. The key issue is the extent to which each category of actor is motivated by strategic or commercial considerations and the degree to which they are held to account by public or

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<sup>55</sup> A former Chinese SOE manager characterised Chinese companies in a very similar way to Figure 3.1. (So, 2010)

<sup>56</sup> Two of the more important Chinese policy banks in Africa are China Exim Bank and China Development Bank, both wholly owned by the Chinese central government, reporting directly to the State Council.<sup>56</sup> China Exim bank is the sole concessionaire of Chinese government to government loans. The state shareholder of all centrally state-owned companies is the State Assets Supervisory Commission (SASAC). Since its establishment in 2003, SASAC's companies have been reduced from 196 to 123 through consolidations (An,2010)

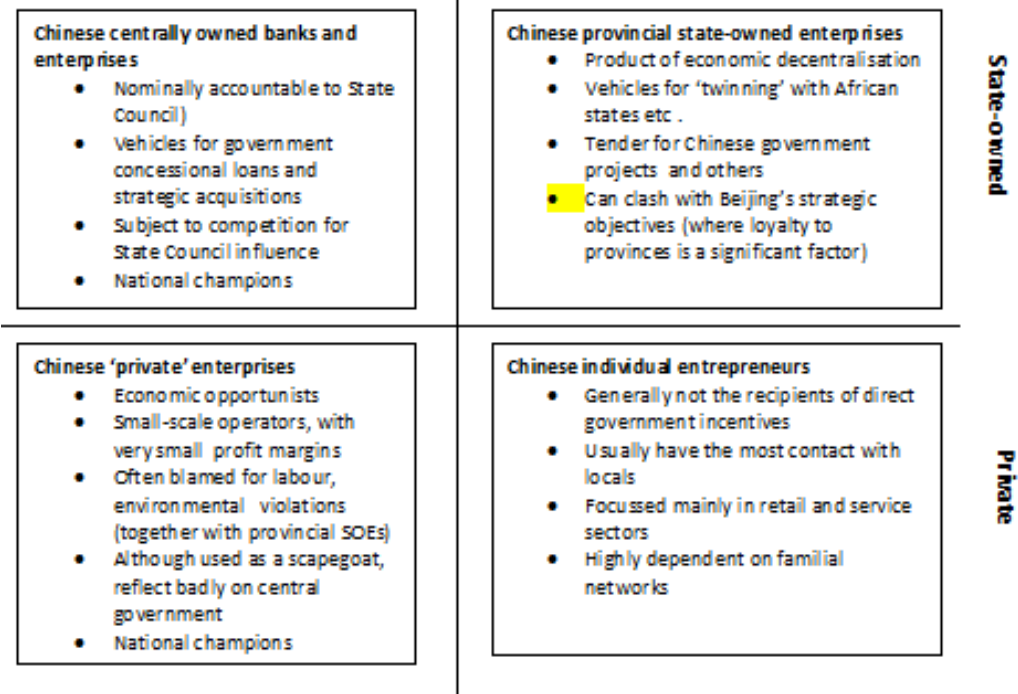
<sup>57</sup> Chen and Jian (2009) argue that Chinese provinces have increased their international profiles, primarily through the overseas activities of SOEs whose management was delegated by the Chinese central government to provincial-level government. They note a remarkable expansion of these companies' African profile (Chen and Jian, 2009:10). Although provincial SOEs were previously relied upon to enact national policy, especially vis-à-vis aid projects, competing interests have increasingly led to frictions between provincial and state actors. This is also noted by Gill and Reilly (2007) in the so-called 'principle-agent dilemma'.

<sup>58</sup> See Gu (2009)

administrative bodies.<sup>59</sup> The question still to be explored systematically is whether such influence can be exerted by other Chinese entities engaged in outward FDI to Africa and whether the level and kind of influence is related to category membership.

The hypothesis was that, given the nature of state-owned enterprise restructuring, privatisation and decentralisation as discussed previously the nature of ownership of the construction company would affect its behaviour in overseas markets, particularly as regards political and financial impetus, thus whether companies would follow Beijing’s policies or pursue profit.<sup>60</sup> A Chinese respondent<sup>61</sup> with high-level connections corroborated the tension between centrally owned and provincially owned firms, also identified by Gill and Reilly (2007). One government researcher commented for instance that ‘The issue with the Chinese oil companies is that their oil goals prevail over the national interests. These own goals are not so long-term and strategic. It is the ‘typical thinking’ of a market economy. They only think in terms of short-term profit. They need to think of rendering profit to their share-holders, now that many of them are listed on NASDAQ. This is the most important rather than the national interests and they will ‘do it at any cost’.<sup>62</sup>

**Figure 3.1: Matrix of Chinese Actors in Africa**



<sup>59</sup> At the same time, situations exist in which China foreign policy has been influenced by major organizations (for example, oil firms that have been accused of “hi jacking foreign policy” (ICG,2008:17).This is exacerbated by the fact that the heads of large SOEs often hold the same government rank as the heads of their monitory bodies, complicating the chain of command (Pan, 2010)

<sup>60</sup> For a more in-depth discussion, see Liang and Ren (2010)

<sup>61</sup> Interview, Luanda, 8 July 2010

<sup>62</sup> Interview, Chinese Academy of Social Sciences, Beijing, 4 December 2009

Jakobsen (2009) groups Chinese actors into five slightly different groups:

- 1) Officials that represent the 'state', government department and centrally-owned institutions such as China Exim Bank;
- 2) Large successful enterprises whether SOEs or privately owned;
- 3) Small and medium enterprises;
- 4) Well-connected 'middle-men', particularly those who are instrumental in the arms trade, including the so-called 'bamboo network' of private businessmen and diasporic traders.
- 5) Chinese migrant labourers

Of interest is the fact that Jakobsen groups SOEs and large 'private' companies together; firstly because the SOEs are operating more and more like private companies now, and also the private companies (such that 'private' exists in China) are starting to receive the same support from the state as the SOEs – international CEOs are allowed to accompany the Premier on state visits; they have been elevated to the level that these private companies receive the same benefits as state companies. This is particularly true in the case of Huawei, a private Chinese telecommunications company (see Appendix 2). SMEs are a 'messy group of entrepreneurs' primarily 'there to make some money'; some are registered, some are not, but there is much less government regulation and control over this group.<sup>63</sup> The fact that the government has less control over the smaller private firms is corroborated by numerous Chinese government officials and think-tank researchers.<sup>64</sup>

A number of foreign consultants who had worked in Angola with Chinese companies remarked that they observed no noticeable difference between state-owned and private companies that they had dealt with.<sup>65</sup> One respondent stated that he was '...more and more assured, in terms of how they see things, in his mind they are all the same; they have the same agenda, somewhere, something is for the benefit of the country, return for China.<sup>66</sup> They are nationalistic and proud; they work for China both private and public. The private sector still does not operate in a way that the government would not permit – the control is ferocious, the penalty is harsh if they don't comply with the general framework.' In his opinion, 'The private companies'<sup>67</sup>

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<sup>63</sup> Interview with Linda Jakobsen, Beijing, 10 November 2009

<sup>64</sup> Various interview, Beijing, 16 October 2009; 29 October 2009; 2 December 2009; 4 January 2010. See also Gill and Reilly (2007)

<sup>65</sup> Interview [telephonic], foreign construction consultant based in Luanda, 27 September 2010; Interview, Luanda, 15 July 2010

<sup>66</sup> Nevertheless, whereas all companies might be working 'for China', this goal is likely to be interpreted differently by different firms. A provincially-owned company encouraged to increase its profit which would ultimately accrue the Chinese provincial government that owns it would in all likelihood view this as a patriotic duty regardless of whether such profit accrual appeared to conflict with orders from Beijing. In the same manner, the various Chinese ministries have come into conflict over differing interpretations of what constitutes the national interest.

<sup>67</sup> The term 'private company' must also be used with some caution here. No respondents clarified what they termed as a 'private company' and the term often differently viewed in China when compared to Western understanding of it (Lin, 2009).

cards are not on the table, but they do the same thing [as public companies]. They all benefit and are controlled.<sup>68</sup>

Several factors may explain this discrepancy. Firstly there is considerable confusion in determining whether a company is state-owned or private, as 'The definition of the private sector in China is far from unified (Lin, 2009). Secondly, as discussed below, (see section 3.4) the Chinese companies that gain access to the large-scale China Exim Bank contracts in Angola are usually SOEs or 'national champion' private companies that have the same relationship as SOEs with the government. This results in their being to a great extent controlled by the Chinese government through the China Exim Bank credit line. Consequently, they are more beholden to the Chinese government than might be the case in a market with more diversified sources of financing. As a result, potential differences between SOEs and private companies are not so clearly observable by those respondents that have interacted with them.

Thus it would appear that other defining characteristics of Chinese companies are their firstly their size and secondly the level of government connections or support and political capital held by the firm. Thus the large public and private Chinese companies that the foreign consultants above dealt with would have displayed little in the way of differential behaviour.<sup>69</sup>

### 3.3 Risk Aversion

According to Chen et al (2008:7) Chinese contractors contrary to popularly held belief, are very profit- oriented. Their preferred method of contract tendering is international bids (49 percent) although grants, concessional loans projects and other mechanisms facilitated by the Chinese government (generally closed bids between Chinese companies only) also make up a substantial portion (40 percent). Furthermore, these companies dislike bidding for projects financed solely by African governments as often there are payment issues.<sup>70</sup>

Indeed, contrary to the popular perception that Chinese state-owned companies, with their deep pockets, disregard risk completely, Zhou (2010) argues that Chinese state companies, due to more bureaucratic management are in fact more risk averse than private companies and will only move into overseas markets after state incentivisation. Generally large state-owned firms hold an oligarchic position in the domestic economy. Consequently, cut throat domestic competition, one of the

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<sup>68</sup> Interview, private Western consultant, 15 July 2010

<sup>69</sup> Although this is in some sense tautological, as the larger companies after having been identified as 'national champions' would automatically receive state support and those that receive state support are more likely to become government endorsed national champions, there are individual businessmen with a dense network of the right connections. For instance China International Fund (CIF) is a large private Chinese company that ostensibly operates free from any Chinese government support. The company's head however reportedly facilitated Chinese state-owned oil company Sinopec's entry into Angolan market. A well-connected respondent commented that CIF 'is not really a business, or good at business, but they are very strong politically, they have the right connections. This is why they are so big in Angola. They are more a political clique to do what they want to do.' (Interview, Luanda, 8 July 2010) For more information on CIF see Levkowitz et al (2009)

<sup>70</sup> This is particularly relevant in the context of Angola, as following the financial crisis, the government experienced severe cash flow problems due to the dramatic drop in the oil price. Construction companies were not paid for months for projects already completed.

principal reasons that private Chinese companies move overseas (Gu, 2009:572), does not apply to them. It was only after the introduction of the China Exim Bank credit facility that Chinese SOEs began entering the Angolan market. This mechanism is deemed to mitigate the risk of an unknown market as the bidding occurs in China, China Exim Bank can arrange for export credit and other financing required by the Chinese SOEs at preferential rates. Most importantly, the Chinese companies are paid directly by China Exim Bank from rather than the Angolan government.

It is very evident therefore that China Exim Bank's financing has facilitated Chinese SOEs' entry into Angola.<sup>71</sup> Furthermore, it also appears that in light of the Chinese FDI statistics for Angola (see Figure 1.3), most Chinese companies have not ventured further than pursuing projects (for the large part financed by China Exim Bank) on a contract basis, declining to invest more substantially in Angola's economy of their own accord. As observed by a Chinese government researcher: '... unless the Chinese government gives them a special offer they will pursue their own goals, the national interests are often not profitable and they are not stupid.'<sup>72</sup>

Private Chinese companies, however, receive no such direct incentives from the Chinese government to expand overseas. The vice president of a private Chinese firm remarked: 'The Chinese Embassy does not help at all ... so it is a very sensitive issue indeed. We don't think they help us or do enough. 'They give the SOEs help, but we are not their customers'.<sup>73</sup> An illustrative example is the fact that despite the widely held belief that Chinese nationals get preferential visa treatment, one private Chinese manager reported paying 5,000 RMB (US\$ 750) for a 30-day ordinary visa, whereas a work visa would cost 15,000 RMB (US\$ 2,250).<sup>74</sup> Another private Chinese businessman reported paying 8,000 RMB (US\$ 1,200) for his ordinary visa.<sup>75</sup> Regardless of the possibility that these businessmen may have been overcharged, it illustrates their perception of a lack of support from the Chinese embassy.

Private Chinese companies have thus come to Angola devoid of any overt support from their government.<sup>76</sup> This is done out of a sense of economic survival due to the Chinese over-subscribed domestic sectors (Gu, 2009:572; Zhou, 2010) Most viewed Angola as a wide-open market, given the restricted access to market goods and their expense (Huang, 2002;2003). Indeed, most private Chinese companies appear to have entered the Angolan market engaging in import and export, expanding later to other sectors. Consequently, despite less ready access to finance and support,

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<sup>71</sup> Interview, Luanda, 2 August 2010. For the Chinese government, balancing the trade deficit with Angola (caused due to rising oil imports) is politically important. Consequently, it is evident that the Chinese government has developed this financing mechanism to encourage their risk-averse companies to enter the Angolan market and stimulate Chinese exports to Angola through procurement of goods and services.

<sup>72</sup> Interview, Chinese Academy of Social Sciences, Beijing, 4 December 2009

<sup>73</sup> Interview, Private Chinese company director, Luanda, 7 July 2010

<sup>74</sup> Interview, site manager, private Chinese construction company, Luanda, 3 August 2010. This is in comparison to an ordinary visa for a South African which would cost US\$ 110.

<sup>75</sup> Interview, sales manager, Chinese import-export company, 23 July 2010

<sup>76</sup> Raine (2009:195) argues that even though Chinese companies may not answer directly to the Chinese government, they may still have entered the market with indirect state support, such as awareness campaigns and advertising for African markets.

Chinese companies have readily entered the Angola (among other African countries), forced to demonstrate a decidedly higher appetite for risk.

Appetite for risk therefore appears to be key difference between large state-directed Chinese companies and the smaller private Chinese entrepreneurs. Whereas the former are pushed to enter Angola through special state incentives, the latter are pushed to do so due severe domestic market pressure.

The Chinese government is eager to encourage Chinese companies to expand beyond the credit line in order for more stable commercial relations to development between the two countries.<sup>77</sup> This is part of a broader trend of Beijing trying to encourage Chinese investors to rely less heavily on subsidised state financing and pursue more commercial lending (Hornby, 2009).

### **3.4 Market Access and Research**

It suggested here that a lack of Africa- and more especially Angola-specific knowledge also has an impact on Chinese companies' awareness of and ability to form local linkages. While the engineering and technical expertise of Chinese companies may be considerable, the knowledge of African countries may be distinctly lacking. It emerged from a number of interviews with the corporate and government sector that research conducted in China on African countries by the various academic institutions and think-tanks was not highly regarded. Such a knowledge paucity of African countries at an individual country level directly affects not only the kinds of policies made by the Chinese government with regards to Africa, but also the individual investment decisions of Chinese companies entering African markets.

Policies are thus crafted at a general level but often people who have often not been to any African country. There is no differentiation between countries. One private consultant suggested that 'the best Beijing has in terms of African expertise is an old guard of African-based Ambassadors (often retired).' Information regarding country-specific knowledge is difficult to come by, so it is difficult to develop a strategy according to local information.<sup>78</sup>

From a commercial perspective, various respondents stated that Chinese companies are not interested in using consulting services to learn more about the African market and possible local procurement. This is despite the fact that a prominent risk analysis company currently dealing with various large Chinese companies always advocates that the Chinese companies plug into the local networks as far as possible, in order to 'mitigate the risk of local expectations'<sup>79</sup> thus increasing the sustainability and longevity of the project. A lack of market research arguably limits the extent to which Chinese companies can and/or will take cognisance of the local NSI and prospects for domestic linkages. More stock is placed on developing relations with the political elite as a form of risk mitigation than with local entrepreneurs.

This is not just in terms of project execution, but also in terms of tenders. A well-connected African consultant based in China commented that Chinese companies

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<sup>77</sup> Interview, Luanda, 15 July 2010; Interview Beijing, CICIR, 2 December 2009

<sup>78</sup> Interview, Shanghai, 15 September 2009

<sup>79</sup> Interview, Beijing, 5 November 2009

were much more interested in establishing relations with political contacts – offering compensation for an introduction to African Ambassadors, rather than investing in market research<sup>80</sup>.

### 3.5 Ownership of Financing

Ownership of the funds used to finance Chinese construction projects is of key importance to determining the potential level of local linkages. According to Low and Jiang (2003:591), overseas contracts undertaken by Chinese companies can be categorised as follows:

- 1) Projects funded through Chinese government loans or financial aid to developing countries;
- 2) Projects funded by loans from the World Bank, African Development Bank, Islamic Development Bank and other such institutions;
- 3) Projects obtained through governmental bilateral trade agreements;
- 4) Projects won through international bidding;
- 5) Projects obtained through local clients, and
- 6) Projects obtained through local branch offices of Chinese enterprises.

Chen et al (2008:11) found that financing was an important consideration for Chinese contractors. Although their study across several Africa countries found that Bank of China was the largest service provider in terms of bonds, whereas China Exim Bank is the largest provider of debt instruments.

The majority of projects undertaken by Chinese companies in Angola are funded through the concessional loan extended to the Angolan government by the Chinese government through China Exim Bank. According to the conditions stipulated by China Exim Bank, in principle, a Chinese company will undertake the projects to be paid for by the concessional loan and in principle no less than 50 percent of the project procurement will be sourced in China.<sup>81</sup> However, in the Angolan case it was negotiated that 30 percent of contract may be subcontracted to Angolan firms. Although many Angolans have expressed outrage at this minority percentage, it is arguably a more realistic condition, given the acknowledged paucity of skilled labour and local industries to support the material requirements of projects of this scale.<sup>82</sup> Indeed there is little evidence to show that local Angolan companies has even been even cope with this volume of business. A Ministry of Finance official confirmed that this condition was only upheld if it 'did not compromise project deadlines'.<sup>83</sup>

Although it appears that some policy space may exist for African governments to negotiate as regards the terms of the local labour and procurement chains for China Exim Bank financed contracts, the China Exim Bank lending is still relatively prescriptive, give that the Bank's primary function is to stimulate demand for Chinese goods and services. However, China Exim Bank also provides financing directly to

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<sup>80</sup> Interview, African private consultant, Shanghai, 16 September 2009

<sup>81</sup> China Exim Bank website:

[http://english.eximbank.gov.cn/businessarticle/activities/loan/200905/9398\\_1.html](http://english.eximbank.gov.cn/businessarticle/activities/loan/200905/9398_1.html) [17 February 2009]

<sup>82</sup> A notable exception is the oil industry, see Soares de Oliveira, 2007:602

<sup>83</sup> Interview, Ministry of Finance, Luanda, 6 July 2010

Chinese construction companies engaging in contracts overseas, financed either by the host government, or from development Banks such as World Bank, African Development Bank etc. contracts in this case must exceed US\$ 1 million, and the company must be able to afford a down-payment of 15 percent of the contract, but the tied procurement requirements to come from China are much lower: 'The spin-off exports of Chinese equipment, materials, technology, labor [sic] service, and management services that derive from overseas construction contracts shall account for no less than 15% of the total contract value of the project'.<sup>84</sup>

It would appear that where the Angolan government finances a project directly, rather than accessing China Exim Bank financing through the sale of oil, this would achieve greater space to allow and encourage the development of local procurement, as in principle, up to 85 percent of the procurement could be sourced locally, or at least from a country other than China. As discussed above however, due to high risk aversion, there may resistance on the part of the large Chinese companies to enter into such contracts, without the institutional and financing stability provided by China Exim Bank.<sup>85</sup>

Again, this may change with time after a measure of familiarity of the market is developed. A representative from China Exim Bank confirmed that China Road and Bridge Corporation, a large SOE, has undertaken US\$ 600 million of Exim Bank financed contracts in Angola, but '...the Angolan government trusted them so much, they have contracted them independently to undertake US\$ 700 million of additional projects.'<sup>86</sup> The Chinese Ambassador to Luanda confirmed that although many Chinese companies entered the market through the government financing facility, they are now pursuing contracts independently of the state credit line.<sup>87</sup>

### 3.6 Bias in the Tender Process

According to the research conducted thus far, there is considerable bias towards larger companies and 'national champions' with a proven track-record being selected to bid for contracts in Africa over smaller companies.

All projects financed by China Exim Bank are subject to a closed tender offered to at least three Chinese companies and supervised by the Chinese Ministry of Commerce. As each project must be valued at least US\$ 10 million in value (Ferreira, 2008:300), it is generally the larger state-owned companies that would have sufficient capacity, technology and management to undertake such bids.<sup>88</sup> Many within the private sector in China believe China Exim Bank lacks transparency and the political will to reach out to private Chinese companies.<sup>89</sup> Consequently the nature of

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<sup>84</sup> China Exim Bank website:

[http://english.eximbank.gov.cn/businessarticle/activities/export/200905/9395\\_1.html](http://english.eximbank.gov.cn/businessarticle/activities/export/200905/9395_1.html) (accessed 17 February 2010)

<sup>85</sup> Interview, Beijing, 16 October 2009

<sup>86</sup> Interview, Beijing, 9 December 2009

<sup>87</sup> Interview, Chinese Embassy, Luanda, 10 May 2010

<sup>88</sup> Many state-owned companies were used to implement the Chinese government's aid projects to African countries in the 1960's and 1970's, giving them the advantage of experience, as the private sector did not yet exist in China.

<sup>89</sup> Interview, Shanghai, 15 September 2009

ownership of Chinese company affects considerably their access to financing in order to expand to overseas projects.

Companies with access to China Exim Bank's loans (and tenders for other such Chinese government aid projects) use these mechanisms as a foot in the door for market entry, and then develop their business from there. It seems therefore, that even if SOEs are not directly owned by the central government, and may have their own agendas (as in the case of provincially owned SOEs) they are still more likely than private firms to access state support (Raine, 2009: 195). The Chinese Ministry of Commerce has strongly denied that SOE's received subsidies in their outward expansion. (Xinhua, 2010) but this has been strongly contested within China (Sheng, 2010).

### **3.7 Chinese Company Ownership and Local Content Potential**

The State Assets Supervisory and Administration Commission (SASAC), which reports to the Chinese State Council is the government stake-holder in all centrally-owned SOEs (Shankleman, 2008:20) and is responsible for managing and monitoring the companies. It is a logical assumption therefore that centrally-owned SOEs would be under more pressure to adhere to commitments made by the State Council regarding more politically correct corporate behaviour such as 'localisation policies.' As Gill and Reilly (2007) note however, this is not always the case. Nevertheless it remains the dominant view of most Chinese officials and policy-makers that SOEs are more reliable and higher quality contractors possibly because in name at least the government can exercise more control over them.

A Chinese MFA official stated that in differentiating between private and SOE companies, private companies are 'only interested in money', and they are also 'only using Africa as a springboard to the US and other markets'. They are interested in 'quick money' and not aspects such as CSR.<sup>90</sup> This was corroborated by an Angolan engineer.<sup>91</sup> However, one Chinese academic suggested that private companies 'do very well as they need to manage themselves better [without state support]'.<sup>92</sup> This suggests that private companies may be more adept at using local sourcing if it is economically viable to do so. SOEs, by contrast, while less flexible, usually engage in longer-term projects, thus their interest in local content development would more likely stem from a need to render their projects more sustainable in the medium to long term.<sup>93</sup>

## **4. Policy**

Policy has been fundamental in determining the extent of linkages in Angola; this refers not only to the actions by the Angolan government, but also the policy mechanisms put in place by the Chinese government to guide Chinese companies' and policy banks' overseas engagement, i.e. with Angola. It is important to remember

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<sup>90</sup> Interview with MFA official, Beijing, 29 October 2009

<sup>91</sup> Interview, INEA, Luanda, 17 August 2010

<sup>92</sup> Interview, Beijing, 22 December 2009

<sup>93</sup> Interview, Beijing, 22 December 2010

that while there has been active policy promulgation on the part of both governments, the level of implementation in both respects has varied considerably.

## 4.1 China's Policies Towards Overseas Markets

According to Goldsmith and Wagner (2010) approximately 84 percent of overseas foreign direct investment (FDI) stock is owned by state-owned enterprises (SOEs). Consequently, they view most of Chinese FDI as 'an extension of government economic policy', particularly as SOEs are state-supported<sup>94</sup>, particularly through policy banks such as China Exim Bank.<sup>95</sup> The Chinese government has increasingly recognised the importance of regulating the overseas operations of Chinese companies and in 2008 released an official document intended to govern foreign contract management relations.<sup>96</sup> Implementation is not as easily ensured.<sup>97</sup>

As previously discussed, there is a tendency on the part of the Chinese government to favour SOEs over the private sector in terms of policy support. This is largely due to the state's relative ability to control the former and curtail corporate practices that might be damaging to China's national image.<sup>98</sup> It must be remembered however, that the state's control is not absolute over either sector.<sup>99</sup>

## 4.2 Local Content Policies and Regulation in Angola

The Angolan government has an impressive body of regulations governing local content, having pursued a local content policy, dubbed 'Angolanisation' in the oil industry since 1957. However, as noted by one Angolan business consultant, implementation has not matched the policy-making, as there has been little effect from this policy despite its existence for more than 50 years.<sup>100</sup>

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<sup>94</sup> For instance, according to *Mining Weekly* (2009) the Chinese National Development and Reform Commission (NDRC) announced in August 2009 that it would subsidise the interest on loans taken out by companies to import raw materials.

<sup>95</sup> China's policy banks (China Agricultural Bank, China Development Bank and China Exim Bank) were created in 1994 in order to allow the banks marked for commercialisation (China Industrial and Commercial Bank, China Construction Bank and Bank of China) to be open to pursuing lending with a more commercial focus. A respondent suggested that as such policy lending is in fact loss-making, it is clear that many of these banks do not relish this role and that China may eventually get rid of it completely. Given China Development Bank's on-paper commercialisation and both China Development Bank and China Exim Bank's drive to pursue more commercially structured loans, there may be some truth in this.

<sup>96</sup> «对外承包工程管理条例» [Foreign Project Contract Management Regulations] issued by the State Council on 7 May 2008, effective since 1 September 2008: [http://www.gov.cn/zwqk/2008-07/28/content\\_1057815.htm](http://www.gov.cn/zwqk/2008-07/28/content_1057815.htm) [8 May 2008]

<sup>97</sup> Interview, Chinese academic, Beijing, 4 January 2010

<sup>98</sup> Comments by an IWAAS researcher, Beijing, 5 January 2010

<sup>99</sup> According to a Chinese diplomat, there is a list of Chinese companies that are qualified to bid for international contracts which is renewed every two years and a corresponding black list of Chinese companies banned from doing so. He did admit however admit the possibility of the companies 'manoeuvring' around these lists: 'If they are banned from one country, they can move to another African country and set up there – if the local law allows them to.' He suggested that the bidding process occurring in China allows the Chinese government to control the quality of the Chinese companies tendering (Interview, Beijing, 29 October 2010)

<sup>100</sup> Interview, Luanda, 10 May 2010

According to Schmitz (2007: 418) successful industrial policy should challenge enterprises to meet certain criteria set by the government and provide support in order for them to do so. Unfortunately, Angolan local content policies seem to do the former without the latter. Few Angolans in the construction sector feel that they are receiving sufficient support from the government.<sup>101</sup> Furthermore, while the Angolan government does make it increasingly difficult to bring in foreign labour, there are as yet no viable local alternatives.

As a result, it appears that Angolanisation policies are patchily enforced in order not to halt the industry completely. A respondent confirmed that while his company employed local staff due to pressure to conform to 'Angolanisation', such policies were not particularly well-enforced. He commented that Angolans are employed by companies, sometimes to the detriment of the project and sometimes 'not in the right way'. It is given to the Angolans directly, instead of to a capable contractor who can sub-contract and foster learning in this way.<sup>102</sup>

### 4.3 'Angolanisation' and Chinese-funded projects

Foreign investment in the construction industry, as a non-oil sector, should be governed by the *Agência Nacional para Investimento Privado* (ANIP<sup>103</sup>). According to Angola's Basic Private Investment Law 54/1, all companies registered with ANIP need to secure 70 percent local employment. However, as discussed, the Chinese companies whose projects are financed by China Exim Bank and China International Fund (the majority of large scale infrastructure projects) liaise directly with the Ministry of Finance and the *Gabinete de Reconstrução Nacional* (GRN<sup>104</sup>) respectively. Although China Exim Bank's framework agreement with the Angolan Ministry of Finance does reportedly include a clause regarding 70 percent local employment, this refers only to unskilled labour (Tang, 2010: 353). The Chinese government would apparently not accept any percentage larger than 30 percent to be subcontracted to local firms.<sup>105</sup> Many Angolan construction industry professionals thus feel that Chinese companies are afforded an unfair advantage due to the policies surrounding the credit lines.<sup>106</sup> The blame for this is laid squarely at the door of the Angolan state. Indeed, one Western observer commented that for Chinese companies to ever seriously consider developing local supply chains linkages, '... the motivation needs to come strongly from the African country and, in the short-term there needs to be a strong economic case to be put to the Chinese side, in terms of efficiency and cost effectiveness.

The counter argument is that where local partners are engaged, they fail to deliver. In one example, an Angolan company was subcontracted the clear and level the building site of one of the stadiums to be built for the African Basketball

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<sup>101</sup> Interview, Luanda, 9 July 2010

<sup>102</sup> Interview, Project Manager, foreign engineering consultancy company, 6 July 2010

<sup>103</sup> National Agency for Private Investment

<sup>104</sup> Office for National Reconstruction

<sup>105</sup> Interview, Angolan Ministry of Finance, Luanda, 6 July 2010

<sup>106</sup> Jose Severino, President, Associação Industrial de Angola (AIA), presentation 'A presença chinesa e o sector privado de Angola', 12 May 2010

Championships<sup>107</sup>, but this was delayed for so long that the Chinese company eventually had to perform this work themselves and build the stadium in a matter of weeks to be ready for the tournament.<sup>108</sup>

Chinese companies in Angola have two organisations, the Angola-China Association for Commerce and Industry and the China Chamber of Commerce in Angola. Both these institutions are geared towards facilitating knowledge and exchange between Chinese companies, rather than Chinese and Angolan companies. Beyond the training courses that some of the larger Chinese companies undertake, there is no strategic vision for local content development. The insular nature of these bodies and the absence of interactions between them, their Angolan counterparts and Angolan Ministries prevents dialogue that could lead to more effective localisation efforts being implemented on the part of Chinese companies.

#### **4.4 Barriers to Local Content Law Effectiveness**

Despite a body of local content laws, there are several notable examples of the contradicting policy environment present in Angola, whereby short-term gain is prioritised above local content development. The following factors have been identified as reducing the effect of local content policies:

##### **4.4.1 Removal of Import Duties on Construction Materials**

Import duties on construction materials were removed as of 29 July 2009, resulting in all construction materials imported for the purpose of national reconstruction being brought into the country duty free<sup>109</sup>. One large state-owned Chinese company representative confirmed that this was an important way in which his company received assistance from the Angolan government.

Although in the short term this would lower the costs of all projects as most of the materials are currently imported, in the longer term it would make it even harder for a nascent local industrial complex to supply construction materials to develop. However, it has relieved supply bottle-necks in part. Despite a local supply being unable to keep up with market demand, cement duties were an estimated 35 percent in order to protect the local industry.<sup>110</sup>

Angolan activist pointed out lack of long-term strategic priorities 'They are making imported materials cheaper, much cheaper than it is to produce it locally ... at the MPLA conference the President stood and up said he did not understand why 82 percent of our goods and services are imported, amounting to US\$ 8-10 billion. But there are no incentives in the economy with the result that cement, 'mosaic', basic

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<sup>107</sup> In 2007, Angola hosted the African basketball championships Afro-basket. Chinese companies were contracted to build four basketball stadia in Cabinda, Benguela, Huila and Huambo provinces, financed by the Chinese credit line.

<sup>108</sup> Interview, Luanda, 11 May 2010

<sup>109</sup> See : [http://experts.e-to-china.com/analysis/general\\_analysis/Customs/2009/0807/59849.html](http://experts.e-to-china.com/analysis/general_analysis/Customs/2009/0807/59849.html) [13 December 2010]

<sup>110</sup> Interview, vice-president, private Chinese company, Luanda, 7 July 2010

construction material, steel, must all come from China. There are actually incentives to import, so local industries could not compete in a market economy.’<sup>111</sup>

#### **4.4.2 Maintenance of the Hard Kwanza Policy**

The Angolan government, as a source of national pride, has maintained the Angolan currency at an artificially high level for some years (Chatham House, 2005). Particularly during the economic crisis of 2008-2009, significant funds from the national treasury were spent on retaining the currency’s value.<sup>112</sup> Given that more than 80 percent of goods sold in Angola’s market are imported, the hard currency may in theory render the standard of living cheaper than it might be (particularly as regards imported refined fuel subsidies) the policy has an extremely negative effect on the local business environment, effectively pricing local production out of the market.

#### **4.4.3 Labour Law Rigidity**

Angola’s Labour Law was published on 11 February 2000<sup>113</sup>. It stipulates a 44-hour work week, with no more than 8 hours work per day<sup>114</sup>, one day off weekly and 22 days annual leave. This is not in line with the pace of construction encouraged due to the urgency of the infrastructure projects. Indeed, one Chinese researcher stressed the need for African countries need to understand the market forces related to labour demand and to create a better environment for employment. (Of course, this is from the view point of the employer).<sup>115</sup> African governments are often tempted to allow Chinese companies to use their own labour force in order to accelerate the rapid completion of much-needed infrastructure projects. The long-term benefit of skills training and employment is subordinated to the short-term benefit of alleviating pressures to deliver specific political goods (roads, railroads and other infrastructure). Consequently, despite its important policies in this regard, a lack of political will to enforce them ensures that they are ineffective. As one Angolan business consultant observed: ‘We need to reverse some of these policies by the government. The government programme and policy statements are fine and use all the right language, but they are programmes for 2-3 years [as opposed to long-term strategies].’<sup>116</sup>

#### **4.4.4 Vested Interests and Lack of Political Will**

A key concern that prevents such demands from the local African government being implemented is that in eagerness to have projects completed swiftly, the Angolan government, among other African governments with such financing arrangements,

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<sup>111</sup> Interview, Luanda, 18 August 2010

<sup>112</sup> The effect on foreign reserves was so severe that President dos Santos dismissed Central Bank Governor Amadeu de Jesus Castelhana Maurício apparently in dissatisfaction that currency reserves were reduced to US\$ 13 billion from US\$ 18 billion through efforts to stabilise the currency. Maurício, governor since 2002, has been credited with bringing inflation under control from 100% to its current level (Almeida, 2009).

<sup>113</sup> Having first been passed on 5 August 1999, it came into force 60 days after publication and was amended on 19 June 2000.

<sup>114</sup> In special circumstances, the work week can be extended to a 54 hours

<sup>115</sup> Interview, associate researcher, CAITEC, Beijing, 5 December 2009

<sup>116</sup> Interview, Luanda, 10 May 2010

may forego the policy of insisting on a local complement of labour, as such localisation could as one African diplomat put it 'slow the projects down and decreases efficiency and productivity.'<sup>117</sup> Indeed, a respondent from the Ministry of Finance confirmed that local firms would only be involved in construction projects managed by the Ministry if 'it did not compromise the undertaking and delivery of the project.'<sup>118</sup> In addition, the larger Chinese companies that are engaged in politically expedient projects may receive preferential treatment.<sup>119</sup>

A number of Chinese respondents from private firms felt however that the Angolan government did little to foster an enabling environment for their businesses.<sup>120</sup> One Chinese marketing manager even said that '...the big problem with this government is that they 'have no plan and no understanding of the circumstances of business and industry... it is not that the government here does not have money, it's just that they waste a lot of it. ...It is also probably not appropriate for me to say this, but the corruption is also very serious.'<sup>121</sup>

As one industrial pointed out, the winners of the operating contracts are all linked to the key figures.<sup>122</sup> Several respondents also felt that political elites have an interest in thwarting any local business development in order to prevent the development of an alternative economic locus which might in time lead to competition for their economic interests and ultimately a political threat.<sup>123</sup>

A Chinese think-tank researcher that had visited Angola corroborated this view: 'Angola is so expensive! The country has neighbours and sea lines, it could import much more efficiently. It is elite control of the import and export that creates this inefficiency. The armies for instance have wonderful facilities. There is no visible entrepreneurship yet. It reminds me of China in the late 1970's.'<sup>124</sup>

#### **4.4.5 Lack of Implementation**

As one Angolan think-tank researcher put it: 'We are good at rules, but bad at implementation.'<sup>125</sup> Even where local content law is applied, it is rarely monitored. An oil major representative admitted that after having promised a certain level of local content in a tender, no one checks to see if this is implemented.<sup>126</sup> This is likely to be the case in the construction industry. In fact, across the board, Angola respondents claimed that the 30 percent quota set aside for Angolan companies in the Chinese credit line was seldom respected.<sup>127</sup>

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<sup>117</sup> Interview, Beijing, 11 September 2009

<sup>118</sup> Interview, Luanda, 6 July 2010

<sup>119</sup> Interview, foreign correspondent, Luanda, 1 May 2010; Interview, General Manager's Assistant, large Chinese state-owned company, Luanda, 16 August 2010

<sup>120</sup> Interviews, Luanda, 7 July 2010, 23 July 2010; August, 2010;

<sup>121</sup> Interview, marketing manager of a private Chinese firm, Luanda, 2 August 2010

<sup>122</sup> Interview, Luanda, 19 August 2010

<sup>123</sup> Interview, foreign diplomat, Luanda, 22 July 2010; Interview, oil major employee, 12 July 2010

<sup>124</sup> Interview, CICIR, Beijing, 16 October 2009

<sup>125</sup> Interview, Angolan think-tank researcher, 27 April 2010

<sup>126</sup> Interview, Luanda, 12 July 2010

<sup>127</sup> Interviews, Luanda, 12 May 2010; 9 July 2010; 19 August 2010

'The reality is that implementation is always the big problem. Some aspects are the capacity of the government to implement these things. There is a lack of consistency in the programmes; one sometimes feels they are a little bit lost. There is always this dilemma; when there are problems, the policy will just be reversed, rather than changed or made public.'<sup>128</sup>

Many Angolans believed that that special circumstances surrounding the Chinese credit lines exempted them from due procedures normally followed in the construction industry, although a few were hopeful that this might change.<sup>129</sup>

One Angolan construction industry professional pointed out that there is no quality certification in Angola.<sup>130</sup> One respondent commented: 'No one is going to ask questions, but the processes are not so rigorous'.<sup>131</sup> He described how many of the Chinese companies were resistant to external consultants, preferring to use own in-house, arguably a conflict of interest.<sup>132</sup> Although not exclusively a problem with Chinese companies, the process of 'fiscalização'<sup>133</sup> is often ignored, which while expediting the construction of the building and reducing its costs, leads to structural problems later on.<sup>134</sup>

This is particularly the cases where maintenance is not prioritised. According to INEA, as regards roads in Angola, regulations stipulate a 10 percent (of the value of the contract) bank guarantee be made available to cover to cost of structural problems in project should they occur during the guarantee period of 24 months. However, it is recognised that 24 months is not a sufficient maintenance period for projects of this nature, and INEA has difficulties enforcing these regulations.<sup>135</sup>

Interestingly, Chinese think tank researchers and policy makers are also at times frustrated with the lack of African implementation: 'African partners must also have the initiative...China is only willing to give advice, not to order the African countries in terms for what to do... to be pragmatic, they can't really wait.'<sup>136</sup>

#### 4.4.6 Lack of Institutional Continuity

Policy implementation has been identified as a key weakness in Angola. This has been exacerbated by a lack of ministry co-ordination on projects, resulting in bureaucratic chaos and disruption in institutional continuity. This has been

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<sup>128</sup> Interview, private Angolan business consultant, 10 May 2010

<sup>129</sup> Luis Peixoto, Associação Associação dos Empreiteiros de Construção Civil e Obras Públicas de Angola (ECCOP), [presentation], Luanda, 12 May 2010, Interview, Luanda, 26 July 2010

<sup>130</sup> Although the *Instituto Nacional de Regulação de Qualidade* (INRQ) exists, but they don't really fulfil this function properly.

<sup>131</sup> Interview, Luanda, 17 August 2010

<sup>132</sup> This respondent described an instance where a Chinese company wanted to build a road without first demining it (Interview, Luanda, 17 August 2010).

<sup>133</sup> Essentially the process of auditing and due diligence of a project

<sup>134</sup> There are several cases of Chinese constructed buildings showing cracks in their walls only a few years after completion, the most infamous example being the Luanda General Hospital completed in 2005 by the Chinese company COVEC, as part of a Chinese aid project in Angola. It has to be evacuated due to serious cracks appearing in the walls.

<sup>135</sup> Interview, INEA, Luanda, 17 August 2010

<sup>136</sup> Interview, CICIR, Beijing, 2 December 2009

acknowledged from the Angolan side.<sup>137</sup> Although the Angolan government has made several changes to the reporting structure of the projects, this does not seem to have helped.

Since national elections in 2008 President dos Santos has shifted power from the Ministry of Finance to the Ministry of the Economy. The creation of an Economic Planning Committee (announced officially in October 2010) to report directly to the Presidency once again removed power from the Ministry of the Economy and centralised it around the President (McClelland and Mendes, 2010). An Angolan engineer commenting on the merging of the Ministry of Public Works and the Ministry of Urbanisation to form the Ministry of Construction and Urbanisation in 2008 called it 'the wrong decision' as there are now half the people to do the same amount of work while still getting to grips with the institutional changes.<sup>138</sup> These changes, while ostensibly made to streamline the reporting structures and improve policy coherency, have also weakened several key ministries ensuring that they cannot accumulate power or influence that might threaten the Executive.<sup>139</sup> It also unfortunately has an impact on the efficiency of policy implementation.

## 5. National systems of innovation (NSI)

Due in part to its history of protracted conflict, Angola's national system of innovation is embryonic at best. The country has eleven universities (with a twelfth under construction) and one institute of vocational training school, a second under construction. All of them are located in Luanda, although Universidade Agostinho Neto that has some faculties located outside the capital city. Most of these institutions have been very recently established, with oldest being Universidade Lusíada and Universidade Católica de Angola, both having opened their doors in 1999.

It is apparent from the list of university specialty degrees (see Appendix 1) that there is a bias towards engineering, law and economics. There is also little in the way of research outputs that are contributing directly to technological innovation. While some universities appear to be tailoring courses towards what the labour industry requires, a major deficit in Angolan NSI is the absence of technical colleges. One Angolan entrepreneur commented: 'If you compare the number of firms in the industry and the availability of staff, we are experiencing an extremely worrying situation because we [Angola] are not training technical staff. We only think of doctors and engineers; technicians are forgotten, there must be more investment in training of technical staff for the future, in order to reduce dependence on expatriate staff.' (*O Pais*, 2010)

The Vice-minister of Planning confirmed a lack of current capacity in both quality and quantity for a lack of local involvement in the many infrastructure projects underway.<sup>140</sup> As one diplomat put it: "There is a lack of capacity here in general, both personal and institutional. The country has lost two generations, so it has weak institutions; they need to fix this, in terms of capacity building of society and the public sector. It is easy to construct infrastructure, it is much harder to reconstruct the

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<sup>137</sup> Interview, INEA, Luanda, 17 August 2010

<sup>138</sup> Interview, Luanda, 17 August 2010

<sup>139</sup> Interviews, Luanda, 6 May 2010; 22 July 2010

<sup>140</sup> Pedro Luis de Fonseca, Vice Minister of Planning, Luanda, 16 July 2010

country. In comparison, it might take two to three decades to do this and it will probably be more expensive than the infrastructure.<sup>141</sup> Indeed, considering that the majority of these institutions only began student intake in 2007, it will be some time before this is reflected in the local labour market.

Angola has a number of small institutions situated within the Ministry of Geology, Mines and Industry tasked with the fostering and promotion of Angola's industrial entrepreneurs. These include the National Institute for the Employment and Vocational Training<sup>142</sup> (INEFOP); the National Institute for Support of Small and Medium Enterprises<sup>143</sup> (INAPEM). In 2004, these organisations participated in the Angolan Enterprise Programme, funded by the United Nations Development Programme and Chevron. The three-year programme was designed to strengthen Angolan small and medium enterprises, assist in poverty reduction and economic diversification. It was an ambitious project and by the donor's own admission rendered little in the way of tangible results, given the magnitude of the challenge it faced (AEP, 2006). Of concern is the fact that while the programme was developed 'in collaboration with the Angolan Government', it is unclear whether the programme received financial support from the state. It is also evident that Angola's institutions lack the funds and resources to develop such programmes without external assistance. This illustrates a visible dearth of political will to strengthen the institutions that would assist in local content development.

The primary focus of Angola's Institute for Industrial Development<sup>144</sup> (IDIA), is on developing a series of 10 industrial 'poles' or nodes:

**Figure 5.1: Angola's Planned Industrial Poles**

Site	Financier	Planned size	No. of jobs to create	No. of companies to invest	Construction period
Viana, Luanda	Banco Espírito Santo Angola	50 hectares	2,000	80 industrial units	2006 -2010
Bom Jesus, Bengo	Banco Africano de Investimentos	60 hectares (total size 600 hectares)	2,875	115 industrial units	2008-2010
Lucala, Kwanza Norte	State General Budget	50 hectares	2,000	80 industrial units	2009 -2010
Fútila, Cabinda	State General Budget	First phase 112 hectares, total area 2,345	2,300	60 industrial units	2008-2009

<sup>141</sup> Interview, Western diplomat, Luanda, 6 May 2010

<sup>142</sup> Instituto Nacional de Emprego e Formação Profissional

<sup>143</sup> Instituto Nacional para Apoio às Pequenas e Medias Empresas (established in 1992).

<sup>144</sup> Instituto de Desenvolvimento Industrial de Angola

Catumbela, Benguela	Banco Espírito Santo Angola	25 hectares	1,000	40 industrial units	2009-2010
Caála, Huambo	State General Budget	25 hectares	1,000	40 industrial units	2009-2010
Uige, Uige	Banco Espírito Santo Angola	25 hectares	1,000	40 industrial units	2009-2010
Soyo, Zaire	Banco Espírito Santo Angola	50 hectares	2,000	80 industrial units	2009 -2010
Dondo, Kuanza Norte	Banco Espírito Santo Angola	50 hectares	2,000	80 industrial units	2009 -2010
Kunja, Bié	Banco Espírito Santo Angola	25 hectares	1,000	40 industrial units	2009-2010
Matala, Huíla	Banco Espírito Santo Angola	25 hectares	1,000	40 industrial units	2009-2010
Kassinga, Huíla	State General Budget	25 hectares	-	-	-
Viana, Luanda – Catete, Bengo	Chinese Credit Line	1,500 hectares	2,000	80 industrial units	2009-2011

*Source: Angolan Institute of Industrial Development*

Although most were planned to be completed by the end of 2010, a respondent from the Ministry of Geology, Mines and industry admitted that activity had only occurred in Viana, Catumbela, Uige and Dondo.<sup>145</sup> There appeared to be great commercial interest in these zones, as all industrial spaces had already been allocated in Viana. The primary issue was that these zones were in remote areas and the Angolan Government had not provided with access to the national electricity grid and water system, forcing the companies installed in the zones to invest in expensive 'alternatives'. According to the respondent, the majority of the companies were Portuguese and Brazilian, with some of 'mixed capital'.<sup>146</sup>

Of considerable interest in the 1,500 hectare pole that is being developed just outside of Luanda and funded by the Chinese government credit line. Very little information was available on these plans; however it is highly likely this development will follow the model of other Chinese-funded industrial parks across Africa.<sup>147</sup> It is therefore feasible that this will become a site for Chinese construction companies to further 'localise' their supply chains, as discussed in earlier sections. This indicates a trend that will grow stronger over time and points towards Chinese companies planning to increase their local linkages in the geographical sense. The value of the pole to local

<sup>145</sup> Interview, Ministry of Geology, Mines and Industry, Luanda, 2 February 2011

<sup>146</sup> This indicated that they had an Angolan partner.

<sup>147</sup> For further reading on this, see Brautigam (2009:97)

employment generation remains unclear. IDIA's estimate of 2,000 jobs seems conservative given the planned size of the zone. This may indicate that largely Chinese labour will be used in its construction.

## 6. REGIONAL LINKS

South Africa's potential as a regional hub has not been realised in Angolan due both to a historic enmity between South Africa and Angola, and Chinese companies' reluctance to source outside of their own networks.

### 6.1 Strained Political History

Links between South Africa and Angola have historically not been strong, given Pretoria's support of Jonas Savimbi's UNITA (*União Nacional para Independência Total de Angola*) during the civil war. Strained relations between President Dos Santos and both former Presidents Mandela and Mbeki did little to ameliorate this. It also appears that South African companies have a reputation for being arrogant, and at times producing substandard work.<sup>148</sup> It was only under President Zuma<sup>149</sup> that South Africa and Angola have undergone somewhat of a rapprochement, although this has yet to be translated into substantial commercial links. According to the South African Embassy in Luanda, trade between the two countries has further improved since President Zuma's August 2009 state visit with more than 150 business leaders. Furthermore, both Portuguese and Brazilian companies are since then apparently much more willing to source from South Africa: "There used to be a kind of antagonism towards South African suppliers [in Angola] from the Portuguese and the Brazilians, which changed after 2008<sup>150</sup> and we want to keep the momentum going."<sup>151</sup> However, this is not necessarily true of Chinese companies.

South African companies, keen to increase their presence in the market, have pushed for some sort of credit line from the South African government since Zuma's state visit. This was finalised during President Dos Santos' state visit to South Africa in 2010, his third that year.<sup>152</sup> It was announced that Development Bank of South Africa (DBSA) would extend a credit line of R 1.75 billion (US\$ 255 million) to be managed by the Angolan bank *Banco Africano Investimentos* (BAI) (Redvers,2010).

By value, the EU is Angola's largest sources of construction material imports (see Figure 6.1). Although South African construction materials and equipment imports have increased in value slightly over the last decade, this is dwarfed by the leap in construction material trade of other partners, notably the EU and China, which overtook Portugal, Angola's largest single country trading partner, in 2008. Important

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<sup>148</sup> Various interviews: Chinese marketing manager, Luanda, 2 August 2010; South African client of Chinese private contractor, Luanda, 28 July 2010; Sales manager, logistics company, 13 May 2010

<sup>149</sup> President Zuma made a quasi state visit to Angola in March 2008 after his appointment as head of the African National Congress (ANC) and followed this up with a visit, his first as head of state, in August 2009

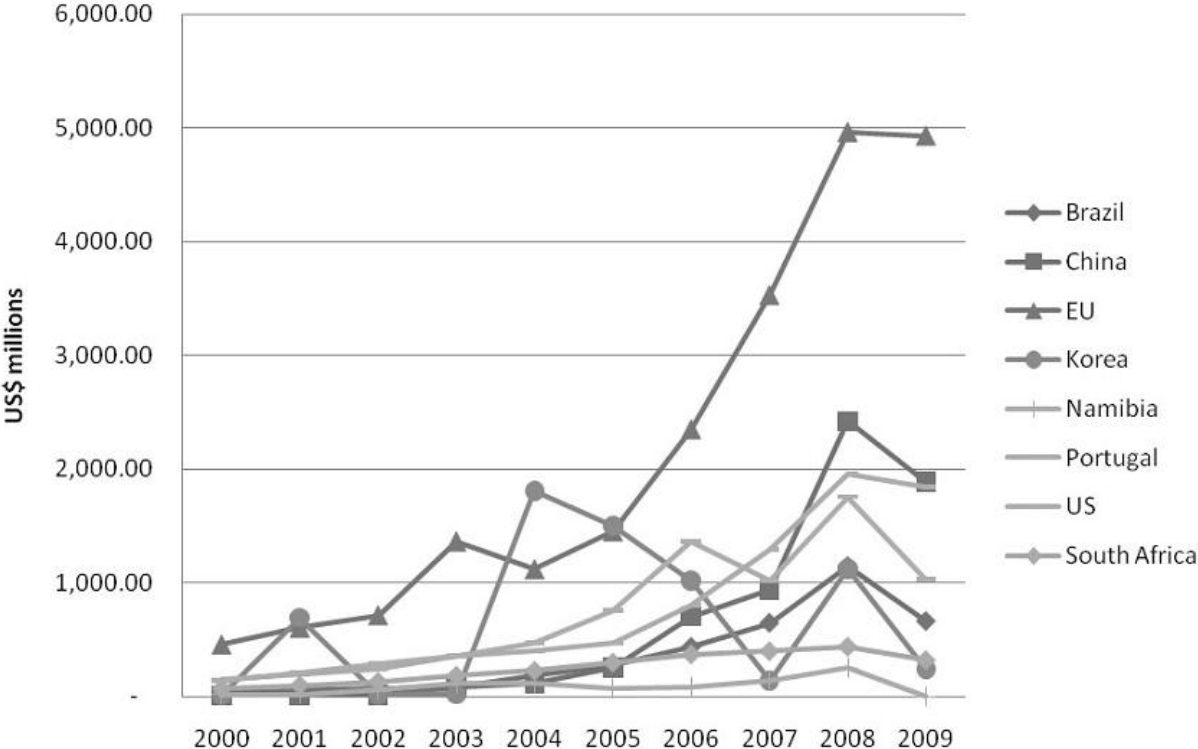
<sup>150</sup> Jacob Zuma paid a visit to Angola in March 2008, shortly after having been elected President of the ruling party African National Congress (ANC), ensuring his succession as President after the end of Thabo Mbeki's term in 2009. This visit was widely seen as a pseudo state visit, signalling a coming softening in Pretoria's attitude towards Luanda.

<sup>151</sup> Interview, South African Embassy, Luanda, 30 April 2010

<sup>152</sup> President dos Santos, prior to this year last visited South Africa in 1994.

to note here is that while EU imports are the largest in value, by volume, China dwarfs all other trading partners, as the construction industry inputs are considerably cheaper, as many respondents have noted.

**Figure 6.1: Angola’s Principal Sources of Construction Material Imports**



Source: UN Comtrade

**6.2 A Lack of Procurement Linkages**

Apart from some Chinese companies at times sending some local workers from training in South Africa, little has been uncovered with respect to links with South Africa and other regional mining hubs.

It is widely recognised by predominantly Western construction firms that given the congestion at Angola’s ports, it is often substantially cheaper to truck supplies in through Namibia by road from South Africa. Some companies, usually those with South African management, reported importing finishings from South Africa, among other countries such as Brazil and Portugal.<sup>153</sup> The latter two have well-established trade links with Angola and have been the preferred source of perceived ‘high-quality’ goods for some time.<sup>154</sup>

A director from a private Chinese company however remarked that South Africa is not competitive enough because “the standard is pretty good, the quality is good, but it is not cheap”.<sup>155</sup> A foreign consultant who worked with Chinese companies over 3 years in Angola was highly critical of their lack of regional procurement, saying that

<sup>153</sup> Interview, Project Director of Western building contractor, 12 July 2010  
<sup>154</sup> Interview, Western diplomat, Luanda, 12 July 2010  
<sup>155</sup> Interview, private Chinese company director, Luanda, 7 July 2010

Chinese companies 'didn't buy anything anywhere other than from China', possibly due to their networks, but also perhaps due to a sense of pride, as this occurred even where it made sense to procure from elsewhere. He said 'They don't even know how to bring money into Angola [to pay for the South African goods] as the money is always just being shifted out [to China].' He said that theoretically everything they needed could be obtained from South Africa. He much preferred this as whereas air freight from China involved complications with customs and delays, '...you can organise it in a day, fly down to South Africa, put it on a plane and call it 'company excess baggage'. He said that in certain crises when they have needed to supply large items and there were serious problems because the work was 2 years behind schedule they have ordered things from South Africa.<sup>156</sup> It is also highly likely that at times materials are sourced from South African during shortages.

## 7. INFRASTRUCTURE

Angola's national infrastructure was devastated during its nearly three decades of civil war. According to the African Development Bank, 80 percent of Angola's transport infrastructure was not operational in 2009(BMI: 2009:6). The Angolan government since peace in 2002 has embarked on an ambitious National Reconstruction Programme, facilitated predominantly by oil-backed financing packages from state-owned China Exim Bank<sup>157</sup> and the private China International Fund.<sup>158</sup> Public infrastructure spending is thus the mainstay of the non-oil economy (BMI: 2009:6). This is especially important as according to a senior World Bank transport specialist: "Bilateral donors have lost interest in investing in road infrastructure in Africa, as they are not seeing the benefits of such investments" (Pringle, 2009).

The World Bank, in its 2010 Logistics Performance Index ranked Angola as 142<sup>nd</sup> out of 155 countries<sup>159</sup> (Arvis *et al*, 2010:x). Customs, Infrastructure and Logistics Quality and Competence were the worst three performing indicators. Business Monitor International (2009:36) places Angola at the bottom of its ranking of infrastructure in Sub-Saharan African countries. The most important impact of Angola's lacking infrastructure on the construction industry is the delays (of months as a time) it can cause in project completion due to breaks in the supply chain. Materials are very expensive due to the excess demand<sup>160</sup> and the need to import large volumes in the context of congested ports. Furthermore, companies must often source their own water and electricity for large projects as they cannot rely on the national grid for constant supply.

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<sup>156</sup> Telephonic interview, foreign construction consultant, 27 September 2010

<sup>157</sup> From 2002 – 2007, China Exim Bank has reportedly issued US\$ 22 billion worth of loans to African countries, 72 percent of total loans issued to developing countries (ACET, 2009:14).

<sup>158</sup> For more on this see Corkin (2008)

<sup>159</sup> Customs, Infrastructure, International Shipments, Logistics Quality and Competence, Tracking and Tracing and Timeliness were ranked as respectively 151, 149, 130, 147, 106, and 121.

<sup>160</sup> According to Luis Peixoto, Associação Associação dos Empreiteiros de Construção Civil e Obras Públicas de Angola (ECCOP), cement used to cost 750 Kw per 50 kg bag (approximately US\$10, but there was a drastic increase in price – there are problems with supply. He expressed the hope that Cimangola (a local cement factory) would alleviate this. (presentation: 'Experiências do dia-a-dia com a China no sector de construção e obras públicas em Angola' at 'Reflexões sobre o impacto socio-económico da presença chinesa em Angola: Pontos de vista e o papel da Sociedade Civil' organised by O Programa de Apoio aos Actores Não Estatais [PAANE), 12 May 2010.]

## 7.1 Roads

One respondent commented that in terms of transport infrastructure, the roads had improved, however this was from a very low base. According to Business Monitor International (2009:23), 10.4 percent of Angola's roads are paved and the monitoring system for the national road fund is inadequate; although the Chinese Embassy estimates that of Angola's 75 000 km of road, 18 000 km (24 percent) are paved (MOFCOM, 2010:19). The National Roads Institute of Angola (INEA<sup>161</sup>) has a blueprint for roads reconstruction and rehabilitation in each of Angola's 18 provinces, but does not have full authority or management of the projects as some are directed by the National Office for Reconstruction (GRN<sup>162</sup>) which appears to report directly to the Presidency only, limiting efforts at co-ordination.<sup>163</sup> According to a director of INEA, the goal was to complete 23 745 km of road by 2005. To date this target has yet to be reached – only 5,250 km has been completed<sup>164</sup>. Among other logistical difficulties, many of the roads' areas need to be demined. Sometimes a 24-month project will take 18 months to demine.<sup>165</sup>

Along several important routes such as the road to Soyo (where there is a substantial Liquid Natural Gas project) and to Sonangol Integrated Logistics (Sonils) base "holes in the road make it impossible to drive"<sup>166</sup>. This increases the likelihood of containers derailing, especially if the roads are too small for the trucks, which is often the case. Furthermore, the network of petrol refuelling stations outside of Luanda is very weak, rendering trucking, the usual way of transporting goods regionally, a difficult enterprise.<sup>167</sup> According to Standard Bank, road freight costs in Africa are two to four times higher per kilometre than those in the US and travel times two to three times higher than those in Asia (Freemantle and Stevens, 2010:3). Such costly transportation will give Chinese companies economic incentive to source from China, as at times, it may be more cost effective than sourcing from the region (Gu, 2009:575; Rowlatt, 2010).

## 7.2 Railways

Rail is still under-developed. Of Angola's three main railways, Benguela, Moçamedes and Luanda lines, totalling 2,761 km only the Luanda line to Malanje is functional, with Benguela currently operating a 150 km stretch from Benguela to Cubal (Corkin,2008c:16)

## 7.3 Sea Freight

Over 80 percent of Angola's imports and exports are delivered by sea (Macauhub, 2010b).The National Customs Directorate (NCD) also suffers from over-bureaucratisation. In 2001, the Angolan government embarked on a self-funded

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<sup>161</sup> *Instituto Nacional de Estradas de Angola*

<sup>162</sup> *Gabinete de Reconstrução Nacional*

<sup>163</sup> Interview, INEA, Luanda, 17 August 2010

<sup>164</sup> In December 2010, 4 months later, the Ministry of Construction and Urbanisation announced that INEA had overseen the completion of 6,282 km of road (Macauhb,2010)

<sup>165</sup> Interview, INEA, Luanda, 17 August 2010

<sup>166</sup> Interview, sales manager, logistics company, Luanda, 13 May 2010

<sup>167</sup> Interview, sales manager, logistics company, Luanda, 13 May 2010

programme to improve and modernise the NCD with modest success. Angola has 13 ports or border posts through which goods are registered to have passed: Cabinda, Namibe, Luanda, Lobito, Soyo, Malongo, Sonils, Namibe, Ondjiva, Ponta Negra (Congo, in transit to Cabinda), Walvis Bay (Namibia, in transit to Huambo) and Port Amboim. The Port of Luanda in 2009 was the point of entry for 71.4 percent of all cargo (CNC, 2010b: 13) indicating the considerable congestion experienced at this port. One Chinese company manager indicated that goods coming through Luanda could be delayed in Luanda harbour before off-loading for an extra month, requiring an extremely forward looking procurement strategy.<sup>168</sup> There have reportedly been some improvements. It was reported in March 2010 that Angola had saved over US\$ 500 million by reducing clearance time at Luanda Port from 90 to 10-15 days (*Angop*, 2010a). It was also reported in December 2010 by the Luanda port management that customs processing had been reduced from 80 to 28 days on average, achieved by increasing the cost of keeping goods at the harbour<sup>169</sup>. Ships also only waited 2-3 days to dock, with a docking time of 3 days from 15 days previously (Macahub, 2010g). However, some Chinese company representatives reported no change in the congestion problems at the ports.<sup>170</sup> Lobito follows Luanda as the second busiest port; its management has improved reducing the congestion from 80 to two ships in line at the harbour. The Chinese Embassy reports that the financial crisis, having caused a reduction in the volumes of imports has reduced a ships' waiting time from 2 months to about 20 days (MOFCOM, 2010:20).

However, a Chinese company's marketing manager stated that to goods shipped from Shanghai harbour in China's eastern Zhejiang province takes one month to reach Angola, whereas goods coming from the United States took two to three months.<sup>171</sup> Thus even without the cost advantage of Chinese products, the lead time from China is much more favourable. An issue that raised the cost for carriers in all cases is that Angola exports very little aside from oil, which is transported by other means. Therefore containers that have brought goods to Angola will leave empty, further pushing up transport costs for the carriers as they cannot offset their costs on the return journey (Alfonso, 2010). As of March 2010, shipping to Angola cost US\$ 8,000 per 20 TEU container (Macahub, 2010b).

According to a representative of the China-Africa Development Fund (CADF)<sup>172</sup> Chinese companies have said that the lack of infrastructure is the most challenging aspect of investing in Africa. This was corroborated by several Chinese companies operating in Angola.<sup>173</sup> For example, if a company wants to invest in a cement factory, it also has to think about the plant, the road, the electricity generation (diesel powered) and water supply. One respondent confirmed this saying that during the first year of a large housing development, the company was forced to run on

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<sup>168</sup> Interview, marketing manager, private Chinese company, Luanda, 2 August 2010

<sup>169</sup> In 2008 it cost US\$6 per day and was as of end 2010 reportedly US\$30 per day from the sixth to the 30th day, US\$60 per day from the 30th to the 60th day and US\$90 per day from the 60th day onwards (Macahub, 2010).

<sup>170</sup> Interview, Executive Administrator, Chinese SOE, Luanda, 12 August 2010

<sup>171</sup> Interview, marketing manager, private Chinese company, Luanda, 2 August 2010

<sup>172</sup> Interview, Beijing, 10 December 2009

<sup>173</sup> Several interviews, Luanda, 2 August 2010, 16 August 2010, 19 August 2010. See also Gu (2009:578).

generators. The project has however since been connected to the national grid, but the supply is not regular. The company also had to dig their own wells for water.<sup>174</sup> One foreign diplomat remarked that with several of the 'big contracts', Chinese companies ship most of the materials in "containers with doors and windows and all", but that this all comes to a standstill at the congested ports: 'How can this be? Where will all this materials stay? How will it be guarded? Will the Chinese send some of the containers empty? This needs to be sorted out.' He suggested that such logistical issues were often not considered at the outset, implying that such logistical issues would be subcontracted to another company for them to worry about, so that the main contractor could absolve its responsibility in this regard.<sup>175</sup> This under-estimation by Chinese companies' management of the lack of basic infrastructure has been experienced by Chinese site managers and has led to increasing frustrations (Thorniley, 2009) .This does not bode well for efficiently carried out projects.

## 8. SKILLS ISSUES AND LABOUR RELATIONS

A number of frictions have arisen with regards to Chinese companies and labour relations. Chinese companies across Africa have been accused of labour abuse (Bearak, 2010; Song, 2010). These claims stem from the fact that whereas Chinese labour unions are weak and essentially an extension of the government, in African countries they can be very powerful political forces. Trade unions, generally very strong in Africa, are considered by Chinese companies as a force that reduces the productive environment.<sup>176</sup> This is not dissimilar from the sentiments of other employers; the difference is that Chinese companies across the board, are not accustomed to dealing with them give the weakness of trade unions domestically.<sup>177</sup> Even in Angola, where labour unions are weak, the Angolan government, rhetorically at least, has defended the rights of Angolan labourers working for foreign companies. This demonstrates what many Chinese businessmen have observed: whereas government-to-government relations between Angola and China are good, this is not the case in day-to-day interaction. This is in stark contrast to the view of an Angolan official who maintained that: 'The Chinese people do not pose a social problem in Angola, they do not interact that much with the local population. There have been some cases of 'bad humour' but these are not serious. There are not really any big problems, because the workers do not really 'form part of the life of the locals'.<sup>178</sup>

There is rising discontent among Angolans generally with regarding to the perception that Chinese companies do not employ local Angolans, preferring to employ Chinese labour. Not only are Angolan resentful as a result, but according to Chinese managers, the fact that Angolans are most likely to form an impression of Chinese people from uneducated migrant labour is, according to them, why Angolans have such an unfavourable impression of Chinese people in general.

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<sup>174</sup> Interview, Large Chinese SOE, Luanda, 16 August 2010

<sup>175</sup> Interview, Western diplomat, Luanda, 12 July 2010

<sup>176</sup> Interview, Beijing, 3 December 2009

<sup>177</sup> One private Chinese businessman said tellingly: Chinese don't have workers' laws or rights, , The workers can really endure a lot to benefit later and resolve things, - I have seen it with my own eyes (Interview, Luanda, 15 July 2010)

<sup>178</sup> Interview, Beijing, 28 October 2009

Furthermore, education is historically an under-invested sector. It is alleged that most budget in this regard has gone towards given the children of the political elite bursaries to study overseas (Hodges, 2001). An exception to this may be the oil sector, whose level of local participation, innovation and efficiency seems to be 'ring-fenced' from the failings of other (Soares de Oliveira, 2007: 602,612) sectors of the economy, particularly as regards skilled and trained management. Social spending has been approximately 30 percent of the budget since 2007, revised at 32.4 percent in the 2010 budget (OGE,2010:62,67) However, in education is only 6.55 percent of the total budget, and higher education 0.80 percent (OGE,2010:70).<sup>179</sup>

Due to Chinese companies' perception of a lack of suitable local labour, the number of Chinese workers in Angola has increased fairly rapidly. According to an Angolan engineer, the 'official' number of Chinese in 2006 was only 4,000 after the first financing tranche by China Exim Bank.<sup>180</sup> This number has increased substantially. Respondents with experience in other African countries reported the same effect. There are no reliable figures for the number of Chinese nationals present in Angola, still less for the number involved in construction. However, most respondents put the official (read legal) number between 40,000 and 60,000<sup>181</sup> Chinese nationals in Angola. According to Chinese Ambassador to Angola Zhang Bolun, quoted in March 2009, 50,000 Chinese nationals were active in Angola (Angop, 2009). This figure is however very likely an underestimation, as reportedly more than 40,000 working visas were issued to Chinese nationals in 2008 alone (CNA,2008). The highest estimate encountered was 400,000.<sup>182</sup> Another foreign procurement operator with an extensive list of Chinese clients estimated put his estimation at 100, 00 – 150,000 'with unofficial numbers adding on another 20 percent'<sup>183</sup>. According to the Chinese Commercial Councillor's Desk, there are officially 31,072 Chinese workers in Angola. However the same report stated that there were in excess of 50,000 Chinese workers in 2008, reducing to about 47,000 in 2009.<sup>184</sup>

## 8.1 Hiring Local Labour

In 2008, the Angolan workforce numbered 7.288 million, less than 50 percent of the population (INEA<sup>185</sup>, quoted in MOFCOM, 2010: 28). Of this number only 15 percent work in the secondary and tertiary industries. Chinese companies, regardless of their ownership structure have a reputation for being reluctant to hire local labour, preferring to bring labour from China.

A Western observer commented 'What many people fail to realise, is that the major engineering projects from China are operating in Africa much like they operate in China- they bring their own workers. So if a company from Guangdong wins a tender for a project in Ningxia, the company recruits all its own workers from Guangdong. It is therefore not surprising that the Chinese companies are not using the local labour

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<sup>179</sup> Data for longitudinal comparison is not publicly available

<sup>180</sup> Interview, INEA, Luanda, 17 August 2010

<sup>181</sup> Interview, Western Diplomat, Luanda, 27 April 2010

<sup>182</sup> He estimated that 10-15 percent of Chinese workers stayed beyond their service contract to pursue business independently. (Interview, private financial consultant, Luanda, 26 July 2010)

<sup>183</sup> Interview, Manager, logistics company, Luanda, 15 July 2010

<sup>184</sup> MOFCOM Country report, pp 24; 39

<sup>185</sup> Instituto Nacional de Estatísticas (National Institute of Statistics)

and suppliers in Africa.<sup>186</sup> A Chinese consultant corroborated this stating: 'The way that Chinese companies come in with their own workers in a turn-key type operation is the way that they know, it is how they operate in China and in other developing countries - it is the operational model that they know.'<sup>187</sup> A private client of a Chinese company commented that this was sometimes the case even if it was 'easier, better and more cost-effective to do it another way'.<sup>188</sup> A foreign construction consultant concurred observing that that 'There is 'no learning', it's like 'they want to do it the way they want to do it', even if there is a problem'. He commented that the project was often slowed down as '...everything was ordered from China' despite a lack of justification in his assessment. <sup>189</sup>

A survey of 32 Chinese contractors in Africa found that labour was sourced 51 percent from Africa and 48 percent from China, with 1 percent sourced in third countries. Significantly however, the same study found that 91 percent of management positions were held by Chinese nationals whereas 8 percent was African, with 1 percent sourced in third countries (Goldstein, 2007) Of concern is the fact that in the same study, neither human resource issues nor poor local productivity and management were cited by Chinese companies as significant threats, suggesting a certain degree of satisfaction with the current modus operandi vis-à-vis labour.<sup>190</sup>

Tang (2010:353) in a survey of Chinese companies' projects in Angola in 2007 puts the percentage of local labour at between 59.7 percent and 61.8 percent.<sup>191</sup> He further disaggregates the projects into sectors, and finds that the sectors requiring more technical expertise such as telecommunications and hydropower have the lowest rate of local employment (37.8 percent and 42.6 percent respectively) whereas agriculture (81 percent), catering (75.3 percent) and trading (73.8 percent) have the highest (Tang, 2010:354). Construction, from the few figures that were available seems to range wildly from 30 percent to 70 percent<sup>192</sup> and is a function of the company's time in-market. An African financial consultant commented that Chinese companies do not yet have confidence in the local labour or dealings with Angolans, due to the perception that the locals 'cheat' them.<sup>193</sup> This is consistent with Tang's (2010) findings.

Local employment at a management level is rare. An Angolan researcher was shocked to find that even in the Chinese company canteens, the only local staff are casual labourers working as the dish-washers while even the chefs are Chinese.<sup>194</sup>

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<sup>186</sup> Interview, Beijing, 14 October

<sup>187</sup> Interview, Shanghai, 15 September 2009

<sup>188</sup> Interview, Luanda, 28 July 2010

<sup>189</sup> Interview (telephonic), foreign construction consultant based in Luanda, 27 September 2010

<sup>190</sup> 'Human resource issues' and 'poor local productivity an management' were ranked 9<sup>th</sup> and 15<sup>th</sup> respectively in an index of 22 different potential threats, with only 4 and 2 respectively of the 32 Chinese contractors surveyed mentioning them.

<sup>191</sup> This is based on a survey of 30 projects managed by the Angolan Ministry of Finance in 2007, and 55 other Chinese construction companies.

<sup>192</sup> Interviews, Interview, executive administrator, state-owned Chinese company, Luanda, 12 August 2010; Interview, general manager assistant, Luanda, 16 August 2010; Interview, Chinese technician, 13 July 2010, [http://www.goldennest.net/en/2\\_15.asp](http://www.goldennest.net/en/2_15.asp) [29 December 2010]

<sup>193</sup> Interview, Luanda, 26 July 2010

<sup>194</sup> Interview, Luanda, 29 June 2010

## 8.2 Political Incentives to increase Local Labour Training

Politically, the Chinese government has recognized the need to provide locals with training in order to counteract the negative image some Chinese companies are creating. In 2006, at the Opening ceremony of the Forum on China Africa Co-operation (FOCAC) Head of States Summit held in Beijing, Chinese President Hu Jintao announced, as part of an eight-point plan, that China would provide training for 15,000 African professionals and double the number of Chinese government scholarships to African students from 2,000 to 4,000 per year over the following three years.<sup>195</sup> By 2009, it was announced that this target had been reached. Premier Wen Jiabao, at the FOCAC Summit in November 2009 held in Sharm-el-Sheikh, Egypt, announced plans to train 2,000 local agricultural personnel, 3,000 doctors and nurses and 1,500 school principals and teachers, pledging to train 20,000 African professionals from various fields in total. An increase in Chinese government scholarships for African students to 5,500 per year, in order to assist African capacity development, was also promised.<sup>196</sup> Furthermore, while some government provision is made for such capacity building, state-owned enterprises (SOEs) are encouraged to create capacity building initiatives independently of government support.

A Chinese academic conceded that prior to the emphasis placed on it by President Hu Jintao Chinese companies were not interested in corporate social responsibility; they never realised this was important and 'need to have their consciousness raised. They need to realise there are many other factors; it is not just the commercial deal, there are aspects like the training, the environment and sustainability to consider.'<sup>197</sup> Some of the larger construction oriented SOEs, such as China Road and Bridges Corporation (CRBC) and Sinohydro, have both sent groups of Angolan students to China in the past two years. Sinohydro sent up to 70 in number according to one respondent<sup>198</sup>, whereas CRBC sent 34 -50 students to Changsha University to study bridge-building.<sup>199</sup> The students, according to an official Angolan source, are engaged in various studies ranging from engineering and architecture to medicine and language. On their return to Angola, they are expected to either work for the SOE that sponsored their study or become involved in other infrastructure projects in Angola. What is interesting is that the Angolan source suggested that it was an Angolan initiative, maintaining that it was the Angolan Ministry of Public Works that had the 'brilliant' idea of proposing that the larger Chinese SOEs send Angolans to China for training.<sup>200</sup> Another Chinese SOE China National Machinery & Equipment Import & Export (CMEC) provides training for the Angolan workers they employ. This is especially with regards to training in the use of the equipment that the company imports from China.<sup>201</sup> CITIC, which entered the Angolan market in 2008 reportedly began skills training programmes almost immediately. A company representative said

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<sup>195</sup> Hu, Jintao (2006) 'Address at the opening Ceremony of the Beijing Summit of the forum on China-Africa Co-operation', 4 November. p. 10.

<sup>196</sup> Wen, Jiabao (2009) Address at the Opening Ceremony of the 2009 FOCAC Summit in Sharm-el-Sheikh, Egypt, 9 November. Available: <http://www.china-wire.org/2009/11/wens-speech-at-4th-ministerial-conference-of-forum-on-china-africa-co-op-full-text/>

<sup>197</sup> Interview, Beijing, 16 October 2009

<sup>198</sup> Interview, Luanda, 23 July 2010

<sup>199</sup> Interview, Director, China Exim Bank, 10 December 2009, CRBC Press Release: <http://www.crbc.com/cjinfo.asp?NID=179>

<sup>200</sup> Interview, Beijing, 28 October 2009

<sup>201</sup> Interview, Executive Administrator, Chinese SOE, Luanda, 12 August 2010

that as of mid-2010 the company had sent between five and seven training teams (totally approximately 100 Angolans) for between one and three months to China. The workers are integrated into the company operations in Angola on their return.<sup>202</sup>

It is clear that only the largest Chinese companies can afford to engage in systematic training programmes to the extent that it will earn them useful political capital. This was corroborated by a Chinese businessman involved in facilitating Chinese-Angolan partnerships.<sup>203</sup> No such comparable effort is afforded by smaller Chinese companies. Smaller private companies claim not to have the resources to provide such training on a large scale.<sup>204</sup> One Macau-based company director stated that as his firm had newly entered the market, and were trying to establish themselves, their budget did not allow for training. He regarded employee training as 'high risk' as the employees might not stay with the company, or would perhaps demand a higher salary in return for remaining with the company once training was completed. This is a very real concern given the paucity of skilled local labour and the tendency for companies to 'poach' from one another.<sup>205</sup>

### 8.3 Profit-focussed Rationale for Increasing Local Content

This is not to say that private firms engage in no training at all, but it is done out of financial necessity rather than in order to create political capital. One manager of a private Chinese firm claimed that formal training was made difficult by the language issue - it is all on-the-job training – they have to learn by seeing and doing – watching other Chinese workers.<sup>206</sup> Another director of a private Chinese company pays for her domestic worker to go to English classes and plans to promote her as secretary once she has graduated. The director believes that paying for this training will ultimately cut her labour costs – she will not have to provide expatriate housing, and she is hoping that working with local employees will help her to solve issues with the local government more easily as they arise. She commented that on site her company employs locals to do unskilled labour, such as fetching and carrying. However, it is now also possible to find local semi-skilled labourers such as bricklayers and masons on Chinese sites now. Having been based in the Angolan market for more than five years, she reported seeing the labour situation improving, particularly as she has built up relationships with local employees that she likes and trusts.<sup>207</sup> This is consistent with the observations of William Wang a Chinese IT engineer based in Angola:

'Back in 2008, maybe you would only see Chinese workers in Chinese companies, but that has changed a lot in the last two years. I know a Chinese construction boss in Luanda who hires 70 Chinese workers and 500 or 600 locals. It's not uncommon. I don't think the Angolans feel we are taking jobs. We have created employment also. In the past, I think there were problems because even the brightest Angolans had no real expertise. The war meant they didn't have much chance to develop. An IT engineer was qualified if he could switch on a computer and type. That's not the case

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<sup>202</sup> Interview, General Manager's Assistant, Chinese SOE, Beijing, 16 August 2010

<sup>203</sup> Interview, Luanda, 19 August 2010

<sup>204</sup> Interview, Training Division Director, China Africa Business Council, Beijing, 8 December 2010

<sup>205</sup> Interview, Sales Director, LOGISTICS COMPANY, Luanda, 13 May 2010

<sup>206</sup> Interview, marketing manager, private Chinese firm, Luanda, 2 August 2010

<sup>207</sup> Interview, Director, private Chinese company, Luanda, 7 July 2010

anymore. Universities are training Angolans and they are increasingly skilled. Perhaps Chinese companies doing business here incentivised that?' (quoted in *The Daily Maverick*, 2010)

The China Africa Business Council's (CABC) research regarding private sector infrastructure companies included one company, a Shandong-based firm that had difficulty with 'local people' upon their entry into Africa 15 years ago. Initial interaction with locals was difficult, and more preparation for complying with regulations pertaining to employment of local people was needed. But now the company reportedly has few labour difficulties and has provided many jobs for locals, who, in turn, have emerged as a loyal labour force over the years.<sup>208</sup> Although one cannot generalise from this single case study, it does appear that certain Chinese companies, particularly those firms with more experience in African markets, are more willing to 'localise.' This conclusion fits the notion that smaller firms can adapt and absorb relationship driven change more efficiently than larger firms. This seems to indicate not only that the labour situation in Angola is improving incrementally, but that the longer a company stays in market, the more willing they are to make the investment of employee training. Furthermore, the fact that private Chinese companies are realising not just the financial viability but the necessity of localisation, suggests that the process will be sustained in the long-term.

Of interest is the fact that the growing cost of overseas Chinese labour is playing an increasing role in Chinese firms' decisions to localise (Chen et al, 2007:10). Chinese managers are increasingly reluctant to work in Africa for long periods, demanding a higher salary if they do.<sup>209</sup> Using African workers and training them to take these positions will reduce their costs (although currently salaries are at times lower than African equivalents). Although initially Chinese expatriate labour's higher productivity initially render is more economically viable to employ Chinese nationals despite the added costs involved, as African workers increase knowledge on the job, Tang suggests a break-even point occurs where employing local labour is financially preferable. Indeed, he found that the average ratio of Chinese to local labourer employed reduced by half after five years. (Tang, 2010:364-365). This is an encouraging sign, particularly as Chinese companies have only been seriously engaged in Angola for less than 10 years.

## 8.4 Technology Transfer

It is as yet unclear as to whether any kind of skills transfer has taken place in the way of developing local value chain linkages. This is not as yet seen as part of the companies' mandate<sup>210</sup>, particularly in the case of China Exim Bank funded projects; as the Bank's own mandate is to promote Chinese exports. They are not currently actively building local capacity through local suppliers. As Chinese contractors show a marked preference for Chinese standards and design (Chen, Goldstein and Orr, 2008: 12), the greatest potential for technology transfer and local linkage

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<sup>208</sup> Interview, Beijing, 8 December 2009

<sup>209</sup> According to a Chinese businessman, 'Most [Chinese workers] really do not like Angola. They can't stand the conditions... and the life is hard They are here because what they really want to do is take their money back home.' (Interview, Luanda, 15 July 2010)

<sup>210</sup> Interview, Regional Co-ordinator, World Bank, Beijing, 14 October 2009

development is through Angolans being trained in China to become familiar with these processes, then gradually taking over the maintenance and supply of parts.

One Chinese policy advisor has been strongly advocating that the Chinese government pay more attention to ways in which technology transfer can be facilitated through further investments in Africa, citing China's experience with Western technology transfer. He suggested that this was a matter for policy, as '...companies, without any policy guidance would not think if this [technology transfer].' Chinese State-owned enterprises, and the larger private companies such as Huawei, place an emphasis on training. While he conceded that personnel training is important, he suggested that the exchange of technological know-how had been neglected and that Chinese companies needed to contribute more in this regard.<sup>211</sup> It was confirmed by another Chinese policy-maker that Chinese companies on the whole are not enthusiastic about technology transfer.<sup>212</sup> Another consultant commented that whereas most industry workers are foreigners, where there are visa issues locals are also employed, to whom the knowledge is passed. However, this seems to be merely only in emergencies. 'They teach the basics, but they can't develop further or strategise.'<sup>213</sup> There are limited instances of Chinese companies partnering with Angolan firms, although they do exist: one respondent mentioned Chinese 'AOL' and 'Angola T', 'Climar' and 'Star Corp'.<sup>214</sup>

## 8.5 Skills Spillovers

Where skills migration from Chinese companies has occurred most often up to now is where Chinese white collar workers have left state companies to form their own companies to continue in the Angolan market. An example is a Chinese design firm of which 4 of the 5 directors worked with large SOEs previously. Through their networks they receive, one director estimated that 80 percent of the projects that these SOEs receive, they subcontract to her firm to do the design work.<sup>215</sup> However, it appears that several Angolans have developed networks in China and are using these to act as procurement agents sourcing directly from China.<sup>216</sup>

## 8.6 Barriers to Increasing Local Employment and Skills Training

A business leader survey conducted by Africa Practice found that 35 percent of respondents deemed 'a lack of talented labour' their biggest challenge to investing in the continent (Das, 2009). The Minister of Construction and Urbanisation, Fernando Fonseca has acknowledged Angola's lack of skilled workers: "Today, we are not yet completely satisfied at the quality of national manpower used in construction works" (Angop, 2010b). Essentially due to the lack of skilled labour in African countries and

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<sup>211</sup> Interview, Beijing, 4 January 2010

<sup>212</sup> Zeng Qiang, presentation on 'Challenges to the further development of Sino-African Economic Co-operation: Some reflections, Symposium on Sino-African Relations: Reflections and Prospects. Organised by the Institute of West Asian and African Studies, Chinese Academy of Social Sciences, Beijing, 13 October 2009

<sup>213</sup> Interview [telephonic], foreign consultant based in Luanda, 27 September 2010

<sup>214</sup> Interview, director. INEA, Luanda, 17 August 2010

<sup>215</sup> Interview, Luanda, 7 July 2010

<sup>216</sup> Interview, Luanda, 7 July 2010

different work ethics, local workers are seen to undermine both project efficiency and costs (ACET, 2009:15).

### **8.6.1 Lack of Appropriately Skilled Labour**

Most respondents observed that one of the biggest barriers to increased local employment was a lack of training. Two clear aspects emerged from the interviews, firstly that companies vastly prefer Angolans that have been trained overseas, and secondly that the paucity of local skilled labour has inflated their salaries.

Several foreign contractors stated that most of the Angolans that they employed have studied overseas. “They have a different view of business and more exposure.”<sup>217</sup> Those who have only studied and worked here [in Angola] ‘are not the best type of employee’. They ‘don’t know what they don’t know’; they don’t know what is expected of them, or the business ethic.’ They are ‘almost unemployable’. The ones they want have preferably studied, worked and/or lived overseas. They go to a lot of career fair events, in Portugal, London and sometimes in South Africa, to identify these individuals and their skills.<sup>218</sup> For some companies, such as those involved in logistics, there is a problem that education in logistics is simply not offered by the local universities, rendering the search for people with a logistics background one of their biggest challenges. Supervisors, especially in the case of foreign companies, learn on the job, with no logistics training at all. It also necessitates poaching skilled workers from other firms, especially construction and oil companies.<sup>219</sup> The high demand for skilled local labour has driven up their market value, allowing them to ‘shop around’ for the best job. While this may be beneficial to the individuals concerned, it has two negative impacts on the market. Firstly the constantly high turnover of staff that moves from one place to the next does not allow for institutional experience and memory, limiting the specialisation of labour. Furthermore, the most talented and well-trained employees inevitably gravitate to the oil sector, which offers the most competitive salaries. This precludes most smaller private companies (Chinese included) from attracting skilled local employees, as most cannot afford them.

Such skilled Angolan labour that does exist is expensive due market scarcity. One respondent from the oil industry commented that Angolan nationals are equal to or sometimes more expensive than other expats with more experience: ‘You can get someone in London for less with 40 years experience than an Angolan local. It is almost cheaper to employ expats’. Inevitably Chinese companies have therefore used Chinese nationals in higher management positions due to the artificially inflated price of Angolan skilled labour. Conversely, Angolans are less likely to work for Chinese companies due to the perception that the pay they offer is lower.

Those that can afford it are investing in sector-specific training in order to expand the labour market. For instance, a joint project by Sonangol and two private Portuguese banks Millenium BCP and Privado Atlântico was announced in July 2010 whereby

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<sup>217</sup> Interview, sales manager, logistics company, 13 May 2010

<sup>218</sup> Interview, foreign contractor, Luanda, 6 July 2010

<sup>219</sup> Interview, Luanda, 13 May 2010

10,000 Angolans are to receive insurance, financial and banking training by 2015 at the Academia Millenium Atlântico (*Macauhub*, 2010c)

### 8.6.2 Cost-Benefit of Wages

Wages are a contentious issue. A researcher from a Chinese policy think-tank mentioned that private Chinese companies are ‘creating problems’. They do not respect the local customs and some of the local workers are not paid or are paid very low salaries in comparison to the Western firms.<sup>220</sup> A Chinese diplomat confirmed this, saying, ‘They try to keep the salary lower; there is no social security. On Monday they will recruit workers, on Friday they will lay them off – by keeping them only weekly workers, they remain casual workers and they do not have to pay benefits.’<sup>221</sup>

The Centre for Strategic Research (CEIC<sup>222</sup>) at the Catholic University of Angola has conducted survey research on Angolan workers at Chinese companies. Their major finding was that Angolans that work with Chinese companies have different opinions to those who do not. Opinions on Chinese employers differ according to the sector in which the respondents they worked and their level of interaction with Chinese company personnel. According to their survey data, 85 percent of Angolan respondents stated that their Chinese counterparts are willing to work for less than they would be prepared to.<sup>223</sup> However, it has been pointed out that Chinese migrant labour is extremely cheap in China; furthermore, Chinese workers do earn more on overseas contracts than at home, even if this is less than the going rate in the host country.<sup>224</sup>

Angola’s minimum wages are published from time to time. In May 2009, the white-collar minimum wage was US\$ 115 per month (US\$ 1,380 annually), and for blue-collar workers US\$ 55 per month (US\$ 660 annually). According to a labour contract that I was shown by a Chinese contractor, his Chinese blue-collar employees are paid 1,500 RMB (US\$ 225) per month with a bonus of 10,000 RMB (US\$ 1,500) payable during the Chinese New Year. Each contract is valid for one to three years, depending on the project involved.<sup>225</sup>

The Chinese Embassy recommends basic salaries for Angolan drivers and truck drivers are US\$ 4,800 and US\$7,200 annually (including ‘social security’ and other basic costs). They recommend hiring Angolan labourers on a casual basis and paying them a daily rate of 650 -750 Kw (US\$ 6.80 – 7.80) (MOFCOM, 2010:28). Angolan workers surveyed by CEIC reported receiving 300 – 400 Angolan Kwanza (US\$ 3.10 – 4.20) per day and an extra 150 Kwanza (US\$ 1.60) for lunch, thus US\$ 141-174 per month and US\$ 1,692- 2,088 annually. Both the Chinese and the Angolan construction work salaries are above minimum wage, but it is interesting to

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<sup>220</sup> Zeng Qiang, presentation on ‘Challenges to the further development of Sino-African Economic Co-operation: Some reflections, Symposium on Sino-African Relations: Reflections and Prospects. Organised by the Institute of West Asian and African Studies, Chinese Academy of Social Sciences, Beijing, 13 October 2009

<sup>221</sup> Interview with Ministry of Foreign Affairs official, Beijing, 29 October 2009

<sup>222</sup> Centro Centro de Estudos e Investigação Científica

<sup>223</sup> Personal correspondence with one of the CEIC researchers, Luanda, 29 June 2010.

<sup>224</sup> Interview, Luanda, 29 June 2010

<sup>225</sup> Interview, Chinese site manager, Luanda, 3 August 2010

note that the Angolan salaries at Chinese companies are half the Chinese Embassy's recommendations and 23-38 percent less than what the Chinese contract workers received. This is consistent with Tang's (2010:359) findings that despite the fact that Chinese workers are paid more than Angolan labourers, Chinese labour is still more cost-effective due to higher productivity levels.

It appears that most Chinese employers are unwilling to give their Angolan workers contracts, with 86 percent of the workers surveyed working without one, despite the fact that they would prefer contract labour. This makes it difficult to determine how many Angolans are employed by Chinese companies, as there is no official record. Furthermore, it allows Chinese employers to evade the stringent labour laws that govern formal employment in Angola. Of concern is the fact that it contributes to the casualisation of labour.

### 8.6.3 Work Ethic

Almost all respondents commented on the Chinese perception that African employees are not used to working as hard as their Chinese counter-parts. A Chinese consultant to Chinese companies entering African markets suggested that the companies seem to feel that Chinese workers are 'easier to manage'.<sup>226</sup> Put bluntly by one academic, 'Although many construction projects are pursued under international bidding rules, the locals are not participating in these projects as the Chinese companies prefer to employ the Chinese workers because they are hard-working.'<sup>227</sup> Another Chinese policy consultant agreed, indicating that there is a tendency for Chinese people to regard Africans as lazy, 'they don't have the mentality to work'.<sup>228</sup>

A frequent complaint was the unreliability of local labour; it was a 'very common thing' that Angolan workers would make some money over a few weeks, and then disappear to spend and then return. As a result, the company has established an evaluation system with penalties to curb such disruptions.<sup>229</sup> Another Chinese manager said: 'Firstly you don't know what their skills level will be like, secondly they don't know how to do business - they always want to go off sick - , and thirdly they don't want to work Sundays etc, so it is very difficult to manage them. They need training and they need to know how to work.'<sup>230</sup> This lack of reliability erodes the impetus to invest in training local labour as well.<sup>231</sup> By contrast, a commonly cited reason for Chinese labour preference is the Chinese workers' ability to 'eat bitterness' or work extremely hard.

One African diplomat expressed concern with regards to a lack of cultural understanding as Chinese managers are not sympathetic to bereavement leave or

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<sup>226</sup> Interview, Beijing, 8 December 2009

<sup>227</sup> Zeng Qiang, presentation on 'Challenges to the further development of Sino-African Economic Co-operation: Some reflections, Symposium on Sino-African Relations: Reflections and Prospects. Organised by the Institute of West Asian and African Studies, Chinese Academy of Social Sciences, Beijing, 13 October 2009

<sup>228</sup> Interview, Beijing, 21 October 2009

<sup>229</sup> Interview, General Manager's Assistant, Large Chinese SOE, 16 August 2010

<sup>230</sup> Interview, Luanda, 2 August 2010

<sup>231</sup> Interview, director, Macau-based company, Luanda, 6 May 2010

leave to observe religious practices, regarding these as impacting negatively on productivity levels.<sup>232</sup> An Angolan industry specialist<sup>233</sup> countered that it is difficult for Angolans to get to the construction sites given the state of traffic congestion and the disrepair of public transport, whereas Chinese workers live on-site. He also pointed out that Chinese migrant workers do not have family responsibilities in Angola, whereas Angolans need to observe such traditions as 'obito'<sup>234</sup>.

#### **8.6.4 Deadlines**

It appeared that this was a particular issue where deadlines were concerned and that the strongest motive for using Chinese materials and workers was in order to ensure that the projects are on time and on budget.<sup>235</sup> Another Chinese journalist expanded on this, stating that the Chinese way was to work until the target for that day is reached – the completion of the second story of a building for example. It is not to work a certain number of hours and then go home or be paid for overtime.<sup>236</sup> This has implications for projects promised within a certain time period. In these cases, Chinese labour was used because to train the local workers was seen as delaying project's completion. This has serious implications for local labour training, as Chinese development assistance in the form of facility construction is extensive.

#### **8.6.5 Language Issues**

It was clear that the language problem was cited as one of the largest issues as regards hiring local workers as almost no Angolans speak Chinese and few of the Chinese migrant labourers speak English let alone Portuguese. English is used as the medium of conversation as this is more accessible, but it is not widely spoken enough to resolve many communication problems.<sup>237</sup>

## **9. CONCLUSIONS AND RECOMMENDATIONS**

Despite having only entered the market in Angola in 2002, Chinese construction companies have quickly become prominent. This is due in a large part to the assistance that China Exim Bank's loans have provided in terms of securing entry and a fixed market share through the structure of the financing. While it is largely the SOEs that have benefitted from this, smaller Chinese companies have followed in order to facilitate links to a supply chain in China.

In the case of Angola, many argue that this is not necessarily different to the modus operandi of any other nationality; it is more the scale of the undertaking that distinguishes it (Michel and Beuret, 2009:214). However, the Chinese government has financed the largest of 13 industrial poles in Angola. While such a move would

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<sup>232</sup> Interview, Beijing, 11 September 2009

<sup>233</sup> Interview, Luanda, 19 August 2010

<sup>234</sup> This is the practice of mourning and attending family funerals, usually requiring an absence from work of several days.

<sup>235</sup> Interview, Beijing, 21 October 2009, Interview, Beijing, 14 October

<sup>236</sup> Interview, Beijing, 3 December 2009

<sup>237</sup> Interview, marketing manager, Chinese private company, Luanda, 2 August 2010

have at the instigation of the Angolan government, it opens the door for Chinese companies to invest more coherently in industrial inputs as a cluster.

## 9.1 Analysing the Importance of Linkage Drivers

It is clear from the findings of this report that **OWNERSHIP** is one of the most important drivers in determining Chinese companies' actual and potential local linkage development. This relates primarily, in the case of Angola, to ownership of the financing mechanisms of the construction projects. Works completed on the back of China Exim Bank loans have far more restrictive specifications concerning procurement than projects financed by international institutions or the Angolan government itself. Ultimately this is because China Exim Bank's function as a policy bank is to promote and increase Chinese exports. To a lesser extent ownership of the firms may also be a factor. Chinese SOEs have a tendency to procure from China even when it may not be most economical to do so.<sup>238</sup> In the case of the state-owned companies, there seems to be a heavy reliance on government incentives to assist with foreign market penetration, due to a high risk aversion. Private firms, on the other hand, are much more willing to take risks due to being forced into foreign markets by domestic pressure. This is due to their lack of assistance by the Chinese Embassy (and in some cases active avoidance of Chinese government contact) and exclusion from China Exim Bank credit access. These companies have in some cases followed the larger firms to Angola in order to act as sub-contractors and second and third tier suppliers are Success is seen as being increasingly dependent on an ability to generate linkages with local firms, customers and government authorities in ways that are economically and politically efficient.

One of the largest hurdles for increasing local content for amongst Chinese companies is that many Chinese companies do not seem to think that 'localisation' is beneficial to their operations. This is reflected implicitly by Chinese policy think-tanks and government officials who are concerned about localisation taking place so that it enhances the reputation of Chinese aid projects. As one official said, 'We need to change their [Chinese companies'] mindset... if we want them to foster development and see it as part of their mandate. At the moment it is not seen as part of their job. We need the institutions and the legal framework to send them to court.' It is also pointed out that country' situation vary and it would be easier to foster localisation in some countries than others, South Africa and Mauritius were singled out as examples of where it is perhaps possible. 'Some countries you can't do it – there are no materials and no natural service from the local labour.'<sup>239</sup> Such an attitude is consistent with the perception that if benefits must be afforded the local population, it will be done as a separate 'development' project, not as an integrated aspect of the project, which remains isolated from local participation.

The Angolan **NSI** is extremely weak, with the institutions that do exist receiving little support, whether financial or political from the government. IDIA has a mandate to develop 13 industrial poles around the country. This ambitious plan, although having generated attention, is behind schedule and lacks the infrastructure to attract investors. China Exim Bank is funding the largest pole, located outside Luanda. This

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<sup>238</sup> Interview [telephonic], foreign consultant, 28 September 2010

<sup>239</sup> Interview, Beijing, 29 October 2009

may act as a further catalyst to Chinese companies relocating their production supply chains to Angola.

In the case of active **SKILLS ISSUES AND LABOUR RELATIONS**, it is only the larger Chinese companies that can afford to carry the such expense of skills and training programmes, as up to now it is unclear as to whether these are exercises to win political capital from (both the Angolan and/or Chinese government<sup>240</sup>) or whether the Angolan trainees will genuinely be incorporated into the Chinese companies' corporate structure. Private companies if at all would only operate moderate training to a few individuals that were specifically targeted to grow the company.<sup>241</sup>

Chinese companies' contact with other nationalities' construction companies and **REGIONAL NETWORKS** has been limited, although here have been instances of subcontracting between firms. Angolan companies have themselves also been known to sub-contract cheaper 'fly-by-night' Chinese companies rather than undertaking the work themselves. This kind collaboration of however, rather than reinforcing, actually limits local content development. Chinese companies will in cases of emergency use materials procured in South Africa, but this is not a natural preference.

**INFRASTRUCTURE** issues remain a key constraint to Chinese companies, as with all other market participants in Angola.

**POLICY** despite limitations in its implementation and a lack of coherency remains the most important means for encouraging local content development in Angola. Local content is '... government-driven because companies won't do it off their own bat... everybody has pressure to cut costs right now.'<sup>242</sup> This was corroborated by a Chinese respondent who said that it would not happen easily that Chinese companies would hire local workers, that they didn't want to and wouldn't unless the Angolan government put pressure on them (and maybe even then not).<sup>243</sup> Similarly, a representative from an international financial Institution suggested that for Chinese companies to ever consider local supply chains, the motivation would need to come strongly from the African country, implying heavy policy intervention, and, in the short-term there would need to be a strong economic case to be put to the Chinese side, in terms of efficiency and cost effectiveness.<sup>244</sup>

It is apparent that there is a lack of interaction between Chinese companies and local policy formulation. One government researcher suggested that 'the African countries need to ... create a better environment for employment'<sup>245</sup>; another that there have been 'half efforts', but not much effort on this front and that there needs to be co-operation with the African side to make the deal more realistic.<sup>246</sup> From the Angolan government's side however, it appears that the political will necessary to enforce

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<sup>240</sup> The Chinese government has promised to train thousands of Africans as part of pledges made at various FOCAC summits and Chinese SOEs are encouraged to implement training programmes to fulfil this.

<sup>241</sup> Interview, vice-President of private Chinese company, Luanda. 5 July 2010

<sup>242</sup> Interview, Luanda, 12 July 2010

<sup>243</sup> Interview, Beijing, 28 October 2009

<sup>244</sup> Interview, Beijing, 14 October 2009

<sup>245</sup> Interview with MOFCOM researcher, 5 December 2009

<sup>246</sup> Interview, Beijing 4 January 2010

policies related to local content and skills transfer is not yet adequate. As commented by Western construction contractor: ‘What is absent in Angola is the emphasis on local employment and skills development. An infrastructure project should be a vehicle for social development. This mentality is totally absent here.’<sup>247</sup>

Several respondents within Angola however reported that the Angolan government’s stance towards local content provisions was tightening. Indeed one newspaper quoted the cost of bringing over a Chinese worker, including travel and welfare payments as US\$ 20,000 (*Daily Maverick*, 2010). This has in the last two years apparently encouraged Chinese companies to employ more local workers. It is believed this trend will continue. Tang (2010:354) also finds a distinct resistance on the part of the Angolan government to issue visas for workers in ‘low-tech sectors’. Another respondent suggested that Angolan legislators were getting ‘cleverer’, closing the loopholes used by companies to avoid local content stipulations. ‘The Angolans are trying to do the right thing’.<sup>248</sup> The Angolan Ambassador to China announced recently that the Angolan government was seeking to expand co-operation with China to focus specifically on human resource training (*Macauhub*, 2010a).

The Angolan government has reportedly taken the decision to adopt a ‘partially protectionist economic policy’ in recognition of the disadvantages Angolan firms face in competition with foreign companies (*Macauhub*, 2010a). However, not only is it unclear how this will be implemented, the likelihood of it benefitting only the politically connected Angolan firms is high.

**Figure 9.1: Likert Scale of Key Drivers of Local Linkages**

	1	2	3	4	5
<b>Ownership</b>					X
<b>Infrastructure</b>			X		
<b>Skills (lack of)</b>				X	
<b>NSI</b>	X				
<b>Regional Factors</b>	X				
<b>Sector Policy</b>			X		
<b>Labour Issues</b>			X		

**9.2 Policy Recommendations**

For the Chinese Government:

**9.2.2 Strengthen Chinese Market Research Capacity and Risk Analysis**

It is clear that many Chinese companies have little understanding of specific African countries’ contexts and what little market research exists treats Africa as a whole. Consequently particularly large Chinese SOEs rely on government-arranged financing and networks to penetrate markets, preferring to use known procurement

<sup>247</sup> Interview, project director, Western contractor, Luanda, 6 July 2010  
<sup>248</sup> Interview, local content manager, oil firm, Luanda, 12 July 2010

networks in their home provinces rather than investigating local capacity and potential. Such practices have given rise to an unfavourable reputation and threaten the long-term sustainability (and hence profit) of these companies' operations. The Ministry of Commerce has begun issuing country guides on all countries with a Chinese investor presence, but it is not apparent that these are done in conjunction with the African countries' input, whether public or private.

The Chinese government has at least recognised the importance of their companies being more informed. In a newspaper interview Wei Jianguo, Secretary-General of China International Economic Exchange Center and former Vice Minister of the Ministry of Commerce, exhorted Chinese companies to conduct feasibility studies on the local laws, markets, raw materials, costs, and utilities (*21<sup>st</sup> Century Business Herald*, 2010). Several Chinese policy-makers recognized the theoretical advantages of using local labour given the cost of importing Chinese workers (air travel, visa, accommodation) conceding that local labour would be a solution to this, as well as rising labour tensions.<sup>249</sup>

China Development Bank (CDB), whose engagement in Africa is much more recent than China Exim Bank's, sent out 'working teams' to various African countries prior to the bank's engagement with the continent. The teams stayed approximately two years in country. '...in order to get working relations with the banks and to understand the local regulatory framework as well as to generate project information to present to companies in China.' Although it was felt that these teams have been 'limited in their function and effect'.<sup>250</sup> CDB reportedly eventually want to have one project team in each country in Africa. This should be built upon.

For Chinese Companies:

### **9.2.2 Engage with Angolan stake-holders**

The China Chamber of Commerce in Angola and the Angola-China Chamber of Commerce<sup>251</sup> appear not to co-ordinate with each other, much less their Angolan counterparts. These Chinese organisations should develop a clear vision with regards to local content policy and how it could be implemented.

For the Angolan Government:

#### **9.2.10 Local Content Enforcement Specific to the Construction Industry**

Despite the effects of the financial crisis, the construction industry is the most dynamic non-oil sector in Angola's economy. Furthermore, it is still largely driven by public spending through the Public Investment Programme (PIP). The Angolan government should reformulate policies to reflect the development potential of PIP in terms of skills and technology transfer rather than simply the reconstruction of the national infrastructure. This would entail monitoring and then enforcing the 30 percent

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<sup>249</sup> Zeng Qiang, Research Professor, CICIR, 'Challenges to the Further Development of Sino-Africa Economic Co-operation and Some Reflections' at IWAAS conference, Beijing, 13 October 2009; Interview, Beijing, 21 October 2009

<sup>250</sup> Interview, Beijing, 10 December 2009

<sup>251</sup> Distinguished by their Chinese names as 中国驻安哥拉企业商会 and 安哥拉中国商会 respectively

subcontracting concession for Angolan companies made available in the China Exim Bank loans and legislating and monitoring a training component that stipulates employment for trainees with the Chinese company following training completion.

In addition, local content subcontracting regulations should be tightened to prevent shell Angolan companies from winning a sub-contracting tender only to re-sub-contract to a cheaper Chinese firm and pocket the difference as has occurred. A Chinese contractor estimated that the Angolan government was losing 40-45 percent of the real value of the China Exim bank loan due to 'different layers of sub-contracting (Horizon Consulting, 2007:124).

### **9.2.11 Extension of Contract Maintenance Period**

The maintenance contracts, where they exist, are sometime as short as 18-24 months on large-scale infrastructure projects. These periods should be extended, encouraging contractors to take responsibility for the durability of their work. Maintenance periods should also be legislated to double up as probation periods for local workers who have been trained by the company to maintain the project under the guidance of the Chinese contractor. The Angolan trainees should be educated specifically to handle the maintenance of the project following its completion, resulting in sustainable local management of the project.

### **9.2.12 Emphasis on Technical training schools**

It was clear from a number of respondents that the courses offered in many of the universities in Angola did not match market demand. While this may be changing with an increased focus on engineering, there is almost no NSI focussed on local technical and artisanal training, which has a wide variety of general applications in the construction industry. More of the higher education budget should be directed to development in this form of education which could be offered in more affordable and shorter diplomas. Companies should be encouraged to contribute to the establishment of and form partnerships with technical schools and research units through tax break incentives. Graduates of the schools could then be given company placements and contracted for a fixed period in order to complete their diploma requirements in order to receive practical experience. The companies would in turn receive local employees for a fixed contract period, avoiding the market pressures on skilled local labour salaries.

### **9.2.6 Monitor Students trained by Chinese companies**

While it has been documented that some of the larger Chinese companies have provided training courses for Angolans, both locally in abroad (usually in China), it is unclear whether this is linked to job placement upon graduation or even if these students are systematically monitored and kept track of on their return. The Ministry of Education should have a register of all Angolans trained by Chinese companies, particularly those trained in China, as it is likely they will develop some competency in Mandarin Chinese. Scholarship recipients should be contracted as part of their obligation either to Chinese companies working on PIP projects in Angola or seconded to the Angolan government to assist with the monitoring and administration of the PIP programme itself and the necessary liaison with Chinese companies.

### **9.2.7 Leverage Regional Links to South Africa**

Despite its proximity to Angola, South Africa is an under-utilised regional hub in terms of procurement requirements. Following a thawing of political relations and the recent credit line extension of US\$ 255 million from South Africa to Angola, this may change. In the short-term increased procurement from South Africa would alleviate pressure in the ports as most volumes could be trucked through Namibia.

### **9.2.8 Promote Industrial Manufacturing Zones**

Angola has several industrial zones in the pipeline to be located in the outskirts of Luanda, several of which are being planned in collaboration with Chinese interests.<sup>252</sup> The Angolan government should ensure that these zones, geared in part towards manufacturing construction materials, have their own local content guidelines, whereby they could form the basis of a locally-based value chain. Not only will this create employment and the potential for skills transfer, it will increase local material production capacity and reduce procurement costs as a result.

### **9.2.9 Re-Align Policies To Complement And Reinforce Local Content Legislation**

Economic diversification has been highlighted as a key priority by the government, but, as a recent study by the Centre for Strategic Studies at Catholic University shows, little of concrete importance has been done to encourage this (CEIC, 2009). As pointed out, although the Angolan government has local content legislation, this is in practice undermined by the structure of the economy and conflicting policies that among others issues, encourage imports while retarding local industrial development. The Angolan government needs to streamline policies and realign them to encourage local industrial development sustainably and in the long-term, rather than opting for short-term quick fixes. Creating economic incentives for companies to invest in their supply chain, such as special programmes to build up suppliers' skills could go a long way to ensuring that the Angolan market has the capacity to provide what local content stipulations require.

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<sup>252</sup> Interview, Chinese businessman, Luanda, 19 August 2010

## Appendix 1: Angola's Institutions of Higher Education

Institution	Date Commenced	Speciality Courses offered <sup>253</sup>
Universidade Lusíada de Angola	1999	Law (31), International Relations (24), Economics (32), Accounting (35); Business Management (79), Human Resources Management, IT, Psychology, Architecture
Universidade Católica de Angola	February 1999	Law, Engineering, Economics and Management, Social Sciences, Psychology
Universidade Jean Piaget de Angola	2000	Economics and Management (11); Law (21); Nursing and Obstetric (7); Psychology (2); Electro-mechanical Engineering (8); Pharmaceutical Sciences, Medicine, Petroleum Engineering, Clinical Psychology Dentistry, Physiotherapy, Language
Universidade Agostinho Neto	2001	Law, Economics, Science, Medicine, Education, Agriculture
Universidade Gregório Semedo	2003	Business Management, Law, Engineering, IT, Human Resources Management, Marketing
Universidade Independente de Angola	March 2004	Communication Sciences, Engineering, Management and Marketing
Universidade Metodista de Angola	March 2007	Business Management, Engineering (Mechanical, Civil, Industrial and Electronic, Architecture and Urban Planning
Instituto Superior Técnica de Angola	2007	Engineering (administration, IT and telecommunications systems)
Universidade de Belas	2007	Nursing, Health, Physiotherapy, Law, International Relations, Management and Accounting, Petroleum, IT, Administration and marketing
Universidade Técnica de Angola	2007	International Relations, Business Management and Marketing, Accounting and administration, Human Resource management, Languages, Architecture and Urbanisation, Engineering (IT, Environmental, Mining, )

<sup>253</sup> Number of graduates (where information is available) in parentheses. No meaningful analysis of the numbers of students can be made due to the incomplete nature of this data.

Universidade Privada de Angola	2007	Health, Architecture, Nursing, International Relations, Hotel and Tourism, Engineering, Social Communications, Management and Accounting, Orthodontics, Physiotherapy and Pharmacy
Universidade Óscar Ribas	2007	Law, International Relations, Psychology, Engineering (Civil, Electro-mechanical, IT) Business Management, Public and Marketing Administration and Management
Instituto Superior de Ciências Sociais e Relações Internacionais	(Under Construction)	International Relations, Economics, Public Administration, Sociology, Political Science
Universidade Nova de Angola	(Under Construction)	

Source: Portal do Ensino Superior: <http://www.angolanainternet.ao/portaiscidadao/conhecimento2.htm>

## Appendix 2: The Case Study of Huawei

Huawei is a telecommunications company founded in 1988 in Shenzhen, China. Its overseas expansion has been very successful, as 70 percent of its revenue US\$ 22 billion revenue (in 2009) was generated outside of China (Meyer, 2010). Huawei spends 10 percent of its revenue on research and development (Mataboge, 2010). Huawei was often cited as an exception (see case study below). However, although starting out as a small private firm, it is now the fifth largest telecommunications company globally. Consequently, due to its size and status as a 'national champion', for the purposes of analysis, it is treated it as a state-owned company, due to the state support it receives.<sup>254</sup>

According to one think tank academic, Huawei is 'an outstanding example of successful localisation. Private companies are good at training people; they are more flexible, they are better at marketing.'<sup>255</sup>

The company's initial operations on the continent were aid projects. However, after the networks and infrastructure was set up, these have changed into joint-ventures with local partners (Patton, 2007). Huawei entered the Angolan market in 2006 following President Eduardo dos Santos's visit to the company's head quarters in Shenzhen. Huawei Angola is currently has turnover of US\$ 150 million (an annual increase of more than 30 percent). It currently has 120 employees, 40 percent of which are Angolan (Meyer, 2010).

A Chinese researcher, who had interviewed Huawei's management in Angola, said: 'Huawei is different, the staff speak English very well, and so they can have a Portuguese-English translator. They also have a training centre in Angola and are a very good model for other companies. They have overcome this language and culture barrier. They can stay longer and the development from their engagement will be more sustainable. They also have a co-operative agreement with a technical school, whereby they set up and support the school and then recruit the students.'<sup>256</sup> Huawei in fact made a donation of US\$ 7 million to upgrade the *Instituto Angolano das Telecomunicações* (Angolan Institute of Telecommunications) to be inaugurated in 2010. It will be the sixth such centre on the continent. Huawei has also established training centres in Nigeria and South Africa, Egypt, Tunisia and Kenya (ACET, 2009:13; Mataboge, 2010)

A Huawei technician I interviewed explained that local staff training was a key concern of the company's, which needed especially trained workers. Aside from an awareness of corporate social responsibility and the professed drive to develop the host country, the technician acknowledged that Huawei was in Angola for the long-

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<sup>254</sup> The European Union through an investigation determined that both Huawei and ZTE, a Chinese state-owned telecommunications company received 'illegal' state subsidies. The inquiry subsequently was dropped apparently due to withdrawal of the complaint which first initiated the investigation (*Wireless Federation*, 2011. 'EU to end Chinese telecom probe despite subsidies', 7 February: <http://wirelessfederation.com/news/35046-eu-to-end-chinese-telecom-probe-despite-subsidies> [9 February 2011])

<sup>255</sup> Interview, Beijing, 22 December 2009

<sup>256</sup> Interview, Beijing, 9 September 2009

term and hence needed a local partner. This was particularly important given the company's emphasis on client service. Furthermore, the Angolan education system was not sufficient for the kinds of skills that Huawei required, necessitating the company's investment in the local NSI.<sup>257</sup>

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<sup>257</sup> Interview, Huawei Technology, Luanda, 13 July 2010

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