The Politics of Oil

Crude Corruption—China and Angola

Cindy Hurst August 4th 2008

Cutting Edge Contributor

Oil exploration and production is one of the principal areas of foreign investments made by China in Angola. But these investments do very little to curb corruption in that country.

In recent years, China has increased its economic and diplomatic involvement in the African country. According to a Macau-based news source which focuses on economic information, trade between Angola and China reached $11 billion in 2006 and $14.11 billion in 2007. Angola, sub-Saharan Africa’s second largest oil producer, accounts for 17 percent of China’s total imported oil. China and Angola have maintained diplomatic and economic ties for 25 years. China developed these ties to create a diplomatic power-base and a market for its state-owned enterprises.

Angola has been recovering from a 27-year civil war that began just before the nation won its independence in 1975. The war destroyed much of the country’s economy and infrastructure. The Angolan economy is heavily dependent on its oil sector—accounting for over 40 percent of Angola’s gross domestic product and nearly 90 percent of government revenues. Throughout the past few years, Angola has experienced sharp increases in oil revenues. Despite these increases, the economy continues to stagger with an external debt of $8.2 billion and 70 percent of its citizens living in poverty.

Human rights groups have long criticized the Angolan government over the mismanagement of oil reserves. In an internal memo leaked in 2002, the International Monetary Fund (IMF) alleged that approximately $1 billion had disappeared from Angolan coffers the year before. This raised plenty of red flags for anyone concerned about transparency. In response to the IMF report, Transparency International renewed its call for oil companies involved in Angola to publish what they pay to the Angolan government. To date, government income remains secret and as long as China is providing aid to the country, there is little incentive to adhere to Western imposed rules.

China agreed to provide multi-billion dollar oil-backed loans to fund infrastructure development. This support is making it possible for Angola to break its ties with the International Monetary Fund, which provides economic support in exchange for more governance and transparency.

China remains highly competitive in its energy deals. For example, in October 2004, as India was preparing to close a deal for about 620 million dollars to buy Shell's 50 percent share in "Block 18," China entered at the last minute to win the major oil deal. In an effort to swing the deal in its favor, China offered $2 billion in aid for various projects in Angola. India's offer of $200 million for developing railways paled in comparison.

Much of China's infrastructure aid to Africa comes in the form of advanced credit or loans. This is of concern because dealing with Chinese companies does not come with the same ethical conditions as dealing with Western companies, which have non-governmental organizations monitoring their activities, as well as shareholders asking questions. According to Gal Luft, co-director of the Institute for the analysis of Global Security, the 'Chinese way of doing business' could reverse the progress on fighting corruption and delivering benefits to African citizens, something that Western companies and organizations, such as the World Bank, the Open Society Institute, and Transparency International have been working so hard to achieve.

According to Luft, "The Chinese are much more prone to do business in a way that today Europeans and Americans do not accept – paying bribes and bonuses under the table. These are things that have been rampant throughout Africa, particularly in Nigeria, Angola, and Equatorial Guinea, and to a certain extent Chad and Gabon…it will be much easier for those countries to work with Chinese companies rather than American and European companies that are becoming more and more restricted by this 'publish what you pay' initiative and others calling for better transparency." With such impositions and restrictions placed on oil revenues, an already corrupt government in Africa might be more inclined to accept the Chinese deal that comes with no restrictions."

A successful tactic China uses for obtaining oil is to acquire equity in foreign oilfields, especially in oilfields of the relatively crisis-ridden countries often shunned by Western oil majors. The advantages to China include:

1. China is able to ensure it has a solid source of oil.
2. Buying equity in oilfields lowers the price of the oil to China in the long run.
3. Competition for oil in certain crisis-ridden countries is reduced by the mere fact that many Westerners either will not pursue oil interests, or they are forbidden from doing so in these countries.

Many countries cannot afford the costly task of conducting their own oil explorations and are willing to enter into a deal with China, giving up a part of the stake in any oil findings, to help boost their economy. China's approach is to develop strategic, long-term bilateral relationships to ensure long-term commitments. China's leadership has been busily working on strengthening diplomatic ties with many countries in Africa. With more and more areas showing geological evidence of possible oil, China is prudently reaching out to nations with proven reserves as well as nations without proven reserves possibly in anticipation of future oil findings. In recent years China has increased the level
and frequency of its official visits to Africa.

China is quick to spotlight historical links to help meet its own modern economic objectives, promoting Beijing as a reliable partner that is not interested in lecturing Africa on sensitive topics such as human rights, governance, and corruption. This makes China easier to work with. Western societies find these issues objectionable and are therefore more apt to place certain restrictions on these countries. This plays well into China's strategy of pursuing oil in crisis-ridden countries. By doing this, China is able to reduce competition by Western nations while ensuring a future source of oil.

Cindy Hurst is a political-military research analyst with the Foreign Military Studies Office. She is also a Lieutenant Commander in the United States Navy Reserve. This article was adapted from a report for the Institute for the Analysis of Global Security www.iags.org. The views expressed in this report are those of the author and do not necessarily represent the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.