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Chinese construction companies in Angola: A local linkages perspective

Lucy Corkin *

School of Oriental and African Studies, University of London, Johannesburg, South Africa

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ABSTRACT

China tends to spearhead its economic overtures to African countries through high-level bilateral negotiations. These are frequently in the form of China Exim Bank loans for large-scale infrastructure projects, repaid by resource exports to China. While much is made of China's resource-based activities in Africa, less focus is placed on the converse of this relationship—the infrastructure provision that African resources buy from China. This article takes the positions that local linkages development is one of the clearest ways that African countries can benefit from Chinese construction companies' market engagement. The prevailing view is that Chinese companies contracted to undertake the construction projects financed in this way 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 Angola's construction sector, this article seeks to uncover the determinants of their sourcing behaviour, and the manner in which this is reflected in their use of local inputs.

Introduction

Angola's national infrastructure was devastated during nearly four decades of civil conflict. According to the African Development Bank, 80 per cent of Angola's transport infrastructure was not operational in 2009 (Business Monitor International, 2009). Since peace in 2002, the Angolan government has launched an ambitious national reconstruction programme to rebuild the country. State-owned China Export–Import Bank has increasingly become one of Angola's most important financiers since March 2004, having pledged some US$ 10.5 billion in credits to be directed towards infrastructure development and rehabilitation (Corkin, 2011a). The projects are stipulated as being undertaken by Chinese contractors and paid for by shipments of Angolan crude oil to China. Therefore in effect, Angola is using its resource wealth to purchase Chinese capacity in the construction sector.

This article uses as a point of departure, two related theoretical concepts: firstly, Hirschman's (1981) production linkages theory. As discussed by Morris et al., (2011), even economies built around extractive industry enclaves can pioneer industrial development via local linkages to mining complexes. The extent of Angola's local linkages in the oil sector is discussed elsewhere (Teka, 2011). However, the Angolan construction industry is indirectly linked to the country's oil industry because the surge in oil prices has led to Angola's construction boom. Furthermore through Angola's resources-for-infrastructure barter deal with China, Angola's ability to service the loan with oil repayments is directly responsible for the large Chinese presence in the construction sector. In this way, Angola's construction sector activities can be seen as the other side of the same (oil-backed) coin.

In theory, the construction sector should be able to foster relatively more production linkages than the oil sector and at a higher rate, given the lower entry skills threshold. Furthermore, according to global value chains theory (our second theoretical point of departure), companies operating internationally should eventually look to localise and the develop local linkages in order to out-source their non-core competencies (Morris et al., 2011). As yet, it is not apparent that this is occurring in the context of Chinese companies in Angola.

The immediate benefits of the China Exim Bank loan arrangement to Angolans in terms of rapid infrastructure provision are obvious. Less clear is the legacy that Chinese contractors' activity will leave in Angola, particularly given the potential for local skills development and linkages to embryonic industrial activity in the war-torn African country, recognised as important for economic growth. As a result, the interaction (or lack thereof) of the Chinese construction companies with Angola's local context has not been without controversy. Chief among the concerns that have arisen amongst Angolan respondents is the lack of Angolans' participation in the reconstruction of their own country, viewed as an important mechanism for national reconciliation and poverty alleviation (Marques de Morais 2011).

The focus of this paper is to show that there are specific aspects of the resource-backed China Exim Bank credit line that do not encourage local participation. This is particularly due to

* Tel.: +27 112821866.
E-mail address: lucycorkin@gmail.com

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the nature of ownership not only of the financing mechanism of the infrastructure, but also of the Chinese contractors themselves. Crucially, however, the Angolan government must also bear some responsibility for this as it has not actively promoted, and may have deliberately weakened, the circumstances under which local participation in national reconstruction through the Chinese–financed construction projects might occur.

This study draws on fieldwork conducted over six months in Beijing and Shanghai, China (July 2009–January 2010) and three months in Luanda, Angola (April–May 2010 and June–August 2010). Due to the sensitive nature of the research[1], most interviews were conducted on condition of anonymity. Over 160 interviews were collected and arranged through snowball sampling conducted in English, Chinese and Portuguese. The interviews were semi-structured lasting from 40 min to 3 h, 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. Respondents included government officials from a variety of ministries, both Chinese and Angolan, China's National Development and Reform Commission (NDRC), China Exim Bank, African and Chinese diplomats, non-governmental organisations, (NGOs), Chinese state-owned enterprises, (SOEs), and relevant foreign consultants.

Chinese construction companies generally engage in EPC (engineering, procurement, construction) contracts; thus they are largely known to bring in their own equipment, materials and labour (CAITEC, 2010).[2] Chinese construction companies have historically focussed on the lower-value, labour intensive part of the construction value chain, lacking the consulting expertise for higher value services (Liu and Wu, 2008). 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) findings. It is apparent that Chinese companies retain popularity because of their cheaper bids relative to market competitors. That cost is still a 'core competency' gives an early indication of which Chinese companies are less eager to localise their labour, and will be discussed in more detail in later sections.

Cornering the market: China Exim Bank loans and local procurement

Currently the lion's share of projects undertaken by Chinese contractors in Angola is financed by China Exim Bank. China Exim Bank lending is relatively prescriptive; given that the Bank's primary function is to stimulate demand for Chinese goods and services. 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 (Ferreira, 2008), it is generally the larger state-owned companies that would have sufficient capacity, technology and management to undertake such bids. Many within the private sector in China believe China Exim Bank lacks transparency and the political will to reach out to private Chinese companies.[3] Consequently the nature of China Exim Bank's financing arrangement favours the larger Chinese SOEs considerably over their smaller private counterparts.

According to the conditions stipulated by China Exim Bank, in principle not less than 50 per cent of the project procurement will be sourced in China and Chinese companies will undertake the majority of the projects to be paid for by the concessional loan.[4] Many Angolan construction industry professionals thus feel that Chinese companies are afforded an unfair advantage due to the policies surrounding the credit lines.[5] Although in the case of the Chinese contracts, it was negotiated that up to 30 per cent of the contracts' value could be subcontracted to Angolan firms, there is little evidence to show that local Angolan companies have been able to cope with their reserved quota. An Angolan Ministry of Finance official confirmed that the 30 per cent quota condition was only upheld if it 'did not compromise project deadlines'.[6] This suggests that while policy concessions are made, little is done to support the nascent industries in practice as they try to fulfill their quota of the contract work. One Angolan respondent doubted that the 30 per cent local quota had been implemented. He pointed out that 'both sides realised, as did the companies, that firstly, there were no [local] companies with the necessary experience and experts, and secondly, the Chinese were not prepared to work with other companies'.[7] The Chinese ambassador to Angola in an interview called the 30 per cent quota for Angolan companies 'unrealistic' (De Comarmond, 2011).

Furthermore, the Angolan National Agency for Private Investment (ANIP) stipulates in Angola's Basic Private Investment Law, Article 54/1 that foreign investment projects registered with the organisation must use 70 per cent local labour (Tang, 2010). 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. Although China Exim Bank's framework agreement with the Angolan Ministry of Finance does reportedly include a clause regarding 70 per cent local employment, this refers only to unskilled labour (Tang, 2010).

From the above discussion, it appears that some policy space may exist for African governments to negotiate as regards the terms of the local labour and procurement chains of China Exim bank loans. However, China Exim Bank also provides financing directly to 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 per cent of the contract, but the tied procurement requirements to come from China are much lower: 'The spin-off exports of Chinese equipment, materials, technology, labour [sic] service, and management services that derive from overseas construction contracts shall account for no less than 15 per cent of the total contract value of the project'.[8]

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 per cent of the procurement could be sourced locally, or at least from a country other than China. However, due to high risk aversion, on the part of Chinese companies, there may

[1] 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 (2009) also found this in her research of Chinese aid to African countries.

[2] Interview, Planning and Concessions Division, Angolan National Roads Institute (INEA), Luanda, 17 August 2010.

[3] Interview, Chinese business consultant, Shanghai, 15 September 2009.

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

[5] Jose Severino, President, Associação Industrial de Angola (AIA), presentation 'A presença chinesa e o sector privado de Angola', 12 May 2010.

[6] Interview, GAT, Ministry of Finance, Luanda, 6 July 2010.

[7] Interview, senior researcher at a private Angolan think tank, Luanda, 13 May 2010.

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