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New actors, old problems: implications of Chinese and Brazilian engagement in Angola

By Christine Hackenesch,
German Development Institute /
Deutsches Institut für Entwicklungspolitik
and Sarah-Lea John de Sousa

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Bonn, 29 March 2010. Global changes are felt at country level. The necessity to enlarge the G-8 to a G-20 while trying to address the global economic and financial crisis illustrated clearly the increasingly important position of emerging powers in the global economy. Debates about the implications of these power shifts for global governance structures often overshadow that the diversification of international cooperation is very concretely also taking place at country level. These power shifts are particularly evident in Angola.

Angola is one of the most important countries in Africa – not only for Western governments and companies but also for China and Brazil. After the end of civil war in 2002, the government started to actively promote the diversification of its external relations. Today, China and Brazil are among the biggest trading partners, providers of loans, investments and development assistance alongside traditional actors such as the US and European countries. China also overtook the US as the biggest export market for Angola's oil.

Supporting development in Angola: aid does make little difference – international actors do

The biggest challenge from a development perspective is that the oil sector has little forward or backward linkages with the onshore economy. If oil revenues were invested in the domestic economy in order to foster more diverse economic and broader social development, they could turn Angola into a prosperous nation. Instead, money largely goes into foreign bank accounts instead of being invested in Angola and remains within the hands of a small elite. In this respect, main obstacles for the promotion of sustainable development in Angola are the activities of financial and economic institutions and the lack of transparency of financial flows.

For Western countries, Angola is a particularly difficult place to support sustainable economic, social and political development: the country ranks at the bottom of human development indices while revenues from the tremendous oil resources remain within the hands of the small elite and corruption is widespread. Since development assistance accounts for less than one percent of Angola's GDP, obviously it is not aid that can and will make a difference. Due to its oil wealth, Angola's elite is at the same time closely linked to the international economy and finance markets. International actors – states, banks and oil companies – therefore can and should play a key role in fostering more sustainable and equal development in the country.

New actors, old problems for development

In this regard, Brazil or China arguably do not create additional problems regarding sustainable development. Their engagement poses problems for development in Angola similar to those of traditional actors' policies. The interest of international companies and governments in the Angolan oil resources contributes to reinforcing existing state-society relations and exclusive political and economic structures.

Particularly financial flows from commercial banks to Angola as well as the Angolan elites' capital flight to foreign countries remain opaque. Both the West and emerging powers like China and Brazil are entangled in Angolan affairs. Western countries provide loans to the Angolan government, Western and increasingly also Chinese commercial banks provide oil-backed loans to the national oil company Sonangol. China and to a lesser extent Brazil provide package deals of oil-backed financing and infrastructure investments to the Angolan government. Even though transparency of oil revenues slightly improved in recent years and Sonangol's revenues now figure in the budget, much remains to be done to clarify the relation between Sonangol and the state and to track financial flows.

Effective standards needed – for all actors

In this context, concern has been voiced about a clash of norms and standards in the engagement of emerging powers, since they do not (fully) adhere to those global governance structures that aim at regulating financial and economic flows. Concern has also been raised about growing competition between energy or business interests and the wish to more effectively implement these standards. Existing standards and regulations and global initiatives such as Extractive Industries Transparency Initiative (EITI), or the recent G-20 initiative on tax havens seek to address some of the problems.

China is indeed often very reluctant to join these initiatives, while Brazil is an 'easier' partner in this regard that is also closer to Western standards. Yet, Western countries, for their part, struggle to agree on and effectively implement soft standards and regulations and to push the Angolan government to increase transparency.

The case of Angola reveals the close link between national development challenges and global governance issues. Western countries therefore should seek to elaborate common standards with emerging powers such as Brazil and China. At the same time, they should go ahead in more effectively implementing existing soft standards, particularly those related to the transparency of financial flows. In this sense, Brazil and China do not create new challenges for development but old problems become more obvious.