China’s Interest and Activity in Angola’s Construction and Infrastructure Sectors

A research undertaking evaluating China’s involvement in Africa’s construction and infrastructure sector

By Lucy Corkin
Introduction

The People’s Republic of China has become an important and influential player in Africa. It is increasingly a source of political and financial support for many African governments, particularly economies that are resource endowed.

Chinese state-owned and private companies are making strategic inroads into African economies’ construction and infrastructure sectors. China’s state-owned enterprises (SOEs) in the construction sector are active in almost every African economy.

While the construction and infrastructure sectors in Africa have traditionally been dominated by European and South African companies, Chinese SOEs are now playing a prominent role.

This report, using Angola as a case study, examines the factors driving China’s recent and rapid commercial engagement in Africa, the competitiveness of these companies and the Chinese government’s efforts to build and nurture political relationships in Africa.

In evaluating the market entry models of Chinese SOEs in Africa, this paper will also address concerns over China’s politically determined business models, and perceived reluctance to build local capacity and collaborate with local and foreign companies.

This report had several key research objectives:

- To examine the key investments and commercial arrangements of Chinese SOEs in Africa’s construction and infrastructure sectors
- To understand the market entry strategies employed by Chinese SOEs in these sectors when planning investments in specific African states;
- To derive the drivers of competitiveness of Chinese SOEs
- To evaluate the Chinese SOEs’ market entry impact impact on local and traditional players in the construction industry
- To uncover market entry experiences of Chinese SOEs
- To distinguish cross-cutting market trends amongst all case studies in terms of Chinese SOE engagement.
- To explore Chinese SOEs views on collaboration and evaluate possible examples of co-operation with Africa private sector companies;
- To detail recommendations for greater co-operation between China’s SOEs with local partner firms in the construction sector.
I) Mapping Angola's Trade Profile with China

a) Country Profile

Angola, a former Portuguese colony, has a population of approximately 14 million, almost half of which live in the capital city of Luanda. Between 80-90% of all economic activity in the country is concentrated in Luanda. The country has recently emerged from a civil war which lasted 27 years. Following the signing of a peace accord in April 2002, the potential for Angola’s economic growth following political stabilization is high.

Angola is a country rich in natural resources. Oil production accounts for 52 percent of the country's US$24 billion economy and oil accounts for over 80 percent of fiscal receipts in 2005. While this figure is expected to increase by 37.2 per cent in 2006 according to the Ministry of Finance figures, the oil industry itself can provide only a fraction of the jobs in a country where unemployment is widespread. Sociedade Nacional de Combustíveis de Angola (Sonangol), the state-owned oil company, employs approximately 7,000 Angolans out of a total labour force of 5.1 million people, the unemployment rate of which is estimated to be approximately 30.6% of the economically active population. The primary sector accounts for 85 percent of the employed workforce, with the remaining 15 percent in the service industry; agriculture represents no more than 8 percent of the country’s GDP. Extractive industries, diamonds and oil, account for 95% of Angolan exports and 57% of GDP, but employs only 1% of the Angolan workforce.

Predictions for Angola's 2006 GDP growth rate vary, between 14 -15 percent, according to the International Monetary Fund and the World Bank respectively. This is compared to the Angolan Ministry of Finance’s own predicted overall GDP growth of 27.9 percent.

Angola’s GDP grew 14.7% in 2005, principally on the back of high oil prices. Angola's non-oil economy is expected to grow 11.9 percent in 2006, reflecting Angola's efforts to diversify away from oil related activities.

Public spending for the year was initially budgeted at US$7.9 billion, five times the figure for 2005. According to ANIP, however, a revision of the state budget indicates that US$7 billion dollars have been set aside for public investment in the road, railway and marine sector alone. Significantly, Angola’s main export markets after the United States are the People’s Republic of China (30% of Angola’s total exports) and Taiwan (8% of total Angola’s exports).

Private investment in Angola from 2003-2006 reached a value of US$2.8 billion and 76 percent of this amount was in the civil construction sector.

Since the 2002 peace accord, Angola has received loans totalling US$5.5 billion of which China has contributed 58%. In the specific case of Angola, China seems to continue to dominate aid despite several aid packages that have been granted by countries such as Japan, Russia, Brazil and Portugal. The trade volume between the two countries in 2002 was US$1.148 billion, of which China’s exports were to Angola were US$61.30 million, while Angola exported US$1.087 billion to China.
The two countries’ bilateral trade has recently seen a significant increase (refer to Figures 1 and 2); up 41.6% to US$6.95 billion in 2005, with China’s exports to Angola reaching US$372 million in 2005, representing an increase of 91.18% from 2004 to 2005 alone. Angolan exports to China, however, primarily oil, totalled US$6.58 billion, making Angola China’s largest African trading partner. Despite a leap in Chinese imports to Angola, however, China has continued to run a considerable trade deficit with Angola, due to the rapidly rising rate of oil importation from the African country.
b) Historical Linkages

Although the People's Republic of China and the Republic of Angola established official diplomatic ties on January 12, 1983, China and Angola have historically had a long political association. In addition to the ideological solidarity expressed in the anti-colonialist movements of the early twentieth century, the socialist tendencies of the ruling party Movimento Popular para a Liberação de Angola (MPLA) have provided the basis for a natural alliance with the Chinese Communist Party, despite the latter’s stint supporting Jonas Savimbi’s opposing União Nacional para a Independência Total de Angola (UNITA) during the civil war. This was due to tensions between Beijing and Moscow, as the latter was supporting MPLA. Many now see renewed relations between Angola and China as “the resuscitation of an old relationship, both moral and material, that has now come to fruition”.

The governments of China and Angola signed a trade agreement in 1984 and set up a Mixed Economic and Trade Commission in 1988. The Angolan government flirted with establishing diplomatic relations with Taiwan in the early nineties, sending several ministers to the island, but this did not materialise. With increased commercial co-operation between Angola and China, Taiwanese diplomatic efforts have disappeared from Angolan soil.

c) Official Bilateral Agreements

Nine new co-operation agreements were signed by China and Angola as a result of a visit to Angola of the Chinese Vice Premier, Zeng Peiyang in 2004. They include the following:

- Two agreements covering co-operation in the fields of energy, mineral resources and infrastructures
- An agreement on economic and technical co-operation
- An agreement involving a loan for funding Angolan projects by the Chinese, amounting to approximately US$6.3 million, free of interest
- An agreement covering co-operation between the Angolan Ministries of Oil and of Geology and Mining and the National Commission for China's Development and Reform
- A business-related agreement covering the supply of oil by Sonangol to Sinopec
- Two memoranda of understanding concerning a joint study of oil concession Block 3 to be done by Sonangol and Sinopec
- A phone networking agreement between Chinese Group ZTE Corporation International and the Angolan Mundostartel, worth US$69 million

US$1 billion of the credit has already been spent on various projects, such as:

- Acquisition of lorries to be given to Angolans who lost their vehicles in the during the civil war
- Acquisition of construction equipment for use in projects embarked upon by Chinese construction companies
- Expansion of the electricity network in Luanda province
- Road repairs
- Construction and refurbishment of schools
- Rehabilitation of hospitals and health centres
- Rehabilitation and modernisation of irrigation areas
- Rehabilitation of infrastructures of energy and water

The most important of these projects will be expanded upon in this chapter.

US$100 million credit from China was spent on the health sector in Huambo province. The money went towards rehabilitating and equipping the regional hospital in Huambo city, as well as constructing two district hospitals. The Angolan Government and China Export Import Bank (China Exim Bank)
have signed 12 individual accords of credit, with regards to the US$2 billion loan. The agreements,
destined to support the projects in the fields of agriculture, energy and water, education and mass media, were signed by the Angolan Minister of Finance, Jose Pedro de Morais, and by the China Exim Bank’s deputy chairperson Su Zohong. The signed protocols represent a significant step for the implementation of the economic and commercial co-operation agreement that the Angolan Executive signed in 2003.

The government of China has also donated 46 containers containing 960 tonnes of mainly agricultural products such as hoes and handles, axes, scythes, ploughs and machetes to Malanje province. The value of this donation is estimated to be in the region of US$1 million.

Mundo Startel, the Angolan fixed line telecommunications utility in which Telecom Namibia holds a controlling interest, has signed a framework agreement with the Chinese company, ZTE Corporation International, for the purchase of telecommunications equipment. The agreement signalled the start of Telecom’s new business operations in Angola, as Mundo Startel began constructing the physical infrastructure for its network ready for which was launched in 2006. ZTE Corporation is to put US$400 million into the Angolan telecommunications industry. At least US$300 million is to be used in the construction of Angola Telecom's network while the remainder will go to: the military telecommunications system; the construction of a mobile phone factory; the creation of a telecommunications institute for the training of Angolan staff; and the creation of a telecommunications research laboratory.

As a direct result of China’s involvement in the reconstruction and rehabilitation of Angolan infrastructure, Chinese nationals are the largest immigrant group in Cabinda province, Angolan’s richest province in terms of natural resource deposits and it is expected that Angola will soon house the largest expatriate Chinese community in Africa\textsuperscript{vi}.

According to Huang Zequan, a lecturer of African Studies at Peking University and adviser to Chinese companies entering the Angolan market, 10 000 Chinese businessmen have visited Angola\textsuperscript{vii}. Actual figures in terms of the number of Chinese living in Angola are inconclusive\textsuperscript{ix}. It is estimated that between 20 000 and 30 000 Chinese nationals reside in Angola, with expectations that numbers may increase by as much as 10 000 by the end of 2006, rivalling the resident Portuguese population in Angola of 47 000\textsuperscript{x}.

d) China and Angola’s Oil co-operation

China’s rapid rise as a global power, leading to an increased demand for natural resources has been well-documented. Especially in the context of energy security, China has increasingly sought to improve relations with African oil-producers as strategic partners. Bilateral cooperation between Angola and China in the oil sector is pivotal to China’s strategic interests in the country.

China became a net importer of oil in 1992, the following year a net importer of refined oil products, and in 1996 China became a net importer of crude oil. By 2005, China consumed 25% of Angola’ crude oil exports, accounting for 99.91% of all exports to China (see Figure 3 below). This surpassed even the United States, although Angolan exports covered just 13% of China’s oil needs. The Angola’s oil reserves are estimated at around 12 billion barrels and the Angolan offshore area is divided into 74 blocs, in shallow, deep and ultra-deep waters. Based on a price of $75 dollars a day, and an expected increase in capacity to 2 million barrels a day in terms of production, experts predict that Angola will be generating US$55 billion a year by 2010.
Official estimates are that in 2008, daily oil production will stand at around 2 million barrels, but this value could be reached in the next year as new wells go into operation.

e) The Oil-backed Loan Agreement

In January 2005, China’s Exim Bank extended an oil-backed US$1-billion credit line to the Angolan Government, later doubled and then further increased to US$ 3 billion in March 2006, rendering China the biggest player in Angola’s post-war reconstruction process.

The loan is intended to assist Angola in the rebuilding of vital infrastructure and is managed by the Angolan Ministry of Finance. In exchange for the loan, payable at 1.7% over 17 years, Angola is to provide China with 10,000 barrels of oil per day. The loan has placed China in a particularly favourable position with the Angolan government. This agreement is significant, particularly because Angola had recently been experiencing difficulties in securing capital from the international financial institutions, such as the Paris Club and the International Monetary Fund (IMF).

China was regarded as a welcome alternative loan source to a country desperately in need of the financial means with which to rebuild a war-torn economy. For China’s part, cultivating relations with Angola, the second-largest African oil producing country after Nigeria, was particularly important in terms of potential oil exploration contracts.

China has increased the oil-backed loan to Angola several times. The original US$2 billion as of March 2006 refers only to the section of the loan managed by the Angolan Ministry of Finance with further projects under the auspices of Cabinet for National Construction, headed by General Helder Vieira Dias “Kopelipa”, who is also Minister in Chief of the Presidency. Thus while official figures put the total amount loaned by the Chinese government at US$6 billion currently, independent financial estimations according to a Director of Standard Bank in Angola put the amount at more than US$9 billion.
Perhaps reflecting this, according to the Angolan Ministry of Finance, the 2006 fiscal budget will allow total external debt to increase from US$9 billion to US$30 billion. In addition, the interest on the China Exim Bank loan has been lowered to 0.25%, from a previous rate of 1.5-1.7% effectively pricing other financial institutions out of the market.

Tied to the loan, is the agreement that the public tenders for the construction and civil engineering contracts tabled for Angola’s reconstruction will be awarded primarily to Chinese enterprises approved by the Chinese government. China Exim Bank has compiled a list of 35 Chinese companies approved by both the Bank and the PRC government to tender in Angola. Of the tenders, 30% have been allocated to the Angolan private sector, to encourage Angolan participation in the tender process.

Thus, following 3-4 years of peace and relative political stability, Angola became the number one source of crude oil imports to China in March 2006, having shipped 2.12 million tons of crude to China in February, surpassing Saudi Arabia, the global leader in crude oil exports. Angola returned to its position as China’s main oil producer after its exports increase 40% in May 2006. Forty-five percent of Angola’s oil exports are destined for China, supplying 15% of Chinese total imports.

On 21 June 2006, during an official state visit by PRC Premier Wen Jiabao to Angola, the two countries further cemented political and economic relations by issuing a joint communiqué detailing the signing of further agreements and legal documents on bilateral cooperation in the economic, technological, judicial, health and agricultural fields.

Premier Wen was accompanied by the president of China Exim Bank, Li Ruogu, in order to discuss the allocation of the loaned funds to review the infrastructural projects already completed by the Chinese companies. It is reported that the official loan figures have already been spent and a refinancing of the current loan by the Chinese government is in the offing.

f) Key SOE Investments

The PRC’s Ministry of Commerce has a list of 35 selected Chinese construction companies that have been pre-approved to tender for contracts in Angola. According to consultant Huang Zuquan, selection criteria include “a positive track record in finalizing contracts within the deadline and on budget…whether they in fact have the machines, personnel and financial capacity to carry the project through.”

When the Angolan government wishes to launch a tender for a construction project, this is communicated to the Chinese government which then launches the tender in China. According to regulations stipulated by the Angolan government, the Chinese government, although it only releases the tender to the 35 pre-approved Chinese companies, must allow at least 3 different companies to tender for the same bid. The Angolan government then selects the winning tender from those submitted.

From the end of 2004 to mid-2006, Chinese enterprises have secured more than US$3 billion worth of construction contracts. Tied to the Chinese oil-backed credit line, the majority of these contracts are for government buildings and general national infrastructure. Angola’s desperate need for infrastructure is being satisfied by the speed with which Chinese companies can deliver upon their projects.

Lobito Oil Refinery (Sonaref)

The most important and tangible form of co-operation and investment is a joint-venture between the Chinese oil company China Petroleum and Chemical Corporation (Sinopec) and Angolan company Sonangol to form Sonangol-Sinopec International (SSI). The joint-venture, announced in March 2006, involves the development of a new refinery at Lobito, Sonaref, requiring a total investment of US$3 billion.

Work on the refinery, Angola’s second such refinery, will begin before the end of 2007 and is estimated to have a total capacity of approx. 240,000 barrels per day, 80% of which will be for the general export market. SSI plans to take on the entire capital of each of the new concessions, and proposes to drill 10 test wells. The initial phase will produce 120,000 barrels a day which is still almost
double the capacity of the existing refinery in Luanda, which has a current capacity of 65,000 barrels per day.

The joint-venture is also tendering for oil exploration and already owns 20% of Angola’s block 15 (estimated reserves of 200,000 barrels). SSI made the largest bid in May 2006 to develop Angola’s oil blocks 17 and 18, with a collective reserves of approximately 4 billion barrels totalling at least $2.4 billion, including $1.1 billion in bonuses for each block and US$ 100 million in ‘social projects’. The joint-venture holding, following its announcement in March was reported as Sonangol holding from 70% shares and Sinopec 30%. By May 2006, a report stated that Sonangol held 45% and Sinopec 55%.

The joint-venture seeks to capture a 50% stake in both blocks 17 and 18 and is being financed by a consortium of banks which include Agricultural Bank of China, Bank of China, China Construction Bank and China Exim Bank, Bayerische Landesbank, BNP Paribas, Calyon, ING Groep, KBC Groep, Natexis, Banques Populaires, Societe Generale and Standard Chartered.

In June 2006, it was announced that SSI had secured stakes in blocks 17 and 18, with expectations that oil production will be boosted 100,000 barrels a day after they come on stream next year. Through the joint-venture SSI, Sinopec thus acquired the stakes of 27.5%, 40% and 20% in the off-shore blocks 17, 18 and 15 respectively through its joint venture with Sonangol. It was reported in June that Sinopec holds a 75% stake in SSI, indicating that Sinopec had increased its share of the joint-venture by 20% in one month.

Road and Bridge Infrastructure

China has granted Angola a US$211 million loan to finance the first stage of a project to rebuild roads destroyed in the 1975-2002 civil war. The first such project is a 371km stretch between the capital Luanda and the northern agricultural and mining province of Uige connecting the Angolan localities of Kifangondo (Luanda), Caxito (Bengo), Uije and Negage (Uije).

The China Road and Bridge Corporation (CRBC), contracted to undertake the project, has invested at least US$30 million in the purchase of equipment for the construction of a national road and bridges in Bengo province. The rehabilitation project is estimated to cost US$ 212 million and take two years to complete. The works include the repair of 12 bridges on the road. Ten of the bridges are new, with the project involving the repair and construction of 200 aqueducts. More than 3,000 Angolan and Chinese workers will be involved in the project according to the National Agency for Private Investment (ANIP). The project, commissioned by the National Road Institute (INEA), is being supervised by the German firm Galf Engineering.

CRBC is also rebuilding a 172-kilometer stretch of road between the towns of Ondjiva and Humbe. The project includes re-laying the road's surface, widening the embankments, drainage works and protection against erosion, road signage; building of new aqueducts and small bridges and represents an investment of US$47 million. Work, lasting 12 months, will be completed by the end of 2006. The rebuilding of the road, which is part of the Government's national reconstruction program, is considered important as it provides a link between Luanda and the provinces of Kwanza Sul, Huila, Benguela, Huambo, and Cunene as far as Namibe.

CRBC also won the tender to build a concrete bridge over the River Dande in Angola. The bridge, which will be over 100 meters long, will be built alongside the current metal bridge and will have a capacity of over 60 tons and be 12 meters wide.
Bom Jesus Airport

A new international airport has been planned as an alternative to the existing 4 de Fevereiro airport. The first stage of the new airport, to be situated 40 kilometres north-east of Luanda, is estimated to cost US$ 450 million, and will be led by the National Reconstruction Office, under the supervision of the Presidency. The work is reported to be contracted to the Brazilian construction firm Oderbrecht and a consortium of Chinese companies.
Railways Rehabilitation

At the end of January 2006, repairs to a railway line nearly destroyed in Angola's civil war began which will reconnect the east with the west in a US$300-million project funded by a the China International Fund Ltd, a Hong-Kong-based construction firm. The railway line, on restoration, will run 1,300 km from Benguela to Luau, on the border with the Democratic Republic of Congo. The project will take 20 months, to be completed in August 2007. The railway also has a link to Lobito, 700 km south of Luanda. There is a strong possibility that there will be extensions to Uige and Zambia, providing a direct line of transport from Zambian copper mines to the Angolan ports.

Up to US$ 2 billion is also to be spent rehabilitating and modernising the Moçamedes Railway, which stretches from the southern Angolan port of Namibe some 856 km to Menongue, more than halfway to the Zambian border. This four-year project began in March 2006.

Luanda General Hospital

In February 2006, the Luanda General Hospital was completed by the Chinese Overseas Engineering Company (COVEC). The hospital, located in Luanda’s Kilamba Kiaxi district, occupies 800,000 square metres, inside five acres of land and has the capacity to hospitalize 100 patients and tend to 800 patients per day. COVEC completed the $8 million dollar project within 15 months, reportedly using a workforce comprising 90% locals according to statements by the Angolan government. The money used to build this hospital was reportedly an interest-free loan from the PRC government.

Housing Projects

In March 2006, China International Fund Ltd, was contracted to build 44 15-floor buildings, with 5 000 apartments in total, in Cabinda City, Cabinda Province. This is reportedly part of a drive on the Angolan government’s part to provide 200 000 residences country-wide by 2008. Funded by the Chinese government, the operations are to be coordinated by the Angolan National Reconstruction Department. The Cabinda urbanization project is to employ 4,000 Angolans and 1,000 Chinese workers over a period of 30 months.

Water Infrastructure

In May 2006, China National Electronics Import and Export Corp. (CEIEC) won the tender for renovation and widening of the water distribution network Caxito, Bengo province. The work, which began the previous month, will take approximately 18 months and cost US$4 million. An additional $3 million is to be used to upgrade the Dande district.

Justice Palace

Chinese company China Jiangsu International has been contracted to finish construction work on the Palace of Justice building in Luanda. The contract, reportedly valued at US$41 million, was tendered by the Angolan Ministry of Public Works and was ratified by the Angolan cabinet. China Jiangsu is also completing renovations on the provincial government buildings in Luanda.

Ministry of Finance Building

Golden Nest International Group was contracted to build the Ministry of Finance building in Luanda. The building has been completed and has been commended for the quality of the work by the South African consulting firm which oversaw the project, Africon.

Profiles on the Chinese SOEs involved in the above projects can be found in Appendix I

g) Investment trends in the infrastructure sector

Chinese investment, especially in the case of Angola, is primarily concerned with transport infrastructure and the extractive industries, primarily oil.
In the Angolan context, this is seen principally through the joint-venture partnership SSI in building the oil refinery in Lobito. This joint-venture is the largest and clearest example of direct foreign investment as most of the Chinese construction companies that win tenders have yet to carry out their expressed intentions to establish joint-ventures with local partners. It is possible that the current Angolan skills base is too low for joint ventures with Chinese firms to be a viable proposal over the short term.

Aside from the refinery, the largest projects involved road and rail rehabilitation. Such basic infrastructure is urgently needed in Angola in order for it to recover from the ravages of the civil war, during which most of the country’s infrastructure was destroyed.

As the China–Angola financial agreement is in the form of an oil-backed loan, the Chinese involvement in the Angolan economy is not direct investment in the traditional sense. It also should not be regarded as an indicator of long-term confidence by the Chinese in the Angolan economy.

It does, however, provide the means and momentum for Angola to finance the rebuilding of its infrastructure, which can be seen as a long-term investment in terms of business facilitation, especially where improvement in transport networks are concerned. A representative from the Angolan Chamber of Commerce and Industry cited the view that the oil-backed loan extended by China Exim Bank still involves capital risk, as it is a sizeable sum that is being invested in a developing African country. China is also the only country to make such amounts of money available to the Angolan government.

Due to the nature of the loan, and the fact that the money received from the PRC government is administered by the government bodies of the Ministry of Finances and the Cabinet for National Reconstruction, Chinese investment is also concentrated in the public sector.

Only two Chinese firms are officially registered with the National Agency for Private Investment (ANIP). This suggests that while there are numerous Chinese construction companies active in China, they are mostly state-owned or state-invested with few private Chinese companies operating in Angola. A possible reason for this is that the majority of the contracts undertaken by the Chinese construction companies in Angola are being financed by the PRC government loan. As the Chinese government must approve the Chinese companies allowed to tender in Angola, SOEs have a natural comparative advantage.

II) Evaluating Market Entry Strategies

a) Developments in Angola’s Construction industry vis-à-vis China

Prior to the entry of Chinese companies in Angola toward the end of 2004, the industry was dominated by the larger Portuguese construction firms, whose presence is still marked in terms of private contracts. The work of the Brazilian and Portuguese firms had traditionally been supported and secured by oil-backed loans of approximately US$300-500 million, but nothing of the magnitude of the China Exim Bank approved loan. China’s entry into the Angolan construction market has somewhat displaced traditional commercial interests.

According to Grinaker LTA, construction firms usually need an incubation period of about 10 years in Angola due to the civil war having interrupted normal commercial relations. This notwithstanding, within 18 months of entry from the end of 2004, Chinese firms had established a considerable presence in the Angolan market.

In March 2006, following the rapid increase of Chinese commercial presence in Angola, a Chamber of Commerce for Chinese Companies in Angola (CCCCA) was established. Based in Luanda, the chamber currently has 26 members. Its leading members include the China National Machinery & Equipment Import & Export Corporation (CMEC), Jiangsu International and China International Water & Electric Corp, ZTE Corporation, Huawei, Sinosteel Corporation, China Petroleum & Chemical Corporation (Sinopec), China National Overseas Engineering Corporation (COVEC) and China State Shipbuilding Corporation (CSSC).

The Chamber, created according to a representative from the PRC Embassy Economic Councillor’s desk, was established to facilitate an interchange of ideas between Chinese and local companies.
b) Drivers of Competitiveness

Political modes of market entry

Within the context of Angolan construction industry, government-backed support has been instrumental in establishing market entry for Chinese SOEs. The oil-backed line of credit extended by China Exim Bank has spear-headed the entry of Chinese SOEs into the Angolan construction industry. The loan, primarily intended for use in the reconstruction and rebuilding of Angola's infrastructure is monitored and managed by the Ministry of Finance and the Office of National Reconstruction. Thus heavily aided by the Chinese government through political co-operation in the form of a bilateral agreement between the Angolan and Chinese governments, Chinese companies - especially in the civil construction industry - have secured 70% of all contracts financed by the Chinese credit-line according to the terms of the lending agreement.

Following the agreement whereby the China Exim Bank extended a US$ 2 billion loan to the Angolan government, the Chinese government declared a list of 35 selected companies that were pre-approved by the PRC Government able to tender for contracts in the Angolan construction industry.

Inclusion in the list thus resulted in entry into the Angolan construction market. Interestingly however, this list does not only include state-owned enterprises. Guangsha Group, the largest non-state-owned construction company in China, was included in this list. This Group has several member companies and is the holding company for several more, one of which, Guangsha Chongqing First Construction (Group) Company Ltd (CGS International Co Ltd), has a presence in Angola.

Inclusion in the list is seen as an avenue through which the company, sanctioned by the Chinese government, may tender for government contracts and gain access to Angola's construction sector. Once a presence has been established in the market, it is anticipated by Chinese firms interviewed that they will secure further contracts.

The Chinese loan is the most attractive financial package offered to the Angolan government principally because of the extremely low interest rates offered by the state-owned banks. Offers by other foreign banks and governments offer higher cost of capital rates by comparison on much smaller amounts.

The traditional source of loans, the World Bank (WB) and the International Monetary Fund (IMF), have been less than forthcoming with large-scale long-term loans as the Angolan government has not fulfilled the prerequisites in terms of transparency and practice of good governance. Angola, is still struggling to implement such governance practices that are deemed necessary by the Western donors before such loans are granted. The emergence of China as an alternative source of funding has been particularly welcome considering the paucity of options available to the Angolan government and the urgency with which such funds are required.

A factor which has played considerably to the advantage of the Chinese SOEs has also been Angola’s urgent need to secure the loans which would allow the government to embark upon the reconstruction of the economy and the country’s infrastructure.

Chinese preferential loans are allocated without conditionality. This is well-received by the Angolan government.

It seems however that the Chinese companies receive rapid project approval from the Angolan government. The Angolan government has reportedly been easing the way for approval and inspection of the work carried out by the Chinese companies. This is due to the contractual advantages being offered in financing the work via the Chinese credit line for rebuilding the country and the pressure the government is under to rebuild the country.

Labour

Chinese firms are often engaged in importing Chinese labour to work on a contractual basis for infrastructure projects. When questioned as to the desirability of Chinese contractors employing Chinese nationals as opposed to the local labour force, a representative of the Angolan Chamber for
Commerce and Industry pointed out that China, as a populous country, also struggled with unemployment problems and it was natural that this trend would develop, especially as other foreign-based companies also employed such practices.

Chinese state-owned companies will pay state-determined salaries that are sometimes not in line with the market determined price for labour in the Angolan construction industry.

As wages are a large expense in the labour-intensive construction industry, Chinese companies typically provide food and housing compounds for their workers as well as providing a daily stipend of US$1 per Chinese worker, will compete favourably with companies that must pay US$3-4 per day for local Angolan labourers. The average wage for an Angolan construction worker is US$120 -150 per month. Similarly, Chinese engineers are paid approximately US$ 130 per month, one sixth of what European construction firms would pay Angolan engineers. This is also in contrast with the expatriate salaries that are paid by other foreign-based companies to their skilled employees.

The cost of labour however, is not the only determinant of competitiveness. Industry competition is complementary of the quality of human capital employed by the Chinese firms. There are three factors that contribute to the productivity of the Chinese workers employed by the Chinese SOEs.

1. Firstly the shift strategy employed by some Chinese companies ensures that workers are on site around the clock. In some compounds, there is a ‘one bed, two workers’ policy whereby a night-shift worker and a day-shift worker share the same bed, ensuring extended working times.

2. Secondly, the rate of absenteeism at the Chinese construction sites is very low. According to other contractors who use local labour, the absentee rate is never less than 20%. This effectively increases labour costs by one fifth. Chinese companies in contrast have absentee rates of practically nil.

3. Thirdly, Chinese workers are relatively well trained. The level of skill of the Chinese workers is recognized across the industry, each worker having undergone an intensive training programme, prior to expatriation. In addition, workers on Chinese sites are multi-skilled and will be involved in each section of construction. Whereas it is normal practice to employ tiered hierarchies of workers, it has been found that Chinese artisans also double up as site diggers, participating in the manual labour as well as the more skilled undertakings of an artisan. Thus one Chinese worker will dig the foundations, lay the cables and orchestrate the electrics of a construction site. Such a modus operandi drastically reduces the number of workers required on a site.

Due to the speed with which the projects are completed, a number of Chinese companies have not seen it as a necessary step to establish a permanent office in Angola, unless they have secured several large and extended contracts.

CGS International Company Limited, for instance, although contracted to a project spanning 11 provinces in Angola in terms of office construction, have only been in Angola since the beginning of 2005 and estimate that its project involvement will be completed by 2007, where after they will leave, unless they secure another contract. At the moment they only have six administrative overseers in Luanda, all operating on working visas.

Supply chain cost advantages

According to one representative from Guangdong Xinguang International Group, Chinese firms from the south of China have a distinct advantage over other northern Chinese companies due to their proximity to Hong Kong and the speed with which they may mobilize their procurement strategies.

Procurement strategies are particularly important for Chinese companies that choose to import all their materials and equipment from China. In terms of material procurement, the Chinese companies enjoy a substantial advantage. According to a report in the Boston Globe (24 December 2005) by John Donnelly, a 50 kg bag of Angolan-made cement would cost US$10, while China’s imported cement
costs US$4. Chinese companies’ cost per square meter of construction is reportedly a fourth of that of European companies.

c) Market entry Experiences of Key SOEs

Language Barrier

According to the majority of Chinese companies canvassed in this respect, one of the biggest challenges in operating in the Angolan market is that of language barrier. Few Chinese speak Portuguese and Angolan knowledge of Mandarin is almost non-existent. Some companies have tried to remedy this by recruiting from the Chinese diaspora. There has also been a natural inclination to recruit Chinese from Macau. A former Portuguese colony, knowledge of Portuguese locals does exist and may have facilitated entry into the Angolan market.

Chinese international workers, however, are more likely to have chosen English as their second language. While it is found that the more educated Angolans may speak French and some English, this is not wide-spread enough to remedy the language problem, which remains an obstacle to on-site communication and thus productivity. The problem of the language barrier appears to have been underestimated by the SOEs. According to a report in the local newspaper, Angolans, who are often employed as the site workers, are not provided with a translator and have overseers that cannot speak Portuguese.

Lack of Local Skills

In addition, lack of education manifests itself as a problem, especially in terms of specialized skills. This is the rationale offered by most of the Chinese companies when questioned about their lack of local recruitment.

It was agreed across the board by the Chinese companies interviewed that local labour was substandard. In addition, as much of the technology and equipment used by Chinese construction companies is in fact imported from China, Chinese engineers and operators, familiar with such technology are also required.

China-on- China Competition

A private Chinese firm complained that on assessing the bids, Government departments often tend to only consider the bottom line and do not pay enough attention to the quality of the workmanship, materials and technology implicit in a slightly higher price.

From such a complaint, it can be inferred that, while other local and foreign-based firms may compete for the same bid, the only major competition faced by a Chinese firm is another Chinese firm. It seems indeed that this competition is encouraged by the Angolan government which has made a prerequisite that at least three Chinese companies from the list of 35 bid for the same tender contract. Consulting companies nevertheless maintain that Chinese SOEs do not yet compete enough amongst each other.

Logistics

According to the experience of the Chinese companies in Luanda, the project cycle is the most challenging aspect of construction in Angola. There are only three operational ports in Angola: Luanda, Benguela and Cabinda. This contributes to project concentration in and around these three areas, although all three also have other strategic importance: Luanda is the political capital and consequently the location of the majority of the national government contracts.

As Chinese companies import most of their equipment, materials and labour from China, these ports play an integral role in the Chinese supply chain. Materials and equipment can be retained in these ports for as long as 2-3 months after arrival.

Mobilization time for Chinese companies is however relatively slow. Goods procured often arrive later than the prescribed 30-day mobilization period. As many of the projects undertaken by Chinese companies are still ongoing, it remains to be seen as to whether they will be completed on time. Some
Chinese companies claim that their projects would be completed in a matter of months without such delays, but are now forced to take 1-2 years to complete the project, albeit that this still seems to be quicker than the traditional players.

**Payment**

A problem experienced by some Chinese contractors has also been that of payment. One Chinese company said that this was countered by demanding payment up front. Where this was not possible, i.e. with government contracts, the experience was that payment from the National Cabinet for Reconstruction was eventually delivered, although it was often delayed.

**d) Competition with traditional players**

At the beginning of 2004, Angola, after two years of peace, was slowly beginning the process of reconstruction. The construction contractors which had had a presence in the country for several decades, such as Portuguese firms such as Texeira Duartes, Mota Engil and Soares da Costa, as well as Brazilian firms such as Oderecht and South African firms such as Grinaker Lta, Group 5 and Murray and Roberts were the traditional recipients of construction contracts and tenders available in Angola.

The more well-established Portuguese firms continue to receive contracts, but many of the South African firms, such as Grinaker LTA, Murray and Roberts and Group 5 have lost market share from the Chinese companies’ entry into the Angolan market. It is suspected however that the Angolan government still owes other privately owned foreign-based firms such as Soares da Costa considerable amounts of money and will therefore still award contracts to these companies to keep their creditors at bay.

Portugal and Brazil, whose companies have been long-time players in the Angolan construction company, have historically always extended oil-backed loans to the Angolan government with the understanding that the loaned money would be used to contract the respective Portuguese or Brazilian construction firms. In order to compete with Chinese, the larger construction firms have had to provide even more investment.

Oderbrecht, the Brazilian construction giant that has been operating in the country for almost 25 years, announced in June 2006 that the company would be investing US$400 million in property development. The company would invest in the diamond industry, water infrastructure, energy sector, and urbanization, particularly in the newly developing, up-market suburb of the Luanda-Sul (Presidencia) Futunga.

It was found that Angolan government officials and investment agencies generally view Chinese commercial engagement in a very favourable light when compared to the traditional foreign investors. They welcome the fact that China is willing to inject large amounts of capital into the Angolan economy, albeit as a loan and not necessarily as direct investment, whereas other investors were not willing to run the risk of investing such capital. It was found that there is a particular negativity towards the South African corporate investor.

There is the perception by China’s competitors that Chinese companies have an unfair advantage due to the extensive support offered by the PRC government.

According to some traditional construction players, contracts have in some instances been dissolved and re-awarded to Chinese companies. Contract dissolution was due to an inability to comply with contractual specifications. An example is a South African company, which was contracted to build corporate headquarters for an Angolan firm, a US$126 million contract. When it could not source the components and finishes specified by the Chinese-based design firm, which had been appointed by the Angolan client, the contract was re-awarded to a Chinese company, which was able to source the materials in China.

South African investors are also perceived to be arrogant and there have been several instances of bad corporate practice involving South African construction firms. Group 5, for instance was forced to issue a cautionary announcement on 8 June 2006, declaring that “…at least some basis appeared to
exist for reasonable suspicion that irregular activities had taken place” concerning their operations in Angola, the first of which was the Nova Vida housing project undertaken by government contract in 2001 and worth US$ 135 million.

In addition, according to Africon, a South African construction consulting firm with experience in the Angolan market, South African construction companies are currently some of the most expensive in the industry, due in part to the strength of the South African rand. With current market conditions, it was estimated that South African firms could only hope to competitive if the currency rate dropped to R8.00 to the US$xxviii. This must be seen against the ability of Chinese firms to undercut the closest competitor approximately 20% in terms of overall bid value, with much shorter completion times.

It seems that both Chinese firms and their competition agree that there is a degree of variability in the quality of workmanship displayed by Chinese companies. A representative from Africonxxix stated that Chinese firms, although known to cut corners on cost, were consistent in adhering to the level of quality if clearly stipulated by the civil engineering consultancy firm working on the project.

e) Examples of collaboration/ co-operation

In terms of collaboration, in February 2006, China National Overseas Engineering Corporation (COVEC) publicly expressed interest in entering into joint-venture initiatives with the Angolan government. The company’s Deputy Director General Shi Ping, has stated the company’s willingness to finance some projects, in a bid to compete on an international level entry in to the Angolan construction industry in public-private sector partnershipsxxx.

The company has also approached Portuguese construction companies present in Angola in the interests of partnerships or joint-ventures, admitting the challenges posed by the language barrier to be considerable. Shi Ping stated that, “the Angolan market is also important because COVEC is already on the EXIM Bank list, which qualifies us automatically for developing projects that benefit from the bank's credit line, both in Angola and in other Portuguese-language countries.” xxxi Such joint-ventures are to be encouraged.

The potential opportunity for co-operation between South African companies and Chinese companies in Angola’s construction sector is great. It is becoming evident that many foreign-based companies, which used to dominate the Angolan market, such as the Brazilian, Portuguese and South African companies are rapidly losing market share to Chinese companies. Sub-contracting, however, is still an option. For Chinese firms, there is an added advantage that South African companies speak English, a language generally more accessible than Portuguese.

There are also several instances where the Angolan government appoints civil engineering firms onto projects to ensure construction quality control. An example is the Ministry of Finance Building, built by a Chinese construction firm and managed by South African consultants.

The challenge seems to be that Chinese companies prefer not to subcontract once the tender has been won, but import their labour, equipment and materials wholesale from China. “When a country launches a tender, it thus has the certainty that the company that has won it is the one that carries out the project, that does not subcontract it out to other companies, as do, for example, Western companies in Africa, such as the Spanish,” according to Huang Zequan, a consultant for Chinese companies that wish to move into African markets and an academic at Beijing Universityxxxii. Huang explained that the financial sector and the State work together on the internationalization of Chinese companies in Africa.

f) Identified Key Strategies

Within the context of Angola, Chinese state-owned enterprises have a very clearly defined market entry strategy. The Chinese government and China Exim Bank, through the extension of the oil-backed lone, have guaranteed market access for the Chinese companies as at least 70% of all construction contracts paid for with this credit facility.

In order to further encourage the use of Chinese companies, the Chinese government and China Exim Bank have compiled a list of 35 pre-approved construction companies which have been selected to
enter the Angolan market. Only the Chinese companies which have been subjected to inspection tests by the PRC government and form part of this list may bid for public tenders offered by the Angolan government which will be financed by the oil supply-backed loan. This ensures that bidding companies are able to carry out the construction work effectively.

Chinese officials maintain that the importance of this list lies in the fact that all companies appearing on this list have been evaluated for quality by both the Chinese government and the financial institution underwriting the loan, China Exim Bank, as a precondition for financing the project.

The arrangement is touted a way of the Chinese government making a positive contribution to ensuring that bidding firms are capable of carrying out the task. Most of the Chinese companies are relative new-comers to the Angolan construction market and must compete with engineering firms who have been established in the Angolan construction industry for decades and have detailed market knowledge such as Portuguese firms Soares de Costa, Texeira Duarte and Motengil, or Brazilian Oderecht.

III) Summary and Recommendations

a) Headline findings

The Chinese interaction with the Angolan government while, considerable, is not in any way different from the commercial arrangements entered into by the Angolan government with other stakeholders in the construction industry, such as Brazil and Portugal.

Both have oil-backed credit extensions to the Angolan government, who are contractually obligated to award tenders to companies who have their origins in the creditor country. Tenders are announced and offered to qualifying companies, provided they submit pre-qualifications to the consulting firm overseeing the tender. The Chinese credit-line is only distinguished by its size and the fact that the companies eligible for the Chinese-financed tenders are pre-approved by the Chinese government.

Nevertheless there is a growing concern by NGOs that what little leverage they have to influence the Angolan government in terms of transparency and good governance is being eroded as the Angolan government turns more to the Chinese for financial assistance to rebuild the economy.

b) Emerging Trends

Local in-market procurement

Currently Chinese construction companies import all their required materials, technology and labour directly from China, rendering little direct investment in the local economy. China’s credit lines are extended to pay for the supply chain, and are not designed to support local procurement.

This situation is compounded by the lack of local industry that is able to supply the construction sector: poor quality and comparatively high cost of local materials as well as a lack of local skilled-labour. Improvements in the production of local building materials or materials sourced from the surrounding sub-Saharan African countries would realise a direct benefit to these economies as well as increasing the potential for joint-venture co-operation between Chinese and African businesses.

Indeed, even Angolan companies are now sourcing Chinese construction materials because they are more freely available and at lesser cost. The only regional economy that has the capacity to supply the construction supply chain is South Africa. However, Chinese firms are unfamiliar with building materials procurement strategies from South Africa.

A Chinese firm stated that it did not have the local know-how or inroads to approach South African suppliers. The ability of South African industry to supply Chinese construction firms is a strategic consideration that deserves more research.

There are exceptions, however. Guangdong Xinguang International Group which has recently won a tender to construct large cold-storage facilities in all of Angola’s provinces has approached the South
African Embassy in Luanda for assistance in securing South African materials for their project supply chain.

State and private ownership

Chinese companies in Angola are involved predominantly with government tenders and work for the public sector. This is primarily because the money used to finance their projects is a bilateral loan from the PRC government to the Angolan government, specifically to fund large-scale-infrastructure rehabilitation projects. Currently, many of the projects that are contracted to Chinese firms are managed by the Sigma Group, an Angolan state-owned consultancy.

Although the majority of the contracts are awarded to SOEs, private Chinese companies have also been given a window of opportunity and have also submitted proposals according to the National Agency for Private Investment in Angola (ANIP).

Joint-venture business models

The most important and tangible form of co-operation, the Chinese oil company China Petroleum and Chemical Corporation (Sinopec) announced in March 2006, its entry into a joint-venture with Angolan company Sonangol to form Sonangol-Sinopec International (SSI) to build and develop a new refinery at Lobito, Sonaref, requiring a total investment of US$3 billion.

Currently, little evidence exists to suggest that Chinese companies will enter into joint-venture partnerships with Angolan firms beyond contracting Angolan site-workers. Not only is there a very low local skills base, but the language barrier is seen as the biggest in-market obstacle for Chinese companies. Chinese companies such as COVEC have however shown interest in forming joint-ventures with Portuguese companies, and other, such as Guangdong Xinguang International Group are looking to procure materials from South African sources.

Capacity building

Currently there is little in the way of local capacity building or skills transferral as the majority of the Chinese companies import all their requirements in terms of materials and labour, directly from China. This is due to the lack of local skills base, according to the Chinese companies, as well as the inexperience of local engineers with the imported Chinese technology and equipment.

The Angolan economy needs capacity development. The current practice of Chinese SOEs importing all necessaries from China, equipment, labour, and materials needs to be addressed to ensure that Angola can develop the capacity to sustain the infrastructural development and benefit from technology transfer. It has been pointed out by ANIP that the other foreign-based countries also initially used expatriate employees but, gradually employed the local labour force. They expect this trend will also emerge with Chinese companies. For example, it was widely reported by Government sources that the Luanda General Hospital, built by COVEC was built with a labour force comprising 90% Angolans.

There is also a need to encourage a culture of social development parallel to the infrastructural development in which the Chinese firms are engaged. Initiatives such as educational programmes for local workers are necessary. While other firms do engage in such projects, these additional costs are an aggravating factor in pricing the companies that compete with Chinese companies out of the marketplace.

It is recommended that the donor community consider the possibility of supporting capacity building programmes and skills workshops around the local construction sector in Angola.

While the projects themselves, however, once completed, will improve the functioning of the economy due to infrastructural improvement, there are no current cases of skills development or social investment.
c) Recommendations for Increased Collaboration

While it seems that there is gradual movement towards the establishment of joint-ventures and collaborative projects, this trend is not developing that strongly, and local companies have voiced concern over the guarantee of 70% of the national reconstruction projects to (foreign) Chinese companies. Despite the argument for a rapid infrastructural development to facilitate national growth, the stimulation of local business and entrepreneurship is essential for sustainable economic growth. Consequently, the following recommendations are made.

Management

It is a positive development that the Angolan government insisted on partnership with Angolan firms up to 30% with Chinese companies who receive construction contracts within the ambit of the Chinese oil-backed loan.

Another aspect which could lead to increased collaboration is the outsourcing of quality control management. Currently, most of the projects contracted to Chinese firms do not have independent quality control management. Not only does this compromise the accountability of the project workers, but it is potentially another source of collaboration. Establishing requirements for an independent firm which manages project quality would not only increase the accountability of the project, but also provide another reason to form joint partnerships and collaborations.

What is also important, however, is that these stipulations are clear and well-circulated and enforced. The development of a social ‘scorecard’ which accredits construction companies for skills development and social upliftment programmes would be beneficial. This initiative could perhaps be undertaken by ANIP, when assessing commercial tax break qualifications.

Incentives

Within the context of the Angolan-Chinese loan agreement, the Angolan government should take advantage of its leverage to negotiate and the selection criteria of the Chinese companies to include skills transferral and local capacity building projects. The donor community could participate in the organization and co-ordination of such projects.

Local Procurement

The government should also create further contract stipulations that a fixed percentage of materials be sourced from local suppliers. In order to be able to do this however, the local availability must be addressed and improved. Currently the local capacity to produce construction materials is very low, with most of the construction companies having to import their own materials.

d) Conclusion

The entry of the Chinese construction industries into Angola, albeit controversial, has marked a period of rapid infrastructural regeneration. For Angola, as a country only recently emerging from civil war, the rehabilitation of vital roads and railways and development of infrastructure in general is recognized as a national priority to sustain economic growth and encourage investment. Chinese companies have made a broadly positive contribution to such important development.

Of concern are the challenges posed by a lack of institutional framework and government capacity to monitor and encourage direct investment in terms of local skills development and technology transfer.

The National Office for Reconstruction, the Chamber of Commerce and Industry and ANIP, need to reinforce the promotion of joint-ventures and the development of corporate responsibility among firms active in Angola to ensure that the positive contribution of the rapidly increasing construction industry has sustained socio-economic benefits.
Appendix I

Listed below are several companies that have already engaged in major projects.

The China Road and Bridge Corporation

The China Road and Bridge Corporation was inherited by China’s State Department of state-owned assets supervision and management committee as one of China’s larger SOEs. Initially established in 1979 as the China Highways and Bridges Engineering Company, the present corporation was established in 2005. Primarily engaged in project contracting, construction, design, supervision, counselling and international trade operations, the company has five categories affiliates and 31 overseas branches.

Chinese Overseas Engineering Corporation (COVEC)

Formerly an enterprise under P.R. China’s Ministry of Foreign Trade and Economic Cooperation (MOFTEC), China National Overseas Engineering Corporation (COVEC) joined China Railway Engineering Corporation (CREC), to consolidate its international project contracting. COVEC specializes in China-financed foreign-aid projects, investment in overseas businesses, leasing business of large engineering equipment and machinery, overseas labour service and import/export business.

One of the first SOEs to enter the global market, over 30 years, COVEC has undertaken over 1,000 large and medium-sized international projects. The corporation has won a cumulative total of US$2.6 billion worth of contracts, with US$2.2 billion in turnover.

COVEC has been listed by the US magazine Engineering News Records as one of the top 225 international contractors for years starting from the mid-1990’s and has operations in West Africa, Southeast Africa, South Pacific and Southeast Asia. COVEC is one of the 167 SOEs selected for preferential support by China's State-owned Assets Supervision and Administration Commission to be a flagship enterprise.

Jiangsu International

China Jiangsu International Group is a comprehensive transnational group of enterprises. Its principal businesses cover overseas and domestic contracted engineering projects, overseas labour service, import & export trading, investment in industries, exploitation of high-grade science & technology and development of real estate. It has over 50 member companies, of which 30 are based abroad.

The core of the group is China Jiangsu International Economic-Technical Cooperation Corporation (CJIETCC). Approved by the State Council, CJIETCC has undertaken projects linked to China’s overseas economic aid as well as other private overseas projects.

CJIETCC is present in over 80 countries and regions and has established 30 branches and offices abroad, with annual contract value and turnover exceeding US$ 100 million. The corporation has received such accolades as one of "500 All-China Giant Service Firms" by the State Council, one of "Top 100 Firms in International Economic Cooperation & Trade" by the State Statistics Bureau, one of "Top 30 Firms in the Line of Foreign Economy" and a "Key Enterprise Earning Foreign Exchange under Special Care" by the Ministry of Foreign Trade & Economic Cooperation.

China National Electronics Import and Export Corporation (CEIEC)

China National Electronics Import and Export Corporation, the largest foreign trader of electronics in China, is a comprehensive foreign trade enterprise with import and export of electronic technology and products as well as other services.
The company, established on April 15th, 1980, now has 56 solely-funded and proprietary subsidiaries both at home and abroad, 5 offices abroad and more than 200 joint ventures. By the end of 2000, CEIEC, with its total assets reaching RMB 8.4 billion, had brought about the total sales income of RMB 7.5 billion and the gross profit of RMB68.65 million yuan. CEIEC, at present, has a staff of 4500.

The company’s primary concern includes importing and exporting of electronic technology, equipment, elements and products, as well as undertaking of government trade, contracting international engineering projects, labour service, co-production, joint venture operation, processing with supplied materials, samples and blueprints, setting up maintenance and after-sale service centres by foreign electronics manufacturers, sales agents, consignment sale of spare parts; software development and financial leasing, packaging and transportation, exhibition and advertising, market information and legal consultation service in the foreign trade, and etc.

Since its establishment, CEIEC has concentrated on foreign-based contracts The company’s trade volume from 1980 to 2000 totalled $ 24.2 billion. Since 1992, CEIEC has been ranked in the top ten among the 500 largest Chinese importers and exporters with an annual export volume of USD 1 billion for several consecutive years. The company has established trade relations with more than 140 countries and regions in the world.

Guangdong Xinguang International Group

This company, based in Canton province is a state-owned enterprise that has recently been granted a contract to build cold-storage vessels for the Angolan government in all the provinces. The company is present not only in Angola, but in Nigeria as well, where it has also just been granted a US$ 2 billion project. The company is present in USA and Macau. Its presence in Macau of course gives it a distinct advantage in terms of the language barrier- cited as one of the most challenging aspects of working in Angola.

As one of the companies on the list, the Guangdong Xinguang international group company was encouraged to come by the Chinese government, but still succeeded in winning the contract from all competitors in including the mandatory other two Chinese companies that participated in the bidding process. While complaints were heard about the nature of competition against other Chinese firms\textsuperscript{SD}, a representative from South African-based consulting firm, Africon, voiced the opinion that the level of competition between Chinese companies for contracts could and should be higher.

According to this company, the Angolan government awards the tender according to the overall price, the length of time the contract will take, the professionalism of the company and the historical record of its projects\textsuperscript{SD}.

Guangsha Group

Headquartered in Hangzhou, capital of east China’s Zhejiang Province, the Guangsha Group is one of the first of 49 large group trial units approved by Ministry of Construction and one of five key backbone enterprises in Zhejiang province. The group has expanded from a small company to a multi-trade group covering the fields of culture, film and television, tourism, finance and trade over the past decade. Its output value climbed to US$ 670, 7 million last year and its net profits totalled US$19 million.

CGC Overseas Engineering Company

CGC entered Angola in November 2003, when it established an Angola Management Division, registering as CGC Overseas Construction Angola LTA, one of only two registered Chinese companies in Angola. CGC has three divisions: Developing, Engineering and Material & Resource.

As a result of the outstanding performance in overseas markets, CGCOC has become one of China’s key external trading companies and was selected to be nominate the standing committee director of Beijing and Business Association and the Vice-President of Foreign Economic and Technological Cooperating Association in Beijing.

Golden Nest International Group

The Golden Nest International Group (Pty) Ltd. is a company which is owned by Chinese investors and registered in South Africa. Since its establishment in 1997 the company has evolved into a large multinational group with its business interests ranging from construction, property development, mining and smelting, light industry, medicine, finance, culture, education, tourism and trading.

The headquarters of the group is in Johannesburg, South Africa and its branches locate in Cape Town, Bloemfontein, Ermelo, Bethal, and Standerton in South Africa and Luanda in Angola. The group also has its offices in Chinese city of Beijing, Shanghai, Xia Men, Xi An and Hong Kong. The core business of the group is property development and construction. Under the group, there are a research institute and over twenty companies that are fully or partially owned by the group. The total work force of the group are about 3000, among them about 300 are technical and managerial personnel.

The total turnover of the group for year 2002 is $40 million. The group has completed approximately 25 engineering and property development projects in China, South Africa and Angola, among them six projects possess an investment amount of over US$ 13 million. The Angolan Penguila new town project, which possesses an investment amount of US $150million and occupies an area of 100 hectare, has been completed in February 2003.

China Complant

Since its foundation, China Complant has been authorised by Chinese government to fulfil the assignment of implementation economic aid to foreign countries by undertaking turn-key projects and offering technical assistance in need. China Complant also plays an important role in international civil engineering contracting and providing labour services.

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1 Thompson, Christopher. 2006. ‘Angola gets $2.6 bln non-oil FDI in 2005’. Reuters, 11 April
3 Macauhub, 2006. ‘Increased private investment registered in Angola’. 20 July
4 Interview with the South African Ambassador to Angola, Themba Kubeka.
5 Mbendi Profile of China in Angola
6 Mbendi Profile of China in Angola
9 This may be partly due to the fact that Angolans seem not to be able to distinguish between the different Oriental nationalities conducting business in Angola, such as Japanese, South Koreans and Phillipinos among others, resulting in a large variance in reported numbers.
12 MOFA, 2006.
13 Macauhub, 2006. Chinese companies in Africa have government “seal of quality”, says Chinese consultant. 27 February.
14 Macauhub, 12 May 2006
15 General Helder Vieira Dias “Kopelipa”, who heads up the National Reconstruction Office is also Minister in Chief of the Presidency.Kolepia
Interview with representative from Grinaker LTA. It was stated that Grinaker entered Angola in 1995 and have only recently secured their first significantly sized construction contracts.

Although considered not considered a state-owned enterprise, this does not necessarily preclude the Chinese government or a related body from having a shareholding in the company.

Interview with representatives from Guangsha group and from Guangdong Xinguang International Group; Interview with representative from PRC Economic Counsellor’s office.

This statement refers to the fact that the World Bank and the international Monetary Fund (IMF) have been reluctant donors to Angola, as the Angolan government failed to comply with the necessary preconditions of good governance and transparency.

This may be through the consulting firm Sigma, owned by Sonangol, the state-owned oil company.

Botequilla, H. 2006. Visão, no 286. pp 8

Interview with representative from Murray and Roberts

The comparative AIDS rates amongst workers, both local and Chinese may have a significant impact on their respective absentee rates.

Interview with Director from Standard Bank

At the time of writing, the Rand exchange rate had been fluctuating between R6.50 – R6.85 to the US$. 

A South-African-based multi-national with extensive experience in the construction industry on the African continent. Africon has overseen several high-profile projects, such as the Ministry of Finance building contracted by Golden Nest, a Chinese firm.


Macauhub, “Chinese companies in Africa have government “seal of quality”, says Chinese consultant”, 27 February 2006

Interview with representative from CGS First Construction Company

Interview with representative from Guangsha group

This assertion came from a representative of Guangdong Xinguang International Group.