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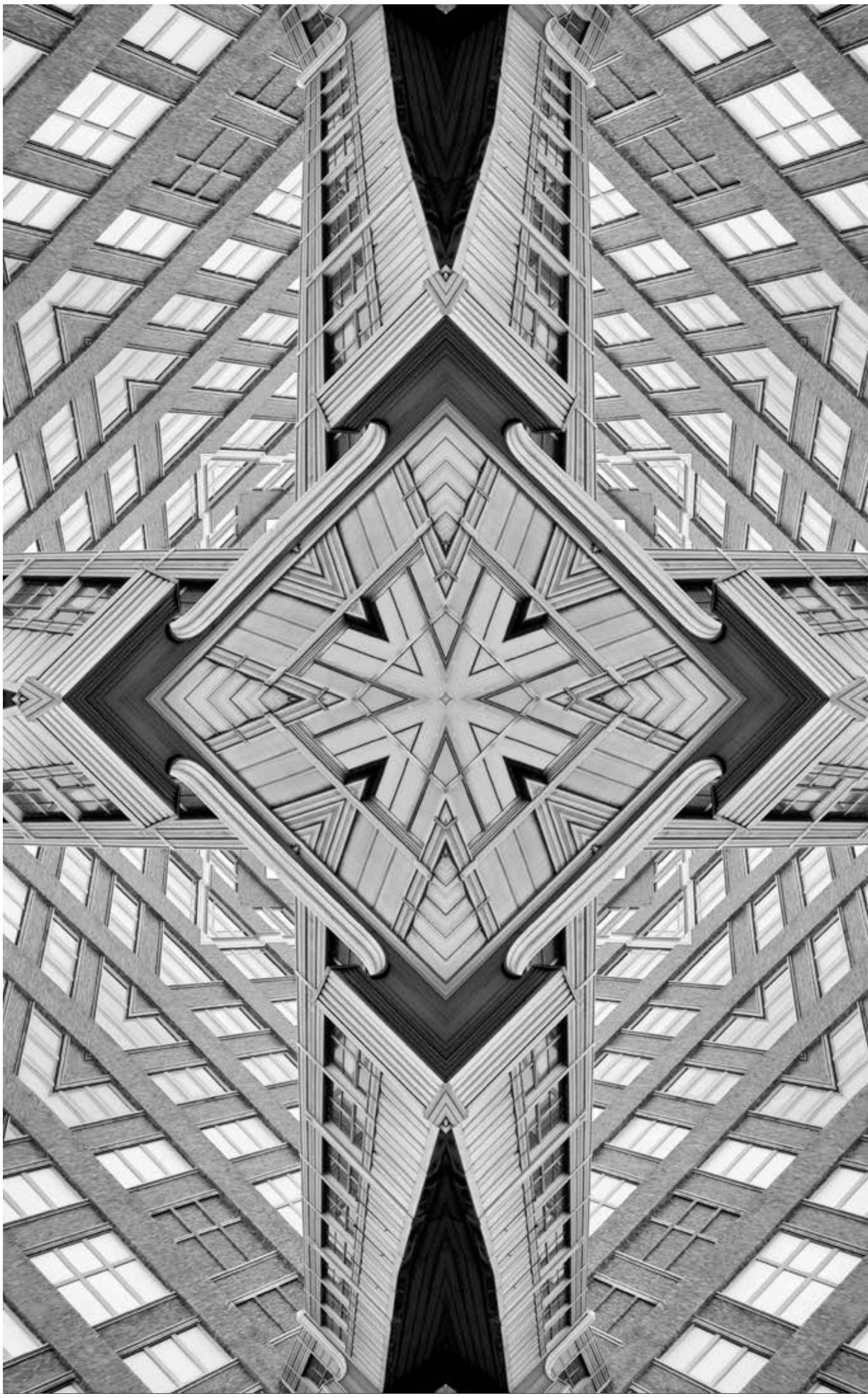

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From War Zone to China's Poster Child, to Economic Despair: Angola's 40-Year Journey

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Abstract

Angola is rich in natural wealth, with massive petroleum and diamond deposits across its territory. Most of its people, however, continue to live in poverty. Since its independence in 1975, Angola has had a tumultuous journey: from being a war zone, to becoming a poster child for Chinese engagement in the continent, and since 2015, declining to its current state where the challenges are so massive—negative growth rates, high external debt, rising poverty and inequality, and lack of basic health and education facilities—that there is no immediate recovery in sight. This brief makes an account of Angola's contemporary history, analyses the broad economic patterns that the country has witnessed over the past four decades, and outlines the imperatives for policymakers.

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Introduction

Angola, officially the Republic of Angola, is a country in Central Africa that has been described as the "world's richest poor country":[1] it is endowed with massive petroleum and diamond deposits, and yet 52 percent of its population live in poverty.[2] Shortly after independence from Portuguese colonial rule in 1975, conflict erupted between the three main guerrilla groups—the National Front for the Liberation of Angola (FNLA), the National Union for the Total Independence of Angola (UNITA), and the Marxist Popular Movement for the Liberation of Angola (MPLA).[a] Between 1975 and 2002, the country was locked in a protracted civil war, often regarded as "the worst in the world."[3] Foreign powers played an enabling role in the Angolan conflict through either direct means such as sending troops, or providing support in the form of military training and supply of arms. The United States and South Africa, in particular, supplied support and training to the FNLA and UNITA, while the Soviet Union and Cuba helped prop up the MPLA.

The rest of this brief will outline three phases in Angolan contemporary history: the period of civil war; gradual economic growth, backed by China; and the present time, when the country is facing massive economic challenges. It highlights the phenomenon of the "resource curse"—that a country as naturally wealthy as Angola can be so poor—and offers recommendations for recovery, including economic diversification.

> "Angola is endowed with massive petroleum and diamond deposits, and yet 52 percent of its population live in poverty."

a The three groups waged an armed struggle against Portuguese rule.

The Angolan conflict was extremely complex and at least three factors drove it: the Cold War, natural resource rents, and ethnic tensions.[4] In her memoir, British diplomat Margeret Joan Anstee, who served as the United Nations Secretary General's Special Representative to Angola, described the country as an 'Orphan of the Cold War'.[5] As the conflict erupted, the warring factions used resource rents to purchase military equipment to continue the war. The MPLA controlled Angola's oil revenue while the UNITA had its grip on the diamond trade in the hinterland. Identity politics was also a significant factor in the Angolan conflict: the MPLA was a socialist movement which had strong affiliations with populations in the Luanda region, defining a mixed Mbundo urban and mestico identity; meanwhile, the support base for the UNITA was largely from the Ovimbundus – the largest ethnic group in Angola; and the FNLA was supported by Bankongo located in the northwest and the Zaire.

Until the fall of the Soviet Union in 1991, Angola was a playground for the Cold War. The role of Cuban troops in the Angolan civil war deserves a special mention. Often known as 'Moscow's Gurkhas', Cuba started training African guerrillas from the early 1960s and its interests in the African continent had its roots in 'Cuban internationalism'. Historical accounts say the MPLA made its contacts with Cuban revolutionaries through the Casa dos Estudantes do Império (Imperial Student House) in Lisbon in the late 1950s, followed by formal interactions via the Cuban embassy in Conarky.[6] In November 1975, Cuba sent 36,000 troops to Angola to defend the MPLA from invasions by South Africa and Zairian forces and by 1991, when the Cuban military intervention in Angola ended, nearly half-a-million Cubans had served in Angola.[7]

The issue of who paid and how much for Cuba's intervention in Angola is disputed. Some reports have suggested that all military aid was provided free of charge, while other sources say Cuba was paid handsomely by the MPLA government for its military operations in Angola—by some accounts, the amount of US$ 20 million per year; moreover, the decision to charge the MPLA was taken because the Angola was an oil exporting country.[8]

Perhaps the most cruel irony of the Angolan war was that during this period, the country's oil was controlled by an American oil company. The Cabinda Gulf Oil Company (Cabgoc), a subsidiary of the US-based Gulf oil began explorations in 1958 and continued its operations even after Angola gained independence and the MPLA gained power.[9] Even US support to UNITA rebels did not affect Cabinda's oil production and the Soviet-backed Cuban forces protected the US company's Cabinda operations from attacks.[10] In other words, the Soviet-backed MPLA earned oil revenue from the US oil company to pay Cuba for its military intervention and humanitarian operations in Angola.

A similar story can be told of the diamond sector: MPLA troops protected De Beers (the South African diamond company) in its activities with Diamang (Angolan state diamond company), while De Beer's taxes helped the South African government fund UNITA.[11] The MPLA also held business junkets in the 1980s during which they reassured Western businesses of the importance of private profit.[12]

The end of the Cold War did not put an end to the Angolan civil war. The country's first free and fair elections were held in 1991 under UN supervision. It was won by MPLA, but Jonas Savimbi, leader of UNITA, refused to accept the results and the war continued for another decade. It was during this phase that the Angolan civil war morphed into a "resource war".[13] While the MPLA government relied on oil revenues, UNITA established control over the diamond fields and became a source of illegal gemstones. UNITA used the profits from selling rough diamonds to purchase arms and ammunition to conquer territory held by the MPLA. UNITA's illegal trade in diamonds was also associated with serious human rights violations—this gave birth to the term, "blood diamond". UNITA took control of the diamond mines through brutal invasions that killed and seriously injured many civilians.

The end of the Cold War also did not lead to an end to foreign intervention in the Angolan civil war. Faced with renewed attacks from the UNITA, the MPLA reached out to its contacts in the French government for supply of arms, despite a UN embargo. In what would be dubbed as "Angolagate", leading French politicians, including the Interior Minister Charles Pasqua, and Jean-Christophe Mitterand,[b] illegally supplied Russian weapons[c] to José Eduardo dos Santos, the President of Angola, between 1993 and 1998.[14] The total value of the arms and the military equipment illegally supplied by France to Angola between 1993 to 1998 is estimated at US$ 790 million.[15] Bribes to the tune of US$ 56 million were paid to Angolan political leaders, including President Dos Santos.[16] Payments were also made to several French politicians and officials to pre-empt any investigation.

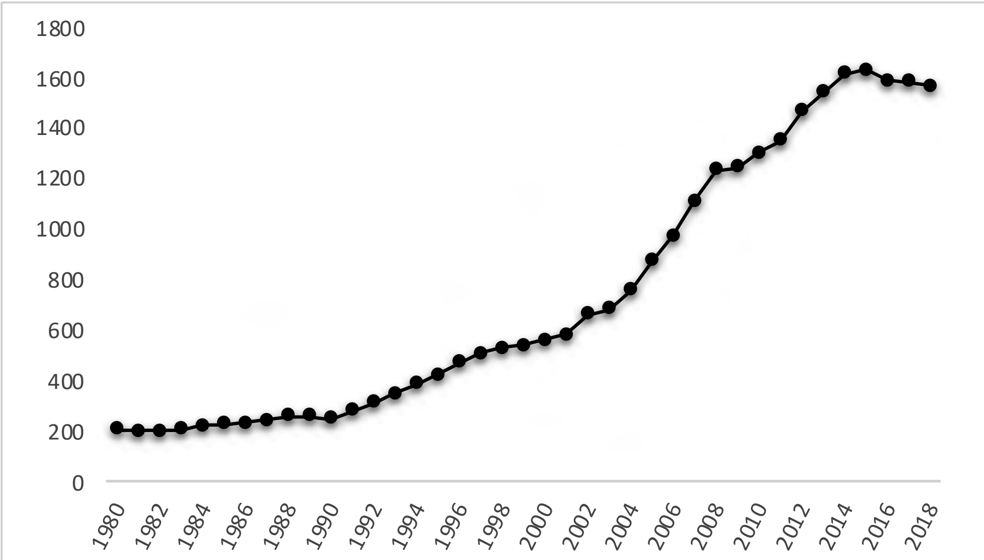
The fallout of the war was devastating for the Angolan population. Nearly 1.5 million people died, 4 million were displaced, and 500,000 fled the country.[17] The 27-year-long civil war left in shambles the country's infrastructure, built under Portuguese colonial rule; it destroyed Angola's agriculture which was the main source of livelihood for the Angolan population, and deprived the Angolan population of basic education and essential health services.

b He was the son of Francois Mitterand, the then sitting president of France.

c About 170,000 landmines, 420 tanks, 150,000 shells, 12 helicopters and six naval vessels.

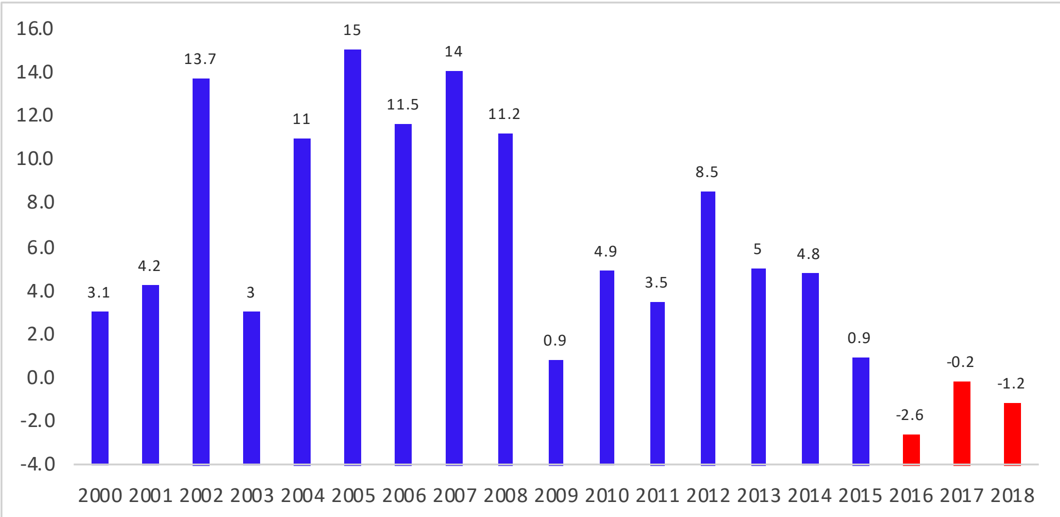
After the civil war ended in 2002, domestic oil production increased, and commodity prices climbed up. After a long period of stagnation, Angola's GDP grew rapidly from 665.4 billion AoA in 2002 to 1,236.5 billion AoA in 2008 at a compound annual growth rate of 11 percent, emerging as one of the fastest growing economies in the world at the time (See Figure 1). The years after the global financial crisis of 2007-2008 were marked by a slowdown, and from 2015 onwards the country recorded negative growth rates. Between 2002 to 2008 Angola experienced an average rate of growth of 11 percent on account of the oil price boom and a dramatic increase in Angola's oil production and exports, mainly to China (see Figure 2). As shown in Figure 3, Angola's oil production doubled from 44.6 million tonnes in 2003 to 92.2 million tonnes in 2008. China emerged as the largest importer of Angolan oil, replacing the United States as the country's largest export destination by 2007; its share in Angolan exports grew from 22.5 percent in 2000 to 45.3 percent in 2013.[18]

Figure 1: Angola's GDP at Constant Prices (in billions of Kwanzas, 1980-2018)



Source: International Monetary Fund, World Economic Outlook Database, October 2020, https://www.imf.org/en/Publications/WEO/weo-database/2020/October.

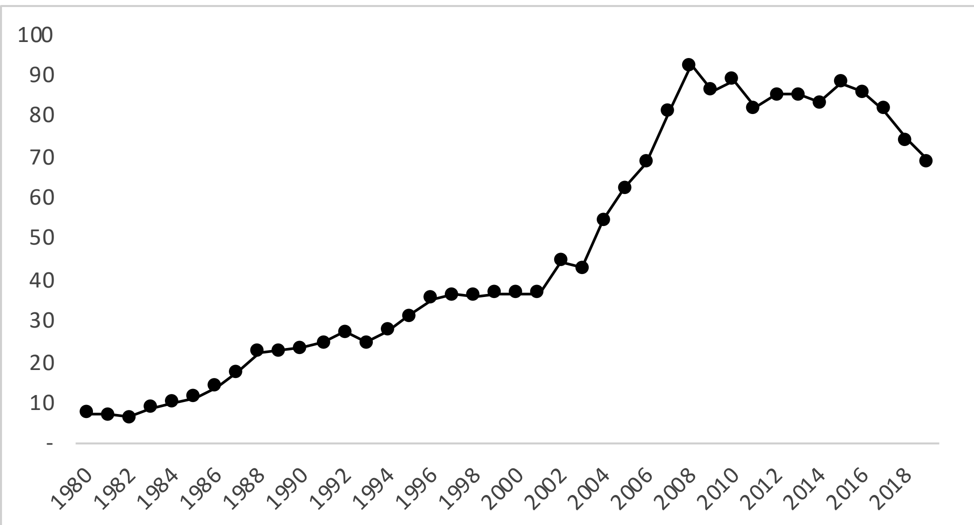
Figure 2:
Angola's GDP Growth
(in percentage, 2000-2018)



Note: Red colour indicates the years Angola recorded negative growth rates.

Source: International Monetary Fund, World Economic Outlook Database, October 2020, https://www.imf.org/en/Publications/WEO/weo-database/2020/October.

Figure 3:
Angola's Oil Production
(in million tonnes, 1980-2018)



Source: BP Statistical Review of World Energy, https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html.

Poster Child for Chinese Engagement in Africa (2002-2014)

Not only did China emerge as Angola's largest export destination, but it also played an important role in the country's post-war reconstruction. After the end of the civil war in 2002, Angola approached international organisations for funds to rebuild the economy. Talks with the International Monetary Fund (IMF) failed, however, because the Angolan government did not accept IMF's conditionalities. The Angolan government then approached China which extended the first US$ 2 billion oil-backed loan to Angola to fund the government's National Reconstruction Program in 2004.[d] The China EXIM bank and the China Development Bank extended several such credit lines to the Angolan government and Chinese official financial flows to Angola soon surpassed all other bilateral and multilateral sources of finance. Angola became the poster child for Chinese engagement in the continent. Although the exact volume of Chinese loans to Angola is not known, according to estimates by the School of Advanced International Studies-China Africa Research Initiative (SAIS-CARI), between 2000 to 2018, Angola was the top recipient of Chinese infrastructure loans, with US$ 43 billion worth of loan commitments.[19]

"Between 2000 to 2018, Angola was the top recipient of Chinese infrastructure loans, with US$ 43 billion worth of loan commitments."

Most African leaders preferred to take loans from China rather than international financial institutions like the IMF and the World Bank. However, Chinese loans were not devoid of conditionalities, and rather were typically tied to the use of Chinese labour and contractors and the acceptance of the 'One-China Policy'.[20] Chinese credit lines to Angola stipulated that 70 percent of the public tenders for the contracts under Angolan reconstruction would be awarded to Chinese companies.[21] Angola had an effective local content policy, 'Angolanisation', in place since 1957. Under this policy, all companies registered with the Angolan National Agency for Private Investment (ANIP) needed to achieve 70 percent local employment.[22] But these regulations were systematically subverted to favour Chinese companies. Local workers—who failed to acquire even basic education on account of the civil war—were employed mainly in the low-skilled and poorly paid construction jobs. As a result, Angola became a magnet for professionals from Portugal and China during its high-growth years.[23] Most of the Chinese workers were employed in construction, real estate, retail, and street hawking; the reverse flow of professionals from Portugal to Angola was due to the slowdown in Europe while Angola was growing remarkably. The capital Luanda became a haven for oil sector expatriate workers with high incomes, and the city also ranked as the most expensive in the world.

d Such loans were later labelled the 'Angola model' of infrastructure finance. China extended other such resource-backed loans to many other African countries like the Democratic Republic of Congo. The loans were to be paid back in oil or other natural resources.

However, ordinary Angolans remained completely untouched by their country's growth in the post-war period. Most of the government's projects were concentrated in Luanda as development of the city into a financial capital along the lines of Dubai was central to the Angolan government's reconstruction plan. Efforts failed in decentralising the population away from Luanda as hardly any investments were made in the rural areas or in agriculture. The sectors that performed well during the boom years (mining and construction) did not generate higher incomes for the bulk of the population due to poor employment generation and fewer linkages with the rest of the economy. While the mining sector had some linkages with the rest of the economy, the construction boom fostered by Chinese money mainly benefited their own construction companies. As a result, high rates of economic growth failed to lead to a rapid reduction in poverty. The poverty head count ratio (at $1.90 in 2011 PPP) declined only marginally from 36.4 percent in 2000 to 34.4 percent in 2008.[24]

Power, Kinship, and Corruption

Another consequence of Angola's oil-led growth story was the steady rise in corruption in the country. Transparency International ranked Angola 146th out of 180 countries in the Corruption Perception Index in 2019.[25] Jose Eduardo dos Santos served as president of Angola from 1979 to 2017. Before he stepped down in 2017, he ran one of the most corrupt governments in the world. Power was highly concentrated in his hands and those of his coterie of family (particularly his daughter, Isabel dos Santos) and friends who controlled the oil revenue and Chinese credit lines. He appointed his family in key positions and his children enriched themselves. Angolan journalist and human rights activist, Rafael Marques de Morais, called the former president an 'epicenter of corruption' and alleged that officials close to the president who managed Chinese credit lines have built multi-billion-dollar private empires.[26] There was complete secrecy in the implementation of the Chinese credit lines and most of the Chinese projects were implemented by the GRN (Gabinete de Reconstrucção Nacional[27]) which was accountable only to the president. Studies have found that China also gained from corruption in Angola: its entry into Angola's oil sector was facilitated by questionable relationships with persons close to the former president.[28,29]

> "Ordinary Angolans were untouched by the country's post-war growth story."

One of the biggest beneficiaries of dos Santos' rule was his daughter, Isabel dos Santos. According to *Luanda leaks*[30] which exposed her corruption in 2020, Isabel dos Santos and her husband, Sindika Dokolo, built a business empire with more than 400 companies and subsidiaries in 41 countries, including 94 companies in destinations like Mauritius, Hong Kong, and Malta.[31] Their companies were favoured by the Angolan state and received public works contracts, consulting offers, loans, and licenses worth billions of dollars.

After the end of the 38-year rule of Jose Eduardo dos Santos in 2017, his successor, João Lourenço, launched an anti-corruption drive. The former president is currently living in exile in Spain and his children are being investigated in several corruption cases. Isabel was removed from her position as the president of the National Oil Company, Sonangol. Her removal led to the draining of Sonangol's bank account. According to Basetti, Landau, and Glandof (2020), at the start of the day she was removed as the President, Sonangol's account contained US$ 57 million and by the end of the day, only US$ 309 remained.[32] This money was transferred to a consulting company owned by one of her allies.

> Jose Eduardo dos Santos, president of Angola from 1979 to 2017, ran one of the most corrupt governments in the world.

Isabel dos Santos also manipulated Angola's national diamond company, Sodiam, to help her husband acquire the Swiss diamond company, De Grisogono. Sodiam borrowed US$ 98 million from Banco BIC, owned by Isabel herself, at a nine-percent interest rate to help her husband invest in De Grisgono.[33] The Provincial Court of Luanda in 2020 prevented Banco BIC from recouping the loan and interest payments from Sodiam which is now facing losses. Isabel dos Santos' assets in Angola and Portugal have been frozen, including her stakes in telecommunications company, Unitel, and bank, Banco de Fomento Angola ('BFA'). She lives in exile in Portugal and is being investigated in several cases.

> After the end of the 38-year rule of Jose Eduardo dos Santos in 2017, his successor launched an anti-corruption drive.

A global network of consultants, lawyers, bankers, and accountants helped Isabel dos Santos profit from Angola's wealth and park the loot abroad. Instead of bringing global best practices to Angola, reputed Western consulting companies, Boston Consulting Group, PWC, and McKinsey & Company, helped Isabel dos Santos finance annual parties on the French Riviera.[34] Boston Consulting and McKinsey were hired to help restructure Sonangol but were paid not by the Angolan government but a Maltese company owned by Isabel dos Santos.[35]

The former President's son, José Filomeno, was also removed from his position as the Chairman of the Angola Sovereign Wealth Fund and has been sentenced to five years of imprisonment for fraud, influence peddling, and money laundering in a US$ 35 billion investment fund case in which Filomeno and his associates diverted US$ 1.5 billion public money via three transfers of US$ 500 million.[36] Dos Santos' other daughter, Welwitschia, has been excluded from the MPLA and has been forced to end her activities in public broadcasting.

Given the endemic corruption in Angola and the opacity around Chinese projects, there was little supervision or quality control of infrastructure projects. The quality of the infrastructure built by the Chinese was of poor quality and in some instances, the structures even collapsed.[37] Indeed, there is no dearth in examples of poor workmanship in Chinese projects in many other African countries such as South Sudan.[38]

> "China's entry into Angola's oil sector was eased by questionable relationships with persons close to president Dos Santos."

Today's Litany of Economic Woes

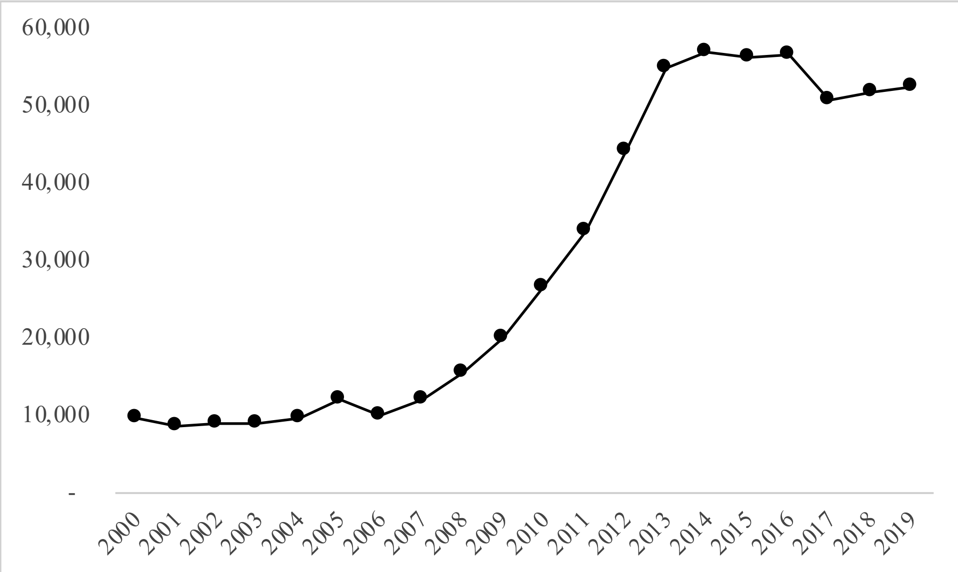
Angola has been experiencing a recession since 2015 when oil prices declined (See Figure 1). The decline in oil prices and, consequently incomes, led to concerns over Angola's debt sustainability. The biggest concern in recent years has been the country's rising external debt. Many analysts have referred to China's extension of credit lines for infrastructure development in Africa as 'debt-trap diplomacy'. According to some estimates, Angola owes more than US$ 20 billion to three Chinese entities—China Development Bank, China EXIM Bank, and Industrial and Commercial Bank of China (ICBC).[39]

> Angola's debt-to-GDP ratio at end-2020 is estimated at 123 percent.

As shown in Figure 4, Angola's external debt stocks increased rapidly from US$ 9,890 million in 2006 to US$ 52,460 million in 2019 at a compound annual growth rate of 9 percent. Angola's external debt stocks-to-exports ratio also increased steadily from 49.8 percent in 2011 to a peak of 198.4 percent in 2016 (See Figure 5). Angola's current external debt-to-exports ratio is estimated at 146.2 percent. The collapse in oil prices and the consequent exchange rate depreciation led to an increase in the country's public debt levels, raising serious concerns over debt sustainability. Angola's debt-to-GDP ratio at end-2020 is estimated at 123 percent.[40] The Angolan government requested for IMF access augmentation, availed the G20 Debt Service Suspension Initiative, and also secured debt reprofiling options with major creditors.[41]

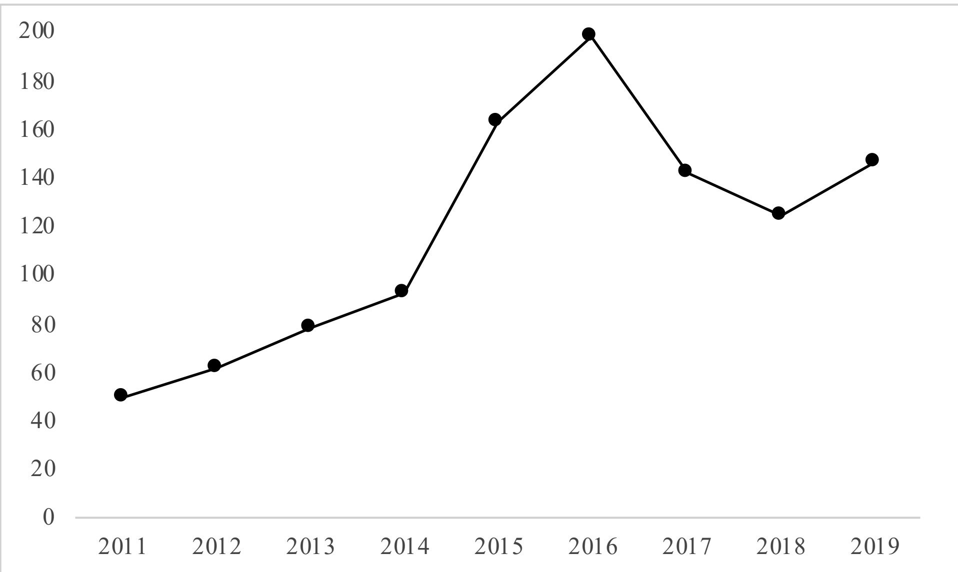
In 2020, the country secured three years of payment relief from Chinese creditors; China is yet unwilling to write off its loans to Angola.[42] The China Development Bank, which accounts for nearly 70 percent of Chinese loans to Angola, is classified as a commercial creditor rather than a bilateral creditor. As Angola's foreign reserves deplete rapidly, China may be forced to reconsider its current position of debt deferrals and agree to debt restructuring.[43]

Figure 4:
Angola's External Debt Stocks (in US$ millions, 2000-2019)



Source: World Bank Database.

Figure 5:
Angola's Debt Stocks-to-Exports Ratio (2011-2019)



Source: World Bank Database.

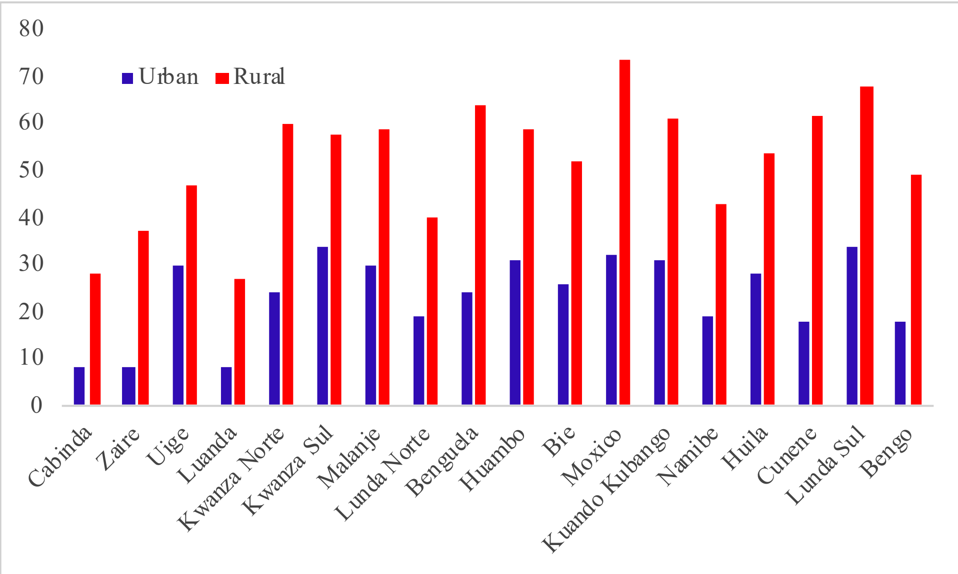
Poverty and Inequality

Angola ranks 149th out of 182 countries in the Human Development Index (HDI). Child undernutrition is high: according to recent estimates, about 37.6 percent of Angolan children under five years are stunted.[44,45] As discussed earlier, the Angolan government has invested heavily in the redevelopment of Luanda. However, the new infrastructure was built without considering the interests of the Angolan people. Indeed, the city of Luanda developed into a modern city, but the rest of the Angolan people continued to live in poverty and economic inequality. In many instances, poor people were evicted from their *musseques*[46] to make way for expensive homes for the rich.[47] Most of the urban poor living in *musseques* are involved in informal activities such as street hawking. Their incomes are low, and they work long and inconvenient hours.[48]

The negative rate of growth also led to an increase in the incidence of poverty. Angola's poverty headcount ratio (at $1.90 a day in 2011 PPP) increased from 34.4 percent in 2008 to 51.8 percent in 2018.[49] According to the report, "Multidimensional Poverty in Angola 2020", by the Oxford Poverty and Human Development Initiative, about 54 percent of the Angolan population is multidimensionally poor.[50,51] Poverty is also more concentrated in the rural areas as compared to urban areas (See Figure 6). About 35 percent of the urban population is multidimensionally poor, against a massive 88 percent of the rural population.[52]

"According to recent estimates, about 37.6 percent of Angolan children under five years are stunted."

Figure 6:
Poverty Headcount by Urban and Rural Area of Residence within Provinces



Source: World Bank (2020).[53]

To be sure, however, large urban areas are not devoid of poverty. For instance, in the provinces of Lunda Sul, Kwanza Sul, and Moxico, urban poverty rate is high (Figure 6). The bulk of the rural poor is engaged in low-productivity subsistence agriculture while the urban poor is mostly unemployed or engaged in the informal sector. The modern export-oriented oil economy, which is concentrated in Luanda and other urban centres, employs only a few locals.

Economic activity will only further slow down due to the COVID-19 pandemic; the lockdown measures that were imposed to arrest the spread of the disease would have likely led to an even higher loss of incomes. As a result, poverty is expected to remain high and inequality will increase in the coming years. According to figures from the World Inequality Database, the top 10 percent of the Angolan population earned about 57.7 percent of the pre-tax national income, whereas the bottom 50 percent earned only 9.5 percent of the pre-tax national income.[54] Angola's Gini coefficient[55] worsened from 42.7 percent in 2008 to 51.3 percent in 2018.[56]

"Economic activity will only further slow down due to the COVID-19 pandemic."

The Way Forward

Angola is a textbook case of a country suffering the phenomenon that economists refer to as "resource curse": any growth that has been recorded in the mining sector (both oil and diamonds) has not benefitted ordinary Angolans. The oil boom created few economic opportunities for the bulk of the population and led to a rise in corruption and inequality. To begin with, an economy such as Angola's, in which oil accounts for about 45 percent of the GDP, will perpetually be fundamentally fragile. The other sector which performed well—construction—also has fewer linkages with the rest of the economy. The imperative for Angola, therefore, is economic diversification.

Angola has significant unrealised potential in agriculture and fishing. About 50 percent of the food consumed in Angola is imported, constituting about 16 percent of total merchandise imports.[57] Adequate investments in the agriculture sector, which employs nearly 70 percent of the population, would not only help improve the quality of life of the population that is dependent on agriculture, but also help make Angola food self-sufficient and food secure. The development of the fisheries sector will improve the standard of living of the people and help attain food security.

The country also needs large-scale investments in health, nutrition, and education. The incidence of stunting is steep among Angolan children and many provinces in the country lack even basic health facilities. Angola lacks a skilled workforce, given the historically poor state of education across the country. Under Portuguese rule, most of the skilled work was done by the foreigners and Angolans were left in poverty. The civil war which followed after independence, led to the ruin of whatever few schools that were available to the Angolan population during colonial rule. Although some improvement in school enrolment took place from 2004, the progress has been slow. One in six children do not attend school and significant gender gaps exists.[58] In rural areas, only 6 percent of girls of secondary school age are enrolled.[59]

By most indicators, there is only a slim chance that an economy which has been in a recession for the last five years—and is grappling with the multiple shocks of COVID-19, oil price decline, oil production cuts, and high public debt—will have the fiscal space to increase government spending in the priority development areas. Debt indicators are expected to remain high in the future because Angola's oil exports are not likely to rise substantially in the coming years. The Angolan government has also committed itself to fiscal retrenchment in the medium term (2021-25), more restrictive public sector support, and an implementation of the IMF's structural agenda.[60]

Conclusion

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Angola's natural resources, oil and diamonds, have proved to be a curse for the population that continues to live in destitution. The main beneficiaries of these resources have been foreign powers and the country's elite. Before 2002, oil and diamond revenue helped the MPLA and UNITA maintain their armies. The end of the civil war did little to improve the lives of ordinary Angolans. For the bulk of the Angolan population, violence and mayhem of the civil war years gave way to abject poverty, rise in inequality and corruption, and a lack of economic opportunities while opening avenues for elite accumulation.

Angola's recovery will require transparency, accountability, democratic checks and balances, and public investment in health and education. The current Angolan government has taken certain steps to investigate and even punish the dos Santos family and officials close to them who made huge profits through graft—it bodes well for the country's fight against corruption.

Given the current state of the economy, however, there is little hope for any substantial improvement in the living conditions of the Angolan people in the medium term. The following lines from Ricardo Soares de Oliveira best describe the fate of the Angolan population, "A thread running through history is the disregard, even cruelty, with which the powerful have treated the powerless: whether reigning locals, or venal outsiders, the enduring design has been the extraction of the riches of the land, with most Angolans counting for nothing."[61]

"Angola's recovery will require transparency, accountability, democratic checks and balances, and public investment in health and education."

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Endnotes

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