The Impact of the Geopolitics of Energy: China and Angola

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The Impact of the Geopolitics of Energy on Developmental and Democratic Prospects in Energy Exporting States: China and Angola

Rapid economic growth in some of the world's largest economies such as China has increased the global need and competition for energy, which often cannot be obtained domestically (Klare and Volman 2006, 304, Johnson 2015, 76-7). The majority of all energy comes from finite fossil fuels, chiefest among which is oil (Hughes and Lipscy 2013, 450), on which this essay focuses. States around the world diversify their oil sources overseas to ensure domestic economic growth (Lai 2007, 532-3, Hughes and Lipscy 2013, 456-7). This is what is referred to as geopolitics of energy. Intuitively, the rise in demand for energy sources should benefit states rich in those resources. For many such states, however, this has not been the case due to effects related to the "resource curse". The literature on the "resource curse" suggests that states dependent on revenues from resource exploitation, for instance oil, fare badly economically and are plagued by corrupt politics when compared to countries less dependent on resource revenues (Shaxson 2007, 1123-4, Ross 1999, 300, Humphreys et al. 2007, 1, Ross 2013, 198), though some do better than others depending on the economic and political state of the country in question at the time of resource discoveries (Rudra and Jensen 2011, 648).

The thesis here is that geopolitics of energy compound the "resource curse" and impede development – understood as economic and social wellbeing in a diversified economy coupled with political freedoms, which is, though not uncontested (see for instance Thomas and Evans 2011, 663-7, Sen 1999, 3-5, Andreasson 2005, 972-8), the still dominant concept of development (Friedman 2006, 31) – and political reform. In order to validate this claim, the essay proceeds in two steps. First, it examines the phenomena of and explanatory factors behind the "resource curse". Following this, the essay takes a closer look at how the geopolitics of energy impact on energy exporting countries' economic and political prospects. In order to present a concise argument, this section focuses on China's interaction with Angola, the former being the world's leading emerging economy and the latter a typical example of a state affected by the "resource curse". Chinese investment in Angola provides the latter with the capital necessary to develop its oil industry without conditions such as political and economic reform. This lack of conditions proves to be the main obstacle to development.

What, however, are the factors behind the "resource curse"? One of the factors to be found in the literature is the "Dutch Disease". This refers to processes in which large, sudden flows of revenue from energy exports lead to an appreciation of the national currency (Friedman 2006, 31, Humphreys et al. 2007, 5-6). Also, the resource industry ties labour forces and capital to itself, leading to a shortfall in labour in and investable capital for other sectors, such as agriculture and manufacturing. The lack of workers increases the cost of the remaining labour force, which drives prices for agricultural and manufactured goods up and makes these sectors of the economy less competitive internationally (Karl 1997, 53). Resource riches can produce enclave economies that have few links to other industries: all that is needed is the equipment to extract the resource, which is then transported to its final destination. Because in most Sub-Saharan cases the resource focussed on in this essay, oil, is not refined in the producer country, the economic cycle ends with the export of un-refined oil, and mutually beneficial linkages with other economic sectors do not exist (Karl 1997, 52, Humphreys et al. 2007, 3-4). Another factor is the volatile price of natural resources, which forestalls long-term economic planning on the basis of stable, dependable returns (Humphreys et al. 2007, 6-8).

Adding to the competitiveness and price issues, rent-seeking behaviour compounds the prospects of many resource rich states. There is a difference between the cost of extracting resources and the price at which they are exported, the rent, and which actors in the resource industry, such as states, seek to control (Ross 2013, 34-9). Appropriating such rents gives rise to taxation and corruption issues, especially in countries suffering from insufficiently organised political, bureaucratic, and economic structures in the first place. Such issues in turn have knock-on effects for development and democratic prospects (Ross 2001, 332-5, Leite and Weidmann 1999, 30-1). Governments of oil exporting countries can appropriate oil revenues through state-owned corporations and the taxation of the oil industry. This hands governments an alternative source of income to taxation of the population and economy at large, which it can spend in a number of ways that help it stay in power. In such countries, the institutions and government machinery to assess and collect taxes are redundant, and state structures tend to be weak (Humphreys et al. 2007, 11-2), making reform, if it was desired by the government, difficult to implement (Ross 1999, 313-6, Karl 1997, 44-5).

The link between taxation and citizens' influence over the government, in other words the level of democratic control and accountability, is weak in oil-dependent states (Shaxson 2007, 1128-9, Humphreys et al. 2007, 12). Governments can make use of oil revenues to provide minimal levels of social welfare and other public goods to reduce popular unrest without the need to tax the population and thus avoiding popular influence over policy making. Governments are in a position to use oil revenues to create a system of patronage for social elites in order to co-opt them into supporting the government (Healey and Robinson 1992, 13, Leonard and Straus 2003, 2, Friedman 2006, 34). By providing potential rivals for political power with a stake in the government, points of reference for opposition can be neutralised. Both elite and popular support can, in short, be secured without recourse to general taxation if the government can tap oil revenues (Karl 1997, 93, Humphreys et al. 2007 12-13). Especially where oil companies are state-owned, oil revenues tend to be non-transparent, allowing governments to run extra-budgetary expenditure and further weakening general society's leverage over the administration (Taylor 2006, 946). Oil revenues can also be employed to pay for large security establishments to secure the government's hold on power and if necessary suppress unrest (Humphreys et al. 2007, 13). Support for governments reliant on resource revenues is conditional on these revenues actually flowing. If they cease to do so, popular protest against government rule may occur. Since state institutions tend to be weak in resource dependent states, recourse to political dialogue is difficult in such cases, if not simply impossible, and violent conflict may well be the outcome, impeding long-term development prospects (Taylor 2006, 950-1).

Relying on these oil rents incentivises governments to favour short-term resources wealth over a long-term diversification of the economy (Karl 1997, 55, Leonard and Straus 2003, 8-10, Humphreys et al. 2007, 9). Diversification would empower other sectors of the economy and the population, as it would require the government to diversify its revenues away from the oil industry (Friedman 2006, 35, Humphreys et al. 2007, 10). In turn, larger sectors of society would gain a stake in the administration reducing the autonomy of those in power. Therefore, incumbent governments in oil exporting states have no incentive to diversify the economy.

This all points to two related outcomes: the spread of non-democratic political systems in weak states characterised by patronage networks, and a non-diversified economy (Moore 2007, 3, 9-10). However, the extraction of oil is capital intensive and requires investment. Many oil-rich states do not have the finances to do so and rely on overseas investment. This is where geopolitics of energy enters the picture and compounds the problems of oil-dependent states.

How are the effects of the "resource curse" and the geopolitics of energy related? To answer this, the essay now turns to China's involvement in Angola, a facet of the geopolitics of energy, though Sudan and Nigeria are two similar examples, with problems mirroring those of Angola (Taylor 2006, 949-50, The New York Times 2006, Washington Post 2006). Angola is in many ways a typical resource rich state suffering from the "resource curse": its main source of income is its oil wealth (Shaxson 2007, 1124, Hodges 2004, 1); it is economically under-developed and lacks a diverse economic base (Hodges 2004, 1); it is ruled by an authoritarian president whose government stands accused of corruption (Taylor 2006, 946, Hodges 2004, 150) and which uses oil revenues to support its security forces

(Hodges 2004, 141); it emerged from civil war in 2002 (Hodges 2004, 6); and, oil revenues allow the government to spend money outside its budget, thus increasing government in-transparency (Bloomberg 2010).

Chinese investment provides Angola with the choice to decline financial assistance from other, often European states and institutional actors such as the EU or IMF, which are conditional on political reforms and economic diversification (Gyimah-Boadi 2015, 109-10). China values the principle of non-interference more than human rights or inclusive government and makes use of Europe's history of colonial rule in Africa to highlight its own, less invasive approach to investment in African states (Taylor 2006, 940, Lai 2007, 525). European states and many international institutions on the other hand usually demand democratic reforms as well as the protection of human rights in return for aid or loans, though their historical and current record is not unblemished in terms of ignoring human rights or other abuses if national interest so demands (Taylor 2006, 953, Klare and Volman 2006, 304, Börzel and Hackenesch 2013, 548).

The Angolan government in Luanda, for instance, favoured a Chinese loan of US$ 2 billion over an IMF loan, the latter of which was conditional on Angola agreeing to increase government transparency and reforming economic governance. After the civil war ended in 2002, Luanda needed financial assistance to rebuild the country. China's offer came without any governance strings, but required Angola to deliver at first 10,000, later 40,0000, barrels of oil per day, allowing the country to pay off debt using future oil exports. Additionally, Angola granted Chinese firms construction contracts, of which 70% were to be executed by Chinese companies and 30% by their Angolan partners (Taylor 2006, 945-8). By providing an alternative to a conditional IMF loan, Chinese investment in Angola handed the Angolan government much needed finances, but it also provided incentives to focus on the oil industry instead of diversifying the economy (Hodges 2004, 142, 156-7, 161).

China offers capital needed to (re-)build infrastructure. However, Beijing's no-strings-attached approach hampers the diversification of developing countries' economies and entrenches those in power through the effects of the "resource curse" as outlined above. Democratic, transparent, and inclusive government is not the result of such investment (Klare and Volman 2006, 306, Ross 2013, 63). Taking a look at developments in Angola since China's loan referred to above highlights this conclusion. Angola adopted a new Constitution in 2010, which changed the rules governing presidential elections: the President is no longer to be elected by the people, but by Parliament. The incumbent President was, at the time of passing the Constitution in 2010, allowed to serve two additional five-year terms. The President at the time was José Eduardo dos Santos, who had been in office since 1979. He was confirmed in office in the country's first elections after the civil war, in 2008, when his party also won 80% of the vote (The New York Times 2010). The President's new constitutional position of power is backed up by oil revenues accruing to the government, the amount of which is not transparent (Bloomberg 2010), and which the President, through his office and the control he exerts over his party (The New York Times 2010), can put to use without recourse to Angolan citizens.

On the basis of the examination of the role China plays in Angola, and bearing in mind that neither China's nor Angola's situation are unique, it can be concluded that the prospects for development and democracy in energy-exporting states are adversely affected by geopolitics of energy.

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