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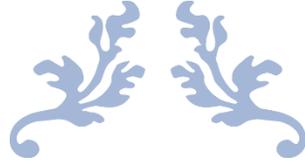
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China's Foreign Aid Loans to Africa: Acts of Extraction or Development?

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Francisca F. Ihekaire



THESIS 2022

CITY COLLEGE OF NEW YORK (CUNY)  
Colin Powell School for Civil and Global Leadership

# **China's Foreign Aid Loans to Africa; Acts of Extraction or Development?**

By Francisca F. Ihekaire

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International Affairs at the City College of New York

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## **Abstract**

The continent of Africa is considered a developing region due to the high rate of poverty and lack of infrastructure, and China has stepped up to offer loans to countries in need across the continent. The billions of dollars in loans that China has widely distributed among African countries raises serious concerns. Angola and Zambia are two countries in Africa considered as developing nations. The two countries, in dire need of infrastructure, have desperately sought loans from the Chinese government. Chinese loans have become common among nations even though respected international financial institutions warn against the hidden conditionalities that are likely be attached to such loans.

This thesis focuses on Chinese lending practices and why these two countries, Angola and Zambia, resolved to borrow from China. It also examines the advantages and disadvantages attached to the loans, especially Chinese motivations. After a prolonged war, Angola needed funding for infrastructure to boost its economy, so the country agreed to a resourced-backed loan because of its enriched natural oil resources. Zambia also needed developmental loans, and because it was considered a high-risk country liable to default repayment, China became its only option. Resource-backed loans are those where the collateral the government offers to back-up the loan is its resources such as oil, minerals, or commodities, or even landmarks, companies, and properties, such as airport, etc.. The idea behind the loans seems reasonable because it was surmised that the country's economy would grow, but thus far, the opposite has been due to different reasons highlighted in this thesis. I argue that these excessive loans have hurt the two countries' economies, primarily due to the way the loans were allocated as well as how they were managed. This thesis

reveals the problems of irresponsible lending and borrowing practices. It is hoped that this research can help these two countries, and aspiring countries, understand the challenges of borrowing when conditionalities are veiled in secrecy that can lead a poor, but resource-rich country, into a debt trap that ultimately benefits the lender.

## **Chapter One: Introduction**

China's Foreign Aid Loans to Africa; Are they Acts of Extraction or Development? Is China giving assistance to Africa just to extract her natural resources and disguising it as helping countries develop?

It is important in the field of international relations that countries support one another and ensure that undemocratic, authoritarian countries are not empowered to exploit weaker nations. It is argued that Chinese loan conditionality attached to its foreign loans forces developing countries at the receiving end into a "debt trap." Also, the continuous act of commodity extraction and property confiscation may likely cause damage to the environment after all its value has been exhausted without plans for sustainability.

A clear definition of each term as it is used in this thesis is stated here. China, known officially as the People's Republic of China, is a country in East Asia. It is the world's most populous country, with a population of more than 1.4 billion. China spans five geographical time zones and borders 14 different countries. Since 2010, China has had the world's second-largest economy in terms of nominal GDP, totaling approximately US\$15.66 trillion as of 2020. China is trying to reshape the global economy and expand its influence through its ambitious Belt and Road Initiative (BRI). China has become a central player in Africa's push for development and urbanization, as a huge percentage of the continent's infrastructure initiatives are being driven by Chinese companies and/or backed by Chinese funding.

The word 'foreign' means not native or belonging to a certain country, nation, sovereignty, or locality. Aid means to help, assist, or support (someone or something) in the achievement of a goal. Foreign Aid refers to any type of assistance that one country voluntarily transfers to another, which can take the form of a gift, grant, or loan. Most people tend to think of foreign aid as capital, but it can also be food, supplies, and services such as humanitarian aid and military assistance. Broader definitions of aid include any assistance transferred across borders by religious organizations, non-governmental organizations (NGOs), and foundations. Extraction is the withdrawal of natural resources by removing them from the country with no provision for replenishment. Development is a

process that creates growth, progress, positive change, or the addition of physical, economic, environmental, social, and demographic components. Property confiscation refers to the taking of an airport, factory, port, farm, mineral mining area or other property as payment when a country defaults on a loan.

I argue that while China offers financial aid loans to developing countries, the conditions attached to these loans force countries to fall into debt and results in China taking over landmarks, companies, valued commodities, and even properties, such as airport, etc. Also, I argue that China's goal in making these loans is primarily to benefit China and not assist the host country. I plan to find evidence to support this argument by exposing the tactics that China has employed of placing undisclosed loan conditions on host country with the ultimate purpose of forcing poorer countries into default and then taking the country's assets as payment.

The two case studies are Angola and Zambia. Angola and Zambia received the largest Chinese foreign loans (in Africa?) and at this point, both countries seem economically overwhelmed and far from being able to repay. Angola is the country with the highest amount of Chinese loans, spread across 100 projects to finance oil and power state-owned enterprises.

**Questions:**

- What types of foreign loans does China make?
- What are the conditions China places on these loans?
- How does this practice force poor countries into debt?
- What is it that China wants from these poor countries that it uses these tactics?
- Is there a national regulatory body in the receiving country involved in screening before loan aid is accepted?
- Why are China's conditionality provisions not open to the public?
- Why is the terms and condition not uniform for all benefiting countries?
- At what point does a country indebted stop the extraction?
- What sustainable or maintenance plan can an international body like the AU, UN provide to the country in debt?

- Why was China the only option especially if the country in need is a member of IMF and WB?
- Are there countries that have successfully used Chinese loan aid?
- What policy recommendations might alleviate this situation?

I conclude that China is making predatory loans to weak countries that have assets China hopes to confiscate when it forces countries into debt through tactics of using undisclosed conditionality as the basis of collateral when the loan and interest on the loan are not paid. I propose that if there were oversight by an international regulatory money lending organization like the World Bank would grant developing countries their request for developmental projects, then China would likely not be seen as a messiah or lender of last resort. Rules and Regulations bring order and accountability therefore not only would China not be able to grow its tentacles globally, but the climate also would not be damaged because of careless extraction.

The research methodology comprises a qualitative study by utilizing information already gathered from written resources such as books, chapters, articles, databases, and websites.

## Chapter Two: Literature Review

Bindra Sukhwant's journal "Foreign aid and foreign policy: An implementation process" states that due to globalization countries have come to be interdependent by relying on one another for resources and commodities. Foreign aid loans strengthen multilateral economic relationships and developed countries helping developing countries increase economic development to meet basic human livable conditions and to build viable economic infrastructure.<sup>1</sup>

According to Larry Hanauer and Lyle Morris's report "Chinese Engagement in Africa," they pinpoint four strategic interests China has in the continent of Africa. The first is that China seeks access to Africa's natural resources like oil and gas. The second is to seek markets for Chinese manufactured products. The third is for political legitimacy, and the fourth and last interest is that China wishes to be sufficiently engaged, especially in security and economic areas in Africa to enable them to continue having tentacles within the continent. The Chinese have the total support and trust of the host country's leaders, but the citizens refuse to accept the beliefs of their leaders. It is argued that China's foreign aid loans are primarily to benefit China unlike other developed countries like the United States which grant foreign aid loans to focus on higher-technology trade and services as well as aid policies aimed at promoting democracy, good governance, and human development.<sup>2</sup>

Terry Mobley's journal article "The Belt and Road Initiative: Insights from China's Backyard" examines China's Belt and Road Initiative (BRI). The article argues that the initiative

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<sup>1</sup> BINDRA, SUKHWANT S. "Foreign Aid And Foreign Policy: AN IMPLEMENTATION PROCESS," *World Affairs: The Journal of International Issues*, vol. 22, no. 3, Kapur Surya Foundation, 2018, pp. 126–41, <https://www.jstor.org/stable/48520086>.

<sup>2</sup> Hanauer, L., & Morris, L. J. (2014). *Chinese Engagement in Africa*. RAND Corporation

was primarily created by China to gain diplomatic influence and predominance around the world. The initiative is believed to encourage virulent trends like trade protectionism, isolationism, and unilateralism which damages the global economy. Although China claims that the initiative brings the world together through a strong economy, the author opposes that argument and claims that the initiative is for diplomatic gains and economic coercion in developing countries.<sup>3</sup>

Ali Zafar in his article “The Growing Relationship Between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment and Aid Links” states that China poses a huge threat to good governance in Africa because China grants loans to some African countries with a record of human rights abuses and leaders with questionable leadership. High Chinese economic demands in Africa are causing a range of hikes in prices and local business owners are caught in the middle. In 2006, more than \$50 billion in trade transpired between China and Africa, with China importing oil, timber, and copper to name a few commodities. China's importation of laborers and other materials into the country to be used for the proposed infrastructure implementation paying its own companies and workers out of the loan money rather than supporting local jobs and development. This shows that the loans granted to African countries are for selfish reasons and not developmental as proposed.<sup>4</sup>

In Ashutosh Pandey's article “Is Africa a victim of bias by international investors?” the author stated that the reason African countries resolve to borrow from China is that international bodies like the World Bank and the IMF refuse to lend to developing countries due

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<sup>3</sup> Mobley, Terry. “The Belt and Road Initiative: Insights from China's Backyard,” *Strategic Studies Quarterly*, vol. 13, no. 3, Air University Press, 2019, pp. 52–72, <https://www.jstor.org/stable/26760128>.

<sup>4</sup> Zafar, Ali. “The Growing Relationship between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment and Aid Links,” *The World Bank Research Observer*, vol. 22, no. 1, Oxford University Press, 2007, pp. 103–30, <http://www.jstor.org/stable/40282338>.

to biased practices in the organization. The article claims the African nations are charged high interest rates which are the same interest rates as developed nations. Also, Africa does not have good representation globally and African nations lack credible data and have a bad credit history. The author concluded that for such international organizations, this is just an excuse to hide their level of bias and unfair treatment which forces the African nations to seek the help they need from China.<sup>5</sup>

According to Christine Lagarde, the former managing director of the International Monetary Fund (IMF) in her speech at a conference on China's Belt and Road initiative in Beijing in April 2018, she claimed that the reason the IMF could not grant loans to developing countries like China is that the leaders lack credibility. In the case of the IMF's rejection of Zambia's request for a loan of \$1.3bn, the reason given was that Zambia's behavior undermined its macroeconomic stability, and the paperwork submitted to the IMF compromised the country's debt sustainability.<sup>6</sup>

In Arve Ofstad's report "Zambia's looming debt crisis – is China to blame?" He exposes the level of debt owned by Zambia to China which is enormous and with very low chances of repayment. He describes the loan relationship between the two countries as a 'debt trap' because Zambia over the years has borrowed so much from China that it has made China the country's highest and biggest single creditor. The bad governance in Zambia made it easy for China to lure them into a trap as the terms and conditions of the loan keep changing. And the

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<sup>5</sup> Deutsche Welle (www.dw.com). "Africa Decries Discrimination in Debt Markets." DW.COM, www.dw.com/en/africa-imf-bias-discrimination-debt-international-investors/a-54564359. Accessed 4 Mar. 2022.

<sup>6</sup> "Belt and Road Initiative: Strategies to Deliver in the Next Phase." IMF, 11 Apr. 2018, www.imf.org/en/News/Articles/2018/04/11/sp041218-belt-and-road-initiative-strategies-to-deliver-in-the-next-phase.

Zambian government requested and accepted the loans without deeply understanding the conditionality surrounding the loans.<sup>7</sup>

In Takudzwa Chiwanza's article "The Top Ten African Countries with the Largest Chinese Debt" Angola was listed as the highest Chinese debtor at the amount of \$25 billion. Even though it is the second-largest oil producer in Sub-Sahara Africa, the country still manages to incur such a large amount of debt. Zambia is number four on the list with an increasing debt of \$7.4 billion. Sadly, this huge debt keeps compiling as the leaders of both countries continue to borrow. The author reported that the Chinese government is beginning to take over some assets to cover these debts.<sup>8</sup>

In Weizhen Tan's article "China's loans to other countries are causing 'hidden' debt. That may be a problem." She accused China of intentionally operating its loan system to developing countries in secret. According to her article, China misleads the borrower through a lack of transparency and destructive conditionality demands attached to the loan. This could pose a threat to international investors. Because of the lack of clarity, countries do not disclose the exact amount borrowed or the interest they are expected to pay. This result in 'hidden debt.'<sup>9</sup>

According to *Zambian intelligent news* "China to take over ZESCO – Africa Confidential" Zambia is losing government properties to China due to loan default. Zambians are accusing the Chinese government of gradually taking over the country. Zambia is losing the power utility company and national radio and television stations to China. Angola is also likely to lose its

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<sup>7</sup> "Zambia's Looming Debt Crisis – Is China to Blame?" CMI - Chr. Michelsen Institute, [www.cmi.no/publications/6866-zambias-looming-debt-crisis-is-china-to-blame](http://www.cmi.no/publications/6866-zambias-looming-debt-crisis-is-china-to-blame). Accessed 4 Mar. 2022.

<sup>8</sup> Chiwanza, Takudzwa Hillary. "The Top Ten African Countries with the Largest Chinese Debt." *The African Exponent*, 2 Oct. 2018, [www.africanexponent.com/post/9183-here-are-the-top-ten-countries-in-africa-bearing-the-largest-chinese-debt](http://www.africanexponent.com/post/9183-here-are-the-top-ten-countries-in-africa-bearing-the-largest-chinese-debt).

<sup>9</sup> Tan, Weizhen. "China's Loans to Other Countries Are Causing 'hidden' Debt. That May Be a Problem." *CNBC*, 12 June 2019, [www.cnbc.com/2019/06/12/chinas-loans-causing-hidden-debt-risk-to-economies.html](http://www.cnbc.com/2019/06/12/chinas-loans-causing-hidden-debt-risk-to-economies.html).

international airport to China as well. Many people believe that this is an intentional strategy for China when they agreed to give out unclear loans to desperate African leaders.<sup>10</sup>

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<sup>10</sup> Zin. "China to Take over ZESCO – Africa Confidential | Zambia Intelligence News."  
<https://www.zambianintelligencenews.com/2018/09/05/china-to-take-over-zesco-africa-confidential/>,  
<https://www.zambianintelligencenews.com/2018/09/05/china-to-take-over-zesco-africa-confidential/>, 5 Sept.  
2018, [www.zambianintelligencenews.com/2018/09/05/china-to-take-over-zesco-africa-confidential](http://www.zambianintelligencenews.com/2018/09/05/china-to-take-over-zesco-africa-confidential).

## Chapter Three: Chinese Loan Practices in the Developing World

The history of Chinese loans can be dated back to as far as 1895, during the Chinese Japanese war. The war started as Chinese resistance to the Japanese ended in favor of Japan, but the aftermath was devastating. China was fined and made to pay Japan war indemnity by signing a treaty with Japan to open up the country for export and investment and pay the sum of 230 million taels. The money paid helped rebuild Japan while it gravely damaged the Chinese economy.<sup>11</sup> Following this period, China launched what is known as the "leasing years," which was China's way of encouraging its banks to invest in railway construction to enable a free market in areas of interest. Today, this concept has grown enormously with the invention of the Belt and Road Initiative (BRI) projects in the developing world.

China's loan practices are so secretive that any information obtained is from the work and investigations of independent researchers outside China. No one truly understands the extent of the interest rates, if the loan matures and how it matures, and the grace period if there are any defaults. Through backings from primarily state owned banks, China is the largest creditor to developing countries. To date, China has refused to publish a breakdown of how its loans work, nor is there an official publication showing how large a loan a country owes. The terms and conditions of lending remain a secret

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<sup>11</sup> Just a moment. . . (n.d.). <https://www.sciencedirect.com/science/article/abs/pii/S1059056018302508>.  
<https://www.sciencedirect.com/science/article/abs/pii/S1059056018302508>

between China and the borrowing countries, and this includes a demand that the countries abide by the rules based on China's request.<sup>12</sup>

Comparing China's loans to the international lending standard is difficult as the conditionality of the loans is not made public. However, for a basic understanding of how shady and unprofessional China handles its loan, these practices are compared to the World Bank since both make loans to the developing world. Unlike the Chinese loaning practices, the World Bank encourages transparency and behavioral norms regarding debt sustainability. Most bilateral and multilateral finance institutions follow norms tailored by the World Bank except China. No institution or organization understands how Chinese loans work, which raises red flags, especially when making loans to clearly identified risky borrowers.<sup>13</sup>

One of the major concerns regarding Chinese loan practices is that they lack coherency and raise speculations. The argument is that China is intentionally leading developing countries into what is known as a "debt trap" so that once a country cannot pay the loan back, China will confiscate collateral the country has placed to guarantee repayment. Others argue that China is granting loans in massive sums as a shiny object so that it can have access to the debtor's natural resources. Chinese loan practices raise critical speculation and receive negative coverage due to their lack of transparency.<sup>14</sup> A report titled "How China Lends: A Rare Look into 100 Debt Contracts with Foreign

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<sup>12</sup> D. (2022). D.Brautigam's The Dragon's Gift: The Real Story of China in Africa (Hardcover)(2010) (No Additional Printings Listed ed.). Oxford University Press, USA.

<sup>13</sup> World Bank, Office of the Vice President. 2019. Bank Policy: Financial Terms and Conditions of Bank Financing. OPS5.09-POL.168. Washington DC: World Bank.

<sup>14</sup> Africa's Debt Dependent Resource Producers Falling Into China's Orbit. (n.d.). Verisk Maplecroft. <https://www.maplecroft.com/insights/analysis/africas-debt-dependent-resource-producers-falling-into-chinas-orbit/>

Governments," jointly published by Georgetown Law and some notable financial institutions in March of 2021, highlighted four aspects of China's lending practices and its differences compared to other mainstream lending institutions such as "The Paris Club."<sup>15</sup>

The Paris Club, since its inception in 1956, was formed as an informal group of creditors to help debtor countries reach coordinated solutions and sustainable payment methods. The club helps creditors create debt treatments like postponement, rescheduling, or reduction. With over 101 debtor countries and 477 agreements, the Paris Club has a framework agreement that covers over \$612 billion.<sup>16</sup> The four aspects of China's lending practices mentioned in the article are the following.

The first difference is that Chinese contract loans lack clarity because of the confidentiality clause. Such a critical loan should not come with a secret, confidentiality clause or lack clarity. Better clarity would mean that international financial institutions could help the debtor country understand debt sustainability, especially when they seek help. Also, it is easy for debtor countries to fall into the problem associated with "secret debts." Second, borrowers get exempted from debt restructuring in multilateral institutions; China alone gets to make the rules and regulations. Third, the loan contract contains or allows China to cross out whatever does not fit their agenda. Also, China could add to the already made clause when deemed fit. The fourth aspect carefully explains the risk in management, especially in exchange rate differences which are likely to affect the

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<sup>15</sup> "How China Lends: Truth and Reality." Global Times, [www.globaltimes.cn/page/202107/1229605.shtml](http://www.globaltimes.cn/page/202107/1229605.shtml). Accessed 18 Apr. 2022.

<sup>16</sup> Club de Paris. [clubdeparis.org](http://clubdeparis.org). Accessed 18 Apr. 2022.

debtor country. Both Angolans and Zambian citizens reiterate the mentioned clauses, however the citizens' concerns have no standing because their leaders keep borrowing.

Several world leaders and leaders of international institutions have voiced their concerns. The president of the World Bank (WB) begged for transparency and for China to improve its rules and regulations governing loan contracts to the developing world, especially since most of the countries in the developing world are struggling from the effect of the global pandemic, which has caused a tragic reversal in the area of infrastructure and development. China's lack of transparency scares the international community because China takes advantage of developing countries by not clearly stating the amount borrowed. Poverty rates have increased, and education, health, and human capital have deteriorated. Therefore, China needs to work out a plan to help developing countries avoid or limit excessive debt burdens.<sup>17</sup>

Concerns and questions-initiated probes into the internal processes and policy compliance with China's \$1 billion loans to developing countries. The probe was to scrutinize banking units like the International Finance Corporation and International Development Association in the unprecedented procedure of Chinese loans. However, the investigation did not yield much.<sup>18</sup> The world is particularly concerned because China's secrecy clause in giving out loans could threaten the world economy. Organizations like the International Monetary Funds and The World Bank, known for helping countries in

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<sup>17</sup> Remarks by World Bank Group President David Malpass at China's 1+6 Roundtable with Premier Li Keqiang – 2021. (n.d.). World Bank. <https://www.worldbank.org/en/news/speech/2021/12/06/remarks-by-world-bank-group-president-david-malpass-at-china-s-1-6-roundtable-with-premier-li-keqiang-2021>

<sup>18</sup> Yahoo is part of the Yahoo family of brands. (n.d.). [https://News.Yahoo.Com/World-Bank-Probes-Internal-Handling-Chinese-Loan-210748764.Html?Fr=sycsrp\\_catchall](https://News.Yahoo.Com/World-Bank-Probes-Internal-Handling-Chinese-Loan-210748764.Html?Fr=sycsrp_catchall). [https://news.yahoo.com/world-bank-probes-internal-handling-chinese-loan-210748764.html?fr=sycsrp\\_catchall](https://news.yahoo.com/world-bank-probes-internal-handling-chinese-loan-210748764.html?fr=sycsrp_catchall)

financial distress, may not be able to help these countries since there are no set records. Also, potential investors will stay away from such countries due to hidden debt.<sup>19</sup>

The United States argues that China uses a development loan approach to lure developing countries into depending solely on the Chinese strategically. The US secretary of state stressed that China's loan practices are predatory transactions; thus, it is easy to make countries fall into debt while China undermines and undercuts their sovereignty, denying them sustainable growth and self-reliance.<sup>20</sup> This sentiment is shared by many other world leaders suspecting that China wants to take advantage of these countries to become stronger with more expansive tentacles in every continent, even if it means using debt as leverage. The BRI works in favor of China and the receiving country, but it favors China because it gives China the power to control the market to its advantage and creates a connection between China and the world.

The fear of China taking over a country is gaining ground, especially with the Hambantota Port in Sri Lanka forcefully seized by the Chinese government due to loan default. Countries in Africa who are heavily indebted are also facing such fears, and some of the claims are that China's loan conditionality makes it challenging to understand that the interest rate is higher with short maturities. China also brings in its citizens to perform the labor on these projects that could benefit the locals. Yet Chinese laborers are brought in to do the job and get paid demonstrates how one-sided Chinese loan practices entrap the debtors without benefiting local workers. There are contradictions between China and the

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<sup>19</sup> China's loans to other countries are causing "hidden" debt. That may be a problem. (n.d.). CNBC. <https://www.cnbc.com/2019/06/12/chinas-loans-causing-hidden-debt-risk-to-economies.html>

<sup>20</sup> Demystifying Debt Along China's New Silk Road. (n.d.). The Diplomat. <https://thediplomat.com/2019/03/demystifying-debt-along-chinas-new-silk-road/>

debtor countries regarding the exact amount owed. Many of the loans are not subject to any credit rating agencies, which makes the exact amount hidden.<sup>21</sup>

China grants non-concessional loans and large sums of loans to low-income countries flagged by the International Monetary Fund (IMF) and the World Bank (WB). The countries flagged were given conditions to first seek debt relief before seeking a new loan, which is reasonable. Also, debt relief is only possible if a country abides by a debt limit framework. China ignores this warning and instead grants loans to developing countries already in massive debt.<sup>22</sup> China does not even question or monitor loan usage, even though it is common knowledge that African leaders misuse funds because they lack accountability.

Countries like Angola and Zambia, heavily indebted to China, readily accepted the contracts without thoroughly understanding the demands, and neither did they insist on transparency before procurement processes. The loopholes empowered China to develop different conditions and terms even after the contracts were agreed upon and signed. Agreeing to keep the terms hidden also gives total control to the Chinese government.

The long-term benefit also hurt the borrowing country, as seen in the case of Angola. Angola derives a third of state revenues from oil, and due to the massive impact of coronavirus and the previous drop in oil prices, the country seeks to renegotiate repayment terms with China which have not been easy since the conditions attached to the

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<sup>21</sup> New study uncovers China's massive hidden lending to poor countries. (n.d.). Big Think. <https://bigthink.com/the-present/china-loans/>

<sup>22</sup> China vs the IMF. (n.d.). Good Governance Africa. <https://gga.org/china-vs-the-imf/>

loan were initially kept a secret between both countries without an outside evaluator.

Angola is withholding oil exportation to China pending when an agreement is reached.<sup>23</sup>

Some of the criticism that China receives on its loan practices is that China is interested in countries blessed with natural resources. Considering how the payment pattern mainly involves repayment in the form of goods and materials like oil, metals, agricultural products, and minerals, to name a few, it is easy to come to such conclusions. Trade between China and some African countries who are in debt, despite the pandemic lockdown, was US\$254 billion. Among China's African major trading partners, about 54% of exports to China came from debtor countries (21% from South Africa, Nigeria, 10%, Angola, Egypt, and Congo had 9, 8, and 6% respectively)<sup>24</sup>

By openly criticizing China, the international financial institutions could look into the contracts and help prevent sovereign debt, assist creditors to understand the problem, and create with China rules and policies to favor all those involved. Until these countries speak up and demand transparency, China will continue to dominate and take possession of country's collateral. There should be clear guidance and set rules to identify various kinds of loan and repayment options. Until countries begin to take a stand, China will continue to loan huge sums until the debt swallows up the country and China takes over.

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<sup>23</sup> Exclusive: Angola cuts oil shipments to China as it seeks debt relief. (n.d.). U.S. <https://www.reuters.com/article/us-angola-china-debt-oil-exclusive-idUSKBN23C1LY>

<sup>24</sup> Angola was Africa's second biggest exporter to China in 2021. (n.d.). <https://Macaonews.Org/Portuguese-Speaking-Countries/Angola-Was-Africas-Second-Biggest-Exporter-to-China-in-2021/>. <https://macaonews.org/portuguese-speaking-countries/angola-was-africas-second-biggest-exporter-to-china-in-2021/>

## Chapter Four: Angola

### Angola's Debt to China

The debate concerning Chinese influence in Africa is increasingly focused on Angola. Though Angola is among the continent's top oil exporters, poverty remains high in the region. Angola is China's most prominent African borrower, with a China Development Bank (CDB) loan of \$14.5 billion, a \$5 billion loan from the Export-Import Bank of China, and other Chinese loan institutions, totaling about \$25 billion (about Sh2.5 trillion).<sup>25</sup> According to the International Monetary Fund (IMF), the country's economy relies on oil, with crude oil and oil products accounting for almost 96 percent of total exports. Angola has a massive, indebted economy and relies on China because of the oil-backed loans it signed after the 26-year civil war, which concluded in 2002. Angola uses a portion of its oil exports to pay off part of its obligations. However, the country will need to pump more oil to meet its obligations, which is unsustainable. Between 1998 and 2020, Angola's gross debt ranged between \$8.2 billion and USD 101.5 billion. The highest level reached in the last 22 years was in 2019.<sup>26</sup>

The most significant challenge for the Angolan economy will be ensuring that China continues to demand its oil because China has been purchasing more oil from the Middle East and less from Africa in recent years. Angola loses significant revenue because China consumes more than 70% of its oil exports. Therefore, when worldwide crude oil prices

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<sup>25</sup> Kenya: Top Ten African Countries With the Most Debt Owed to China. (2021, May 2). allAfrica.Com. <https://allafrica.com/stories/202105020154.html>

<sup>26</sup> Debts an budget deficits in Angola. (n.d.). Worlddata.Info. <https://www.worlddata.info/africa/angola/debt.php>

rise, Angola may be forced to make larger debt repayments under the debt relief arrangements. According to Angola's finance minister Vera Davis, Angola aims to increase loan payments to China to pay off a \$20 billion debt. Although the finance minister admitted that there has been some "budgetary indiscipline" in the past, Angola's state debt is believed to be "sustainable."<sup>27</sup>

Angola leaders promote the concept of Chinese loans to citizens as a win-win, but this is far from the truth. The terms of Angola paying part of its debt to China with oil initially seem like a good idea until it has little oil to sell due to an almost 70% drop in oil price. As oil flows to China for debt repayment, Angola has found itself with a decreasing amount of crude to sell, leaving little revenue for any oil sector development or health care. Some countries are threatening to cut off oil cargo repayment, while Angola is trying to seek to renegotiate repayment terms.<sup>28</sup>

China surpassed the United States as Angola's top diamond buyer, which was not by chance. China is being strategic as always because Angola is the fourth diamond field owner globally. China loaned Angola millions of dollars without due diligence and against World Bank warning because of its hidden agenda, like ensuring that Angola award them almost all the contracts from constructing roads to building hospitals, power plants, and stadiums. The constructions were done by over hundred thousand Chinese expatriates instead of using Angolans. The worse part of China's one-sided benefit is exposed clearer when the

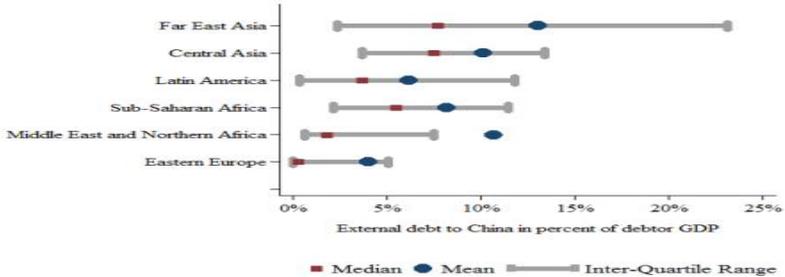
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<sup>27</sup> Smith, Z. E. A. P. (2020, March 20). Angola: Finance Minister Vera Daves has one of Africa's toughest jobs. The Africa Report.Com. <https://www.theafricareport.com/24857/angola-finance-minister-vera-daves-has-one-of-africas-toughest-jobs/>

<sup>28</sup> Growing Chinese debt leaves Angola with little spare oil. (n.d.). U.S. <https://www.reuters.com/article/angola-oil-finance-idUSL5N16H3EV>

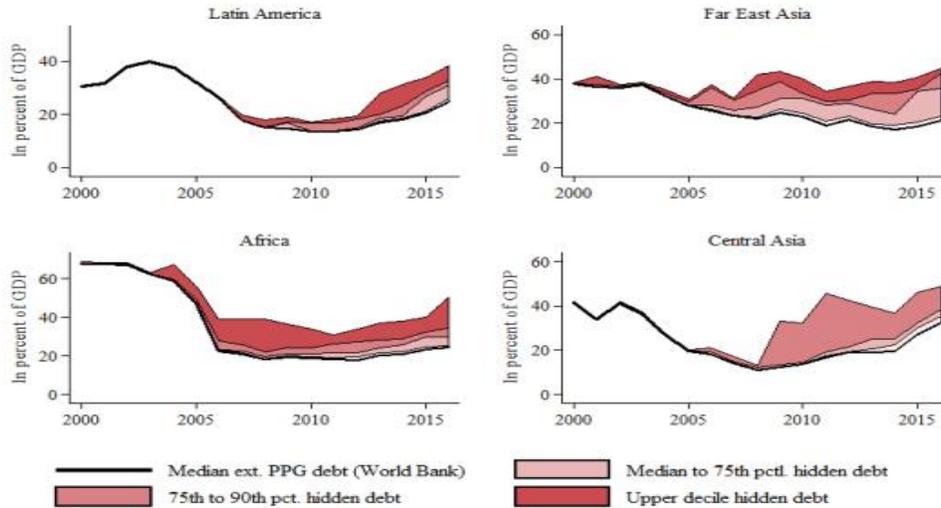
buildings built before the 30years war by the Portuguese are still standing, while most of the constructions and buildings spearheaded by the Chinese are collapsing. It is claimed that the buildings collapses because of the very cheap materials that was used moreover, the buildings and constructions was built in a rush. <sup>29</sup>

China's loan methods to Africa lack transparency, and the procedure remains unclear. The specific amount borrowed by most countries is unknown since desperate African leaders enter the contract without much knowledge; therefore, they get trapped in an unfavorable deal. The China-Angola relationship is one-sided since Angola maintains a high trade surplus with China, owing to a significant increase in Chinese oil exports. There are claims that Angola, through the help of a Chinese loan, has become better in the last five years as the country was able to improve its infrastructure with over a hundred projects ranging from energy, telecommunication, and health, to mention a few.



*Note:* This figure shows average debt to China (blue dots), median debt to China (red squares) and the inter-quartile range (the distance from the lower to the upper quartile of the debt distribution, grey lines) for different country groups (Panel A) and regions (Panel B), each as a share of debtor country GDP in 2017. Debt estimates are based on loan-level data (see text and Appendix I) and include loans to public borrowers (PPG debt) as well as to private borrowers (Chinese loans to private entities abroad are less than 10% of total). Chinese portfolio debt and short-term trade debt are excluded. GDP and country classifications from IMF WEO, LIDCs stands for Low Income Developing Countries. See Appendix I for the list of countries in our sample.

<sup>29</sup> Top five diamond mining countries of Africa profiled. (n.d.). NS Energy. <https://www.nsenergybusiness.com/news/top-five-diamond-mining-africa/>



*Note:* The black line shows median external, public and publicly guaranteed debt to GDP (excl. private borrowers) according to the World Bank's International Debt Statistics for different country groups. On top of this, we add hidden debts to China based on our conservative estimates. The red shaded areas display the median, upper quartile and upper decile hidden debt level by region in line with the above presented histogram (Figure 13).

## What China Operates in Angola

The rail sector was approved for USD 90.2 million in the Angolan national budget for 2021, and the budgetary funding is to help the rail sector's development and economic growth. The 2,600 km of tracks and the railroad automation controls and signalization that the Chinese Railway Construction Company developed will require maintenance. China Railway Construction repaired sections of the historic Portuguese-built Benguela railway that runs from Lobito, Angola's Atlantic coast, to Luau, the country's eastern border town, for a total cost of \$1.83 billion. The new railway is China's second-longest railway built abroad after the 1,860-kilometer Tanzania-Zambia Railway, built in the 1970s.<sup>30</sup> Prior to the 27 years of civil war, Angola's railway system had three railways in use. About 30% of the whole train network was operational after the war, so China approved a loan to Angola

<sup>30</sup> Angola-Tanzania railway line construction in the offing. (n.d.). Construction Review Online. <https://constructionreviewonline.com/news/tanzania/angola-tanzania-railway-line-construction-in-the-offing/>

for the funds to rehabilitate the railways. In order to rebuild the outdated train tracks, roughly 4.3 billion Euros was used to build 2,612 kilometers of rail tracks and 151 stations between 2004 and 2015. After completing the project, it will be able to transport 20 million tons of items and 4 million passengers each year.<sup>31</sup>

In the power sector, Angola 2002 made a considerable investment to recover and rebuild the devastated infrastructure, which was destroyed, like everything else, during the civil war. There was an increase in generation capacity from roughly 830 MW in 2002 to over 1,200 MW in 2008. It is about 70 megawatts per million people. The power supply in Angola was repaired and restored through a Chinese loan. Almost 1,000 MW of installed power generation was operational, accounting for around 80% of the total installed capacity.<sup>32</sup> It is higher than the norm for resource-rich countries, with around 66 percent operational and generating electricity. The capacity likely enabled a 13 percent average yearly rise in electricity production. Under the Chinese-led power project, the Angolan National Development Plan will supply over 2.5 million homes with electricity. The project consists of nine substations to be constructed and related support projects.<sup>33</sup>

Only 17% of urban and classed roads are well paved in Angola. With the dilapidated roads and only a few reliable bridges in Angola, there is a call for concern, especially since the government spent an average of \$2.8 billion between 2005 and 2009 on infrastructure.

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<sup>31</sup> Angola - Transportation (Aviation and Rail). (n.d.). International Trade Administration | Trade.Gov. <https://www.trade.gov/country-commercial-guides/angola-transportation-aviation-and-rail>

<sup>32</sup> Chinese-built project to power 300,000 Angolan households. (n.d.). CGTN Africa. <https://africa.cgtn.com/2019/06/08/chinese-built-project-to-power-300000-angolan-households/>

<sup>33</sup> Angola - Energy. (n.d.). International Trade Administration | Trade.Gov. <https://www.trade.gov/country-commercial-guides/angola-energy>

Because transportation is a significant project and would significantly impact the country's overall economy, Angola plans to repair and widen about 230 roads, five major connecting roads, and ten bridges with a budget of US\$630 million.<sup>34</sup> According to the 2010 Logistics Performance Index (LPI), Angola is one of the lowest performers in the world due to poor transportation logistics. Its manufacturing industry relies on imports for up to 40% of its supplies, which can be difficult and expensive to obtain due to poor road conditions. Furthermore, exporting or importing commodities takes approximately 49–531 days more than any other African country, and roughly 2.1 percent of manufacturing enterprises' output gets lost in transit, but good roads would significantly improve routes and reduce travel times.

The Angolan Institute of Communication (INACOM) was established in 1999 to regulate the industry because Angola's telecommunications sector needed to transform. Since the end of Angola's civil war in the early 2000s, access to ICT has vastly improved. Though Fixed-telephone access has increased slightly, the growth of cellular access has partially offset this. There was less than one subscriber per 100 individuals in 2000, but by 2009 there were about 50 subscribers per 100 people. To give citizens options, Nexus and Mercury are among the Four fixed-line operators licensed, and in 2001, Uni-Tel, a Portuguese telecom company, was given a license to enter the market.<sup>35</sup> Angola has a population of roughly 20,703 web hosts, which is lower than the global average. By the end

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<sup>34</sup> Angola's key road project. (n.d.). World Highways. <https://www.worldhighways.com/wh8/news/angolas-key-road-project>

<sup>35</sup> Angola sells 80 pct of telecoms group Movicel. (n.d.). U.S. <https://www.reuters.com/article/angola-movicel-idUKLU58752720090730>

of 2020, around 660 million of them, or about 3%, had been encrypted with SSL or similar encryption.<sup>36</sup>

China's role in Angola's housing and urbanization involves transforming a 5,000-hectare (12,355-acre) rural area close to the central city of Luanda into a housing complex able to hold over half a million people. The 3.5-billion-dollar Kilamba New City project includes constructing about 750 apartment blocks, with each building having eight floors. Also, the plan entails dozens of schools and retail stores. The project was led by China International Trust Investment Corporation (CITIC), although known now as CITIC Group Corporation Ltd. In 2010, CITIC Construction and Sonangol signed a framework agreement for the RED Social Housing Project. According to the deal, CITIC Construction will design, procure, construct, and construct infrastructure for homes in 20 plots across 14 provinces and cities. About 34,000 flats are nearing completion in Luanda, Benguela, Namibe, Lubango, and Zango within three years.<sup>37</sup>

China-Angola Domestic politics have spurred fierce debate about economic cooperation inside and beyond the country. The MPLA governing party oversees Angola's political system, while the executive branch oversees policymaking. Angola's President, José Eduardo dos Santos, is a fervent backer of China's growing presence in Africa. He claims that China's collaboration laid the groundwork for a significant acceleration of the country's economic growth. Contracts between Chinese firms and Angola's ruling class, on

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<sup>36</sup> Telecommunication in Angola. (n.d.). Worlddata.Info.  
<https://www.worlddata.info/africa/angola/telecommunication.php>

<sup>37</sup> AfricaNews. (2018, August 19). Angolans embrace better life with Chinese social housing project.  
<https://www.africanews.com/2018/08/19/angolans-embrace-better-life-with-chinese-social-housing-project/>

the other hand, are opaque and rife with corruption. By 2006, Angola accounted for more than half of China's African petroleum imports. Saudi Arabia was once the world's largest oil supplier to China before Angola. It is worth noting that, aside from oil, Chinese companies are also investing in Angola's diamond mining industry.<sup>38</sup>

More than 99 percent of Angola's exports to China include fuels and petroleum products in 2016. China is Angola's leading purchaser and trading partner. In 2018, Angola's imports from China totaled US\$2.3 billion, accounting for 14.56 percent of the country's total imports. Popular products from China were machine and electronics equipment and iron and steel products. Angola has risen to the top of China's African trading partners. "The degree of trade between the two countries also rose dynamically," Vines said. It topped US\$1.8 billion in 2000 after fluctuating between US\$150 and US\$700 million annually in the 1990s. China is Angola's primary export market. They accounted for 60.28 percent of Angolan exports in 2018, with \$25.7 billion. More than 99 percent of Angola's exports to China were fuels and petroleum products in that year. In 2018, Angola's imports from China totaled US\$2.3 billion, accounting for 14.56 percent of the country's total imports.<sup>39</sup>

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<sup>38</sup> "China-Angola Investment Model." *Sustainability*, vol. 10, no. 8, 2018, p. 2936. Crossref, <https://doi.org/10.3390/su10082936>.

<sup>39</sup> Analysing China's "Angola Model": A Pattern for Chinese Involvement in Africa? (n.d.). ResearchGate. [https://www.researchgate.net/publication/349916518\\_Analysing\\_China's\\_Angola\\_Model\\_A\\_Pattern\\_for\\_Chinese\\_Involvement\\_in\\_Africa](https://www.researchgate.net/publication/349916518_Analysing_China's_Angola_Model_A_Pattern_for_Chinese_Involvement_in_Africa)

## Chapter Five: Zambia

### Zambia's Economy

The Heavily Indebted Poor Countries (HIPC) is an initiative created to help emerging-market countries scale through unmanageable debt burdens if the countries meet the criteria. The initiative was formed in 1996 by the International Monetary Fund (IMF), The World Bank (WB), and other bilateral and multilateral financial organizations. Thus far, about 37 countries, including Zambia and thirty other African countries, have received debt relief under HIPC.<sup>40</sup> The Zambian government borrows from different sources like the Eurobond market and traditional and non-traditional lenders; however, Chinese creditors remain Zambia's primary lending source, accounting for over 65% of Zambia's external debt.

Most developing countries need external financing to build the basic infrastructures for economic growth. Zambia borrows to make up for its increased budget deficits and to finance essential infrastructure projects. The last time significant infrastructure upgrades took place in the country was in the early 1970s. Zambia's indebtedness is compounded by hidden debt caused by China's unethical imposition of conditionalities and the lack of transparency.<sup>41</sup> Chinese loans are considered unethical because of their practices of being made in secret. The Organization of Economic Cooperation and Development (OECD) rules state that aid, amongst other components, must have a 25% grant or concession component, which the Chinese loan system may lack due to secrecy. Also, the international financial institutions find it difficult to

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<sup>40</sup> World Bank Group. "Heavily Indebted Poor Countries (HIPC) Initiative." World Bank, <https://www.worldbank.org/en/topic/debt/brief/hipc>, 23 June 2021, [www.worldbank.org/en/topic/debt/brief/hipc](http://www.worldbank.org/en/topic/debt/brief/hipc).

<sup>41</sup> Good, Kenneth. "Debt and the One-Party State in Zambia." *The Journal of Modern African Studies*, vol. 27, no. 2, 1989, pp. 297–313, <http://www.jstor.org/stable/160852>. Accessed 23 Apr. 2022.

understand or advise parties involved, especially the country on the receiving end. The Chinese government only releases regional or continent investment sums, not by country, which causes more confusion because no one knows how much debt an individual country owns.<sup>42</sup>

The Chinese government refuses to disclose the exact amount of loans because it will raise questions on both the part of the Chinese citizens and the citizens of the recipient country. Regarding Chinese citizens, the government is making loans to developing countries when parts of China are still underdeveloped. Moreover, citizens of the recipient countries would be unhappy with the vast sums borrowed by their governments. Also, Zambia's leadership has mismanaged the loans, demonstrating weak fiscal management capacities and fiscal controls. Because of a lack of strong financial management, the international community has not been able to provide additional financial assistance.<sup>43</sup> China's involvement in Africa is to gain access to the foreign market via exporting goods to the local markets in Africa. China floods the market with goods made from raw materials acquired cheaply from Africa. The idea is that China also wants to transfer its excess domestic production abroad, including Africa, to gain access to the critical natural resource the continent has.<sup>44</sup>

The government of Zambia created an idea called the "Debt Restructuring Program," which means putting on hold projects below 80% completion and refusing to start up new projects pending when all the amount borrowed can be duly justified. Nothing much came out of

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<sup>42</sup> Gayou, Donald Gerard. "China's Economic Engagement with West Africa: Present Realities, Problems, and Prospects." *American Journal of Chinese Studies*, vol. 24, no. 1, 2017, pp. 13–28, <http://www.jstor.org/stable/44439664>. Accessed 26 Apr. 2022.

<sup>43</sup> Chaponnière, Jean-Raphaël. "Chinese Aid to Africa, Origins, Forms and Issues." *The New Presence of China in Africa*, edited by Meine Pieter van Dijk, Amsterdam University Press, 2009, pp. 55–82, <http://www.jstor.org/stable/j.ctt46n2kj.5>. Accessed 26 Apr. 2022.

<sup>44</sup> Onjala, Joseph. "Chinese Direct Investments in Africa: Motivations and Environmental Implications." *Georgetown Journal of International Affairs*, vol. 17, no. 1, 2016, pp. 91–102, <http://www.jstor.org/stable/26396157>. Accessed 26 Apr. 2022.

the idea, mainly because the restructuring would not have included projects financed by the Chinese and also because the country is too deeply in debt.<sup>45</sup> The Chinese state-owned lenders grant loans to developing countries for profit, whereas the Chinese government loans are geopolitical and intend to gain in Africa's natural resources. State-owned enterprises can either be on a large scale providing loans for infrastructure, medium scale seeking to gain ground in the market by constructing factories, or small scale like farming or selling goods locally.<sup>46</sup>

Zambia's copper ore, refined copper, and unrefined copper account for about 74% of its total exports. Because copper commodities and products are the main export products, when the price of copper dropped drastically in 1998, Zambia's economy was gravely affected. After that, the government sought to diversify its economy by increasing the production of other natural resources like gemstone mining, promoting wildlife and nature tourism, and scaling up to commercial agriculture. The impact of climate change has affected the decision to expand agricultural exports, including seasonable changes in weather patterns, prolonged drought, flooding, illegal deforestation, and poaching of animal wildlife.<sup>47</sup>

Because Zambia has never suffered a military conflict, it is a peaceful, safe, and stable African country to visit. Zambia has enough attractions to help boost the country's economy through tourism. The country has some species of wildlife that are almost extinct in other parts of the world, and over thirteen unique waterfalls, including Victoria Falls, one of the Seven

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<sup>45</sup> "Zambia's Looming Debt Crisis – Is China to Blame?" CMI - Chr. Michelsen Institute, [www.cmi.no/publications/6866-zambias-looming-debt-crisis-is-china-to-blame](http://www.cmi.no/publications/6866-zambias-looming-debt-crisis-is-china-to-blame). Accessed 23 Apr. 2022.

<sup>46</sup> Thrall, Lloyd. "Chinese Presence and Behavior in Africa." *China's Expanding African Relations: Implications for U.S. National Security*, RAND Corporation, 2015, pp. 21–74, <http://www.jstor.org/stable/10.7249/j.ctt15zc655.10>. Accessed 26 Apr. 2022.

<sup>47</sup> "Zambia - The World Factbook." <https://www.cia.gov/the-world-factbook/countries/zambia/>, [www.cia.gov/the-world-factbook/countries/zambia](https://www.cia.gov/the-world-factbook/countries/zambia/). Accessed 23 Apr. 2022.

Wonders of the World. Zambia also has over 40% of Southern Africa's fresh natural spring water.

The government of Zambia proposed a new fiscal policy and regulations on the use of mineral resources, including canceling tax concessions for copper mining. According to the government, foreign mining companies were not paying back as much as they should have under the previous tax system.<sup>48</sup> According to the Zambian law on land use, the property is not sold to individuals or entities, even if they are nationals of Zambia; instead, the land is leased for investment purposes. A lease is granted by the Private and Public Partnership (PPP) to companies if they can prove that their objectives meet the criteria for adding value to the national economy. PPPs help the government gain access to private companies' resources and expertise that may be lacking in the government or local private sector. Initially, the government would add years to a company's lease in place of collecting taxes from the company. However, now the government is seeking to reduce years of land-lease allocations.<sup>49</sup>

In 2006, an amendment to the constitution created the Zambia Development Agency, which will serve as a guarantor for investors. For general investors, the Investment Promotion and Protection Agreement (IPPA) defines the criteria for an acceptable investor. Under this agreement, investors do not pay taxes for the first five years.<sup>50</sup> The government seeks to change

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<sup>48</sup> "Access Denied." [Http://Www.Eurodad.Org/Whatsnew/Articles.aspx?id=2108](http://www.Eurodad.Org/Whatsnew/Articles.aspx?id=2108), <http://www.eurodad.org/whatsnew/articles.aspx?id=2108>, [www.eurodad.org/whatsnew/articles.aspx?id=2108](http://www.eurodad.org/whatsnew/articles.aspx?id=2108). Accessed 23 Apr. 2022.

<sup>49</sup> The Prospect Group. "Zambia's Minister of Commerce, Trade, and Industry Robert K Sichinga on the Country's Economic Performance." The Prospect Group, <https://www.theprospectgroup.com/robert-k-sichinga-minister-of-commerce-trade-industry-zambia-8853/>, 29 Dec. 2015, [www.theprospectgroup.com/robert-k-sichinga-minister-of-commerce-trade-industry-zambia-8853](http://www.theprospectgroup.com/robert-k-sichinga-minister-of-commerce-trade-industry-zambia-8853).

<sup>50</sup> "Zambia Is a Tax Haven for Chinese." [Https://Www.Zambiatwatchdog.Com/Zambia-Is-a-Tax-Haven-for-Chinese/](https://www.Zambiatwatchdog.Com/Zambia-Is-a-Tax-Haven-for-Chinese/), <https://www.zambiatwatchdog.com/zambia-is-a-tax-haven-for-chinese/>, 8 Nov. 2017, [www.zambiatwatchdog.com/zambia-is-a-tax-haven-for-chinese](http://www.zambiatwatchdog.com/zambia-is-a-tax-haven-for-chinese).

the system by insisting that all companies and investors must register to get a certificate that would be useful for tax purposes.<sup>51</sup>

Some speculate that the Chinese like to run businesses in Zambia because the Zambian government offers low tax rates and ensures that businesses and organizations' rules and regulations adhere respectfully. Although China claims that Zambia provides a friendly investment environment, more Chinese companies should be required to create job opportunities for Zambians, instead of bringing in Chinese workers. The Zambian government, which almost all the African leaders who borrow from China agree with, loves transacting with China because there are no benchmarks, regulations, or pre-conditions. In addition, the Chinese government does not care about environmental impact assessments like the West does.<sup>52</sup> Therefore, China takes maximum advantage of the leadership by bringing in its workers for jobs that low or non-skilled Zambians could carry out.

It is a well-known fact that heavily indebted Zambia desperately needs the support of an international financial institution like the World Bank (WB) or the International Monetary Fund (IMF). The IMF categorically states that for Zambia to be considered for any form of support, the government's financial situation must be transparent and reveal the exact amount of money borrowed from China. Moreover, under IMF policies, conditionalities in the agreements entered

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<sup>51</sup> <https://ppp.worldbank.org/public-private-partnership/about-us/about-public-private-partnerships>. (n.d.).  
<https://Ppp.Worldbank.Org/Public-Private-Partnership/about-Us/about-Public-Private-Partnerships>.  
<https://ppp.worldbank.org/public-private-partnership/about-us/about-public-private-partnerships>

<sup>52</sup> Hanauer, Larry, and Lyle J. Morris. "African Reactions to Chinese Engagement." *Chinese Engagement in Africa: Drivers, Reactions, and Implications for U.S. Policy*, RAND Corporation, 2014, pp. 55–72,  
<http://www.jstor.org/stable/10.7249/j.ctt6wq7ss.12>. Accessed 26 Apr. 2022.

into with the Chinese government must be clearly stated, and then Zambia must also commit to fiscal reform and debt sustainability before any financial assistance is rendered.<sup>53</sup>

### China's Operations in Zambia

To restructure its economy, Zambia chose to privatize state-owned enterprises and remove support subsidies. Privately-owned companies like foreign large-scale mining enterprises started extracting profits over what the country was receiving in taxes; private entities eventually controlled even the Zambia Consolidated Copper Mines (ZCCM). The privatization of ZCCM caused a massive reduction in government income allocated for social spending in infrastructure, health care, and education, causing deep reductions in those vital sectors. National Airways was liquidated due to safety and financial issues.<sup>54</sup>

Chinese loans come with advantages and disadvantages, like all contracts. The concern in the case of China is that it gives loans to undemocratic states and encourages mismanagement and corruption. China's "no strings attached" approach means looking the other way; even though there are confirmed reports of human rights abuses in some developing African countries China transacts with, causing a huge backlash. China continues to carry out transactions with the Angolan government, knowing how dysfunctional the country is. Also, Sudanese corruption and Zimbabwe's previous authoritarian leader President Mugabe, prohibited Zimbabweans from

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<sup>53</sup> China must save Zambia from imminent default. No one else can. (n.d.). SupChina. <https://supchina.com/2020/10/09/china-must-save-zambia-from-imminent-default-no-one-else-can/>

<sup>54</sup> Chief Editor. (2018, September 16). Zambia: Zambia-China, An intricate Relationship. LusakaTimes.Com. <https://www.lusakatimes.com/2018/09/16/zambia-china-an-intricate-relationship/>

conducting transactions with the West. In China's defense, they claim to not interfere with any domestic issues.<sup>55</sup>

Chinese contractors created inhumane working conditions and displaced jobs by using advanced technology instead of human resources in their operations, thereby failing to create more jobs for the Zambian people as initially promised. While African leaders are busy borrowing more than they should, China is, on the other hand, taking over control of critical industries through what they call "soft power." Examples of China's use of soft power include encouraging the influx of Chinese workers, Chinese executives buying and owning larger shares in national companies, influencing the media, and introducing Chinese culture in Zambia. China uses soft power to eventually assume control over national assets that the Zambian government uses as collateral in the loan agreements. For example, in the case of Zambia's giant state-owned factory, the Zambia government only has 34% of the factory's shares, while the remaining 66% of the shares belong to China.

The Chinese government has taken over Zambia National Broadcasting Corporation (ZNBC), which serves as national television and radio broadcasting. This was strategically done through TopStar, a registered Chinese company that owns about 60% shares of ZNBC, and the Zambia government owns the remaining 40%. Because the Zambian government needed help with its loan payments, the Chinese took over and proposed to take over all advertisement and the rental revenue for the next 25 years.<sup>56</sup> Although the Zambian government denies the claim, control of the Kenneth Kaunda international airport in Lusaka, the capital city, is likely to be

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<sup>55</sup> Osondu-Oti, Adaora. "China and Africa: Human Rights Perspective." *Africa Development / Afrique et Développement*, vol. 41, no. 1, 2016, pp. 49–80, <http://www.jstor.org/stable/90001834>. Accessed 26 Apr. 2022.

<sup>56</sup> Zambia : ZNBC now sold to China ? (n.d.). *LusakaTimes.Com*. <https://www.lusakatimes.com/2017/06/02/zNBC-now-sold-china/>

taken over by the Chinese government. Zambia Electricity Supply Corporation Limited (ZESCO) produces over 80% of electricity consumed by Zambians. The Chinese took over the national electricity company because Zambia could not meet its loan payments.

The Chinese government claims the financial gain is a win-win for the two governments; however, this view is very different from the opinions of most Zambian citizens about the relationship. There have been numerous accusations of how the Chinese immigrants treat local workers and even, in some cases, underpay them. Between Lusaka and the Copperbelt, about 22,000 Chinese living in Zambia and own and control over 280 companies and factories.<sup>57</sup> The problem with this is that the Chinese would rather employ fellow Chinese instead of giving opportunities to the locals. The few locals lucky enough to be hired by one of the companies complained that the Chinese mistreated them.<sup>58</sup> Fear of recolonization because of too much Chinese dominance and the issues of the Zambian government's indebtedness to China is causing a huge backlash. The projects of the two national stadiums, built over budget and the poorly constructed road which was washed away by rain, both constructed by the Chinese companies, triggered hostility among Zambians, and led to the killing of some Chinese factory owners and workers.<sup>59</sup>

Zambia's government secrecy about their loan contract with the Chinese and the lack of trust the people feel for the leadership fueled the misconceptions about the Chinese immigrants. Zambians took extreme measure thinking they have to strike first before the Chinese government

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<sup>57</sup> Zambia probes Chinese clothes factory murders. (n.d.). BBC News. <https://www.bbc.com/news/world-africa-52805202>

<sup>58</sup> "CHINA MONITOR: Zambia Risks Losing Sovereignty to Beijing Due to Debt-Trap Diplomacy." Mizzima Myanmar News and Insight, <https://www.mizzima.com/article/china-monitor-zambia-risks-losing-sovereignty-beijing-due-debt-trap-diplomacy>, [www.mizzima.com/article/china-monitor-zambia-risks-losing-sovereignty-beijing-due-debt-trap-diplomacy](http://www.mizzima.com/article/china-monitor-zambia-risks-losing-sovereignty-beijing-due-debt-trap-diplomacy). Accessed 23 Apr. 2022.

<sup>59</sup> China-Zambia tensions reignite after three Chinese business people murdered and burned. (n.d.). CNN. <https://edition.cnn.com/2020/06/05/china/china-zambia-murder-intl-hnk/index.html>

take over the land and this resulted in xenophobia. Xenophobia is feeling irrational fear of foreigners or of anything foreign.<sup>60</sup> In the case of Chinese immigrants and Zambia's citizens the wicked act was pushed by ignorance, poor leadership, and lack of redistribution of wealth.

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<sup>60</sup> "Study.Com | Take Online Courses. Earn College Credit. Research Schools, Degrees and Careers." <https://Study.Com/Learn/Lesson/What-Is-Xenophobia.Html>, <https://study.com/learn/lesson/what-is-xenophobia.html>, [study.com/learn/lesson/what-is-xenophobia.html](https://study.com/learn/lesson/what-is-xenophobia.html). Accessed 30 Apr. 2022.

## Chapter Six: Comparing Angola and Zambia

### Gross Domestic Product, Population, and Natural Resources

According to United Nations data, Angola as of 2020 has an estimated population of 32,866,272 people. Over 21,936,953 people, which is 66.7% of the population, live in the cities especially the capital city of Luanda. Angola is considered a Christian nation, with about 80% of its population practicing Christianity (Catholic 41.1%, Protestant 38.1%, other 8.6%, none 12.3%) according to a 2014 survey.<sup>61</sup>

Life expectancy is 62.22 years.<sup>62</sup> The infant death rate per 1 thousand is on the high side, 7.98. The country's Gross Domestic Product (GDP) amounts to \$58.38 billion, and the inflation rate is 22.28%. Angola imports \$9.54 billion, and exports \$20.94 billion. In a 2019 survey, China was reported to be Angola's leading trading import and export partner. The national debt level to gross GDP was 136.54%. Angola's exports to China is about 61.63% of its total exports and this consist of oil, agricultural and mining products. Angola is a country rich in natural and mineral resources such as tin, iron ore, manganese, oil and gas, and arable land.<sup>63</sup> Angola has diamond reserves of roughly over 200 million carats; provinces like Cabinda have phosphate estimated at over 150 million tons, uranium, diamond, gold, marble, and quartz.<sup>64</sup>

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<sup>61</sup> "Angola - The World Factbook." <https://www.cia.gov/the-world-factbook/countries/angola/>, <https://www.cia.gov/the-world-factbook/countries/angola/>, [www.cia.gov/the-world-factbook/countries/angola](https://www.cia.gov/the-world-factbook/countries/angola/). Accessed 25 Apr. 2022.

<sup>62</sup> "Angola Population (2022) - Worldometer." <https://www.worldometers.info/world-population/angola-population/>, <https://www.worldometers.info/world-population/angola-population/>, [www.worldometers.info/world-population/angola-population](https://www.worldometers.info/world-population/angola-population/). Accessed 4 May 2022.

<sup>63</sup> Sawe, Benjamin Elisha. "What Are The Major Natural Resources Of Angola?" WorldAtlas, <https://www.worldatlas.com/articles/what-are-the-major-natural-resources-of-angola.html>, 12 Dec. 2018, [www.worldatlas.com/articles/what-are-the-major-natural-resources-of-angola.html](https://www.worldatlas.com/articles/what-are-the-major-natural-resources-of-angola.html).

<sup>64</sup> "Informal Economy | Dw.Angonet.Org." <https://dw.angonet.org/content/informal-economy>, [dw.angonet.org/content/informal-economy](https://dw.angonet.org/content/informal-economy). Accessed 25 Apr. 2022.

Zambia's population is about 18.32 million, with a GDP of 19.32 billion and an inflation rate of 15.73%. Zambia's life expectancy is 61 years.<sup>65</sup> According to a 2020 report, Zambia's imports were \$5.32 billion and its total exports were \$11 Billion. China is the country's second biggest receiver of its exports with total of \$1.53B.<sup>66</sup> Zambia is rich in natural resources and mineral resources. It is common for metalliferous and non-metalliferous resources to be discovered from time to time. Zambia has about 6% of the world's copper reserves and the fourth-biggest producer globally. The country also boasts of having silver, coal, zinc, emerald, gold, aquamarine, tourmaline, and semi-precious gemstones.<sup>67</sup>

#### Amount Borrowed and Proposed Infrastructures

Angola borrowed about \$25 billion from China in a bilateral trade in 2009.<sup>68</sup> A \$2 billion Chinese loan was approved initially by the China Development Bank for the sole purpose of infrastructural projects like railways, roads, airports, and other basic developmental needs due to the destruction caused by the civil war. Angola had a nearly three decades-long civil war that ended officially in 2002. The civil war in the country destroyed the educational system, and rebuilding infrastructure became a priority for the government. In 2014, Angola was ranked the

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<sup>65</sup> "Life Expectancy at Birth, Male (Years) - Zambia | Data."

<https://Data.Worldbank.Org/Indicator/SP.DYN.LE00.MA.IN?locations=ZM>,  
<https://data.worldbank.org/indicator/SP.DYN.LE00.MA.IN?locations=ZM>,  
[data.worldbank.org/indicator/SP.DYN.LE00.MA.IN?locations=ZM](https://data.worldbank.org/indicator/SP.DYN.LE00.MA.IN?locations=ZM). Accessed 5 May 2022.

<sup>66</sup> Medem, Santiago. "Zambia (ZMB) Exports, Imports, and Trade Partners | OEC." OEC - The Observatory of Economic Complexity, <https://oec.world/en/profile/country/zmb/>, [oec.world/en/profile/country/zmb](https://oec.world/en/profile/country/zmb/). Accessed 5 May 2022.

<sup>67</sup> Admin. "Zambia Natural Resources." Fortune of Africa Zambia, <https://fortuneofafrica.com/zambia/2014/02/10/zambia-natural-resources/>, 11 Mar. 2014, [fortuneofafrica.com/zambia/2014/02/10/zambia-natural-resources](https://fortuneofafrica.com/zambia/2014/02/10/zambia-natural-resources).

<sup>68</sup> "Angola and the Paradox of Chinese Power." <https://www.diplomaticourier.com/Posts/Angola-and-the-Paradox-of-Chinese-Power>, <https://www.diplomaticourier.com/posts/angola-and-the-paradox-of-chinese-power>, [www.diplomaticourier.com/posts/angola-and-the-paradox-of-chinese-power](https://www.diplomaticourier.com/posts/angola-and-the-paradox-of-chinese-power). Accessed 6 May 2022.

worst country in infrastructure out of 148 countries. The roads were not accessible and very dangerous because of millions of landmines planted across the country during the war. Even with the landmine extraction underway, the country may not be considered landmine safe until 2040.<sup>69</sup> The airport was damaged as were schools, hospitals, telecommunication infrastructure, electricity, and even churches.

There was no way Angola could have built back after the war without help from international financial institutions; therefore, seeking loans seemed the right thing to do. Schools built by the Portuguese colonial masters before the war were all destroyed, and the unsafe environment pushed the educated citizens to flee for their lives, causing a massive "brain drain" in the society. Even after the destroyed schools were rebuilt, the country lacked qualified teachers as the educated ones who fled the war zone refused to come back, and the few who returned after the war were getting paid next to nothing. During the war, the roads became inaccessible, and the millions of landmines planted around the country made road use very dangerous.<sup>70</sup>

Bridges were bombed and cut off to prevent people from connecting to other parts of the country. Railways also built during the colonial era were destroyed, and after the war, it was one of the critical infrastructures the country had replace. The airports, both local and international,

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<sup>69</sup> Project, Borgen. "Infrastructure in Angola: Focusing on Landmines and Roadwork." The Borgen Project, <https://borgenproject.org/infrastructure-in-angola/>, 20 Nov. 2019, [borgenproject.org/infrastructure-in-angola](https://borgenproject.org/infrastructure-in-angola/).

<sup>70</sup> "Angola Infrastructure, Power, and Communications, Information about Infrastructure, Power, and Communications in Angola." <https://www.nationsencyclopedia.com/Economies/Africa/Angola-INFRASTRUCTURE-POWER-AND-COMMUNICATIONS.html>, <https://www.nationsencyclopedia.com/economies/Africa/Angola-INFRASTRUCTURE-POWER-AND-COMMUNICATIONS.html>, [www.nationsencyclopedia.com/economies/Africa/Angola-INFRASTRUCTURE-POWER-AND-COMMUNICATIONS.html](https://www.nationsencyclopedia.com/economies/Africa/Angola-INFRASTRUCTURE-POWER-AND-COMMUNICATIONS.html). Accessed 25 Apr. 2022.

were almost totally inoperable. A number of runways needed to be completely reconstructed, a manageable few needed substantial maintenance.

Zambia borrowed about \$6.5 billion for infrastructure from China . Zambia's economic growth, diversification, and human development are stagnant due to inadequate infrastructure. After the death of the late President Michael Sata, who spearheaded infrastructure development during his time in office, many projects overseen by the late president came to a standstill until the next administration took office. The new regime had to negotiate additional loans, adding to the debt already incurred by President Sata’s administration. In Zambia, the agricultural sector provides livelihoods to the country's population because most Zambian farmers are small-scale subsistence farmers. Zambia's GDP in agriculture increased due to government funding from \$100.58 million in the third quarter of 2021 to \$136.38 million in the fourth quarter of 2021.<sup>71</sup>

In order to reduce rural poverty in Zambia which was partly caused by too much reliance on the mining sector while other sectors were ignored, a massive agri-infrastructure investment was required - including irrigation canals, locks, feeder roads, and bridges. In order to improve the agricultural value chain, the country proposed to invest massively in infrastructures like dams, irrigation, and agri-processing plants. Also, Zambia needed to improve the manufacturing capacity, electricity, internet accessibility, and transportation services.<sup>72</sup> There is need for development in all the mentioned sectors, including education, health, and water and sanitation; upgrading and expanding power generation facilities and using alternative energy; improving

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<sup>71</sup> TRADING ECONOMICS. “Zambia Gdp From Agriculture - 2022 Data - 2023 Forecast - 2010–2021 Historical - Chart.” TRADING ECONOMICS, <https://tradingeconomics.com/zambia/gdp-from-agriculture>, tradingeconomics.com/zambia/gdp-from-agriculture. Accessed 25 Apr. 2022.

<sup>72</sup> “Zambia - Infrastructure Development.” International Trade Administration | Trade.Gov, <https://www.trade.gov/country-commercial-guides/zambia-infrastructure-development>, www.trade.gov/country-commercial-guides/zambia-infrastructure-development. Accessed 25 Apr. 2022.

and expanding the rail network to reduce congestion on the road network, and constructing interprovincial and inter-district roads to open up the country.

### How to Pay Back the Loans

Developing countries in need of infrastructural loans tend to seek resource-backed loans because they lack capital yet are rich in natural resources. They seek this type of loans because the natural resources can be used as collateral. The term "resource-backed loans" (RBLs) refers to loans from governments or state-owned companies that can be secured with oil and other natural resources or a future income stream from those natural resources.<sup>73</sup> It initially seems appealing because, in exchange for money to finance infrastructure projects, borrowing governments may be offered what may appear to be easy terms for repayment of the loans. For infrastructure development projects, African countries pioneered the concept of oil-backed loans to access Chinese funding. The case of Angola is particularly concerning since around 75% of their total Chinese debt gets funded this way; instead of cash payment, it pays China back with oil at about 45% of the loan. As of March 2022, Angola crude oil production fell to 1133 million barrels per day, using its crude oil as a currency. In 2018, Angola started paying off its \$25 billion debt to China<sup>74</sup>. It also leaves less oil for Angola to sell to other trading partners. Angola's external debt is based mainly on oil-backed loans, including nearly half of its obligations to China.<sup>75</sup>

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<sup>73</sup> "Resource-Backed Loans: Sustainable Debt or Pending Threat?" EITI, <https://eiti.org/articles/resource-backed-loans-sustainable-debt-or-pending-threat>, eiti.org/articles/resource-backed-loans-sustainable-debt-or-pending-threat. Accessed 25 Apr. 2022.

<sup>74</sup> Pandey, Erica. "Angola's Chinese Oil Debt-Trap." Axios, <https://www.axios.com/2018/05/13/angola-africa-china-debt-trap-crude-oil>, 13 May 2018, [www.axios.com/2018/05/13/angola-africa-china-debt-trap-crude-oil](http://www.axios.com/2018/05/13/angola-africa-china-debt-trap-crude-oil).

<sup>75</sup> TRADING ECONOMICS. "Angola Crude Oil Production - April 2022 Data - 1994–2021 Historical - May Forecast." TRADING ECONOMICS, <https://tradingeconomics.com/angola/crude-oil-production>, [tradingeconomics.com/angola/crude-oil-production](http://tradingeconomics.com/angola/crude-oil-production). Accessed 5 May 2022.

Due to inflation caused by the pandemic and other poor economic decisions by the government, Zambia needed external help to keep the country running, but China was not an option because of the overwhelming debt already owed to China and China gradually taking over Zambia's natural resources. Therefore, the government approached the International Monetary Fund for support. Zambia's main export in debt repayment to China is in form of raw copper, refined copper, cobalt, raw tobacco, and honey.<sup>76</sup> Zambia's economy crashed quickly because the country depended so much on copper that generally accounted for about 70% of the country's total export goods. Copper prices keeps dropping since 2019, as of the second quarter of 2021 the price dropped to \$8,975 per ton, by the end of 2021 it was \$6,500 per ton. Some of the contributing factors are high taxes the government introduced, low demand for copper globally and the constant Chinese demands for supply.<sup>77</sup> Therefore, until the government quits stockpiling and allows the demand rate to be at a neutral pace, there may not be impactful changes. The price dropped over 20% in a year, and food prices increased at almost the same rate. The Zambia currency (Kwacha) lost over 50% of its initial value compared to the United States Dollars. Employers had to lay off hundreds of workers to avoid shutting down.<sup>78</sup>

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<sup>76</sup> Chief Editor. "Zambia : Zambia-China, An Intricate Relationship." LusakaTimes.Com, <https://www.lusakatimes.com/2018/09/16/zambia-china-an-intricate-relationship/>, 16 Sept. 2018, [www.lusakatimes.com/2018/09/16/zambia-china-an-intricate-relationship](http://www.lusakatimes.com/2018/09/16/zambia-china-an-intricate-relationship).

<sup>77</sup> Observer, The Independent. "Copper Prices Rises." The Independent Observer, <https://tiozambia.com/copper-prices-rises/>, 27 Sept. 2021, [tiozambia.com/copper-prices-rises](http://tiozambia.com/copper-prices-rises).

<sup>78</sup> York, Geoffrey. "Declining Copper Prices a Large Factor in Zambia's Economic Tumble." The Globe and Mail, <https://www.theglobeandmail.com/report-on-business/international-business/african-and-mideast-business/declining-copper-prices-send-zambia-into-economic-crisis/article26995466/#:~:text=Declining%20copper%20prices%20and%20a%20severe%20electricity%20shortage,past%20year%2C%20fuelling%20higher%20prices%20on%20imported%20goods.,> 26 Oct. 2015, [www.theglobeandmail.com/report-on-business/international-business/african-and-mideast-business/declining-copper-prices-send-zambia-into-economic-crisis/article26995466](http://www.theglobeandmail.com/report-on-business/international-business/african-and-mideast-business/declining-copper-prices-send-zambia-into-economic-crisis/article26995466).

## Common Practices Between Angola and Zambia

Angola and Zambia have several common standard practices. Angola and Zambia's dependence on a single commodity like oil and copper or a select number of commodities is primarily part of the reason why both countries are experiencing economic hardship. Globalization has made the world seem small and accessible as a result of multinational organizations' trade practices. The China BRI concept is how globalization works regardless of distance, culture, and tradition. The government leaders of both Angola and Zambia publicly praise the Chinese government. They spin the narrative that the relationship is beneficial to both parties while the citizens of both countries believe otherwise. As in many African countries, the government is corrupt, and money is the only language they really understand. Economic sustainability and accountability do not mean much to them. China takes advantage of the lack of trust and integrity of both Angola and Zambia's governments by its citizens.<sup>79</sup> There are several common practices between Angola and Zambia but only three are examined in this thesis.

First, both Angola and Zambia have natural resources enough to generate national wealth if managed well. The Chinese government agreed to the idea of resource backed loan to be able to gain access to the resources through repayment system. The Chinese governments profits from the repayment arrangements. The idea of a win-win trade preached by the Chinese does not seem evident in the transactions between China and these two countries because they export raw materials to China at low prices while importing its finished goods at a very high price, clearly in China's favor.<sup>80</sup>

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<sup>79</sup> "Transparency and Accountability in Angola." Human Rights Watch, <https://www.hrw.org/report/2010/04/13/transparency-and-accountability-angola#>, 29 Apr. 2015, [www.hrw.org/report/2010/04/13/transparency-and-accountability-angola](http://www.hrw.org/report/2010/04/13/transparency-and-accountability-angola).

<sup>80</sup> Kiely, Joan K. "Online Resources for Introducing Bioethics through Case-Studies and Active Learning Comparative Review of: Bioethics 101" [https://www.nwabr.org/sites/default/files/NWABR\\_Bioethics\\_101\\_5.13.Pdf](https://www.nwabr.org/sites/default/files/NWABR_Bioethics_101_5.13.Pdf) and

Second, both Angola and Zambia approached China because they sought development funds, and China was able to grant them a considerable amount by overlooking warnings from the international financial institutions. The fact that China ignores the warnings of international financial institutions about debt sustainability and does not meddle in the political affairs of the countries, encouraged leaders of the two countries to feel like they are in charge, but they keep falling into debt. The lending arrangement is a debt trap or even a form of recolonization at this stage, as most citizens fear.<sup>81</sup>

Third, Angola and Zambia were desperate enough to accept Chinese loans knowing it comes with hidden conditionality, even though the international financial institutions warned against hidden debt. The governments of Angola and Zambia agreed to any terms to get their loans approved and paid little attention to how the money would be repaid. Eventually, they become overwhelmed whenever the world market prices of their main source of export drops.<sup>82</sup>

### Differences Between Angola and Zambia

The differences between Angola and Zambia are few, considering that both countries are in massive debt to China; although Angola owes more to China compared to Zambia. Angola experienced a prolonged civil war and the government corruption made the country stagnant, therefore tourists are not attracted to the country. But Zambia is deemed more peaceful to visit not

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Exploring Bioethics <https://www.nwabr.org/teacher-center/bioethics-101#overview>." Journal of Microbiology & Biology Education, vol. 15, no. 2, 2014, pp. 249–50. Crossref, <https://doi.org/10.1128/jmbe.v15i2.804>.

<sup>81</sup>"Local Financing for Infrastructure in Zambia." GSDRC, <https://gsdrc.org/publications/local-financing-for-infrastructure-in-zambia/>, 13 Aug. 2019, [gsdrc.org/publications/local-financing-for-infrastructure-in-zambia](https://gsdrc.org/publications/local-financing-for-infrastructure-in-zambia).

<sup>82</sup>Mboya, Cliff. "African Borrowers Need to Wake up to the Reality of Chinese Loans." The Africa Report.Com, <https://www.theafricareport.com/136878/african-borrowers-need-to-wake-up-to-the-reality-of-chinese-loans/>, 15 Oct. 2021, [www.theafricareport.com/136878/african-borrowers-need-to-wake-up-to-the-reality-of-chinese-loans](https://www.theafricareport.com/136878/african-borrowers-need-to-wake-up-to-the-reality-of-chinese-loans).

having experiences a bloody civil war. Angola has more revenue-generating sources, more than Zambia and even more natural resources. With good leadership, the country could have avoided such massive indebtedness. Angola has oil and gas, yet it is the number one country in debt to China. Angola operates over four ports and terminals, but Zambia only has one because it is landlocked. In terms of national air transportation, Angola boasts of over ten registered carriers instead of about five for Zambia.<sup>83</sup>

Another difference between the two countries is that Zambia is smaller than Angola. It is challenging to figure out how the loans are dispersed because the health care system is terrible. Zambia is one of the countries in the world with high HIV/AIDS virus infections. Although the numbers are declining, the lack of standard healthcare facilities worsens the conditions of those with the disease. As of 2019, a record of 51,000 people of all ages were HIV/AIDS carriers with about 19,000 deaths. This was a huge decline from 60,000 carriers and 24,000 deaths in 2010.<sup>84</sup> In 2016, unemployed adults made up almost 7% in Angola but over 15% in Zambia. The poverty level is high in both countries, but it is higher in Zambia, at about 54%, while in Angola it is over 36%. Zambia has a higher tax rate of 35% as compared to 17% in Angola.

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<sup>83</sup> "Angola vs. Zambia - Country Comparison." <https://www.indexmundi.com/Factbook/Compare/Angola.Zambia>, <https://www.indexmundi.com/factbook/compare/angola.zambia>, [www.indexmundi.com/factbook/compare/angola.zambia](https://www.indexmundi.com/factbook/compare/angola.zambia). Accessed 25 Apr. 2022.

<sup>84</sup> "HIV/AIDS." UNICEF Zambia, <https://www.unicef.org/zambia/hivaids>, [www.unicef.org/zambia/hivaids](https://www.unicef.org/zambia/hivaids). Accessed 5 May 2022.

## Chapter Seven: Conclusion

This research exposes the challenges of excessive Chinese loans granted to developing African countries, especially Angola and Zambia. Based on qualitative analysis, this thesis looks at the conditionalities of these loans. It is fair to conclude that the Chinese government is primarily aimed profit-making and power-grabbing; therefore, little attention has been given to the overwhelming debts these two developing countries have continued to incur. After researching available materials through books, articles, and journals on studies previously done on this topic, a common factor that emerged from all the mentioned sources is that both Angola and Zambia entered into significant loan contracts with China knowing these agreements lacked transparency.

China formed the Belt and Road Initiative (BRI) with developing countries for a trans-continental passage to enable Chinese access to the world. The initiative promotes infrastructure connectivity for better coordination of financial integration that favors China. The Chinese government seeks out developing countries with potential and offers them loans for basic infrastructure like railways, airports, ports, telecommunication, and power plants. Also, the BRI routes favor China the most in terms of security and access to the natural resources of the borrowing countries. China uses its excessive loans to entrap these countries and shape its relationship in the international realm.<sup>85</sup>

In 2011, the Chinese government was challenged in a public debate by a group of bilateral and multilateral creditors to share the terms of its loan contracts with the OECD's

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<sup>85</sup> Mobley, Terry. "The Belt and Road Initiative: Insights from China's Backyard." *Strategic Studies Quarterly*, vol. 13, no. 3, 2019, pp. 52–72, <https://www.jstor.org/stable/26760128>. Accessed 27 Apr. 2022

Development Assistance Committee (DAC).<sup>86</sup> The Chinese government refused to answer the question on its confidentiality clause in loan agreements and the accusation of maximizing leverage and enhancing its power over borrowers. The confidentiality clause clearly states that borrowers must exclude the contract from any bilateral or multilateral creditor restructuring organization. Also, the contract could be terminated and repayment demanded immediately in case of a policy change. However, the Chinese government refuses to give in, claiming the issue of the transparency clause is by choice.<sup>87</sup>

It is mainly the weak and corrupt administrations that fall prey to borrowing without knowing the full details of the conditionality. These governments borrowing from China accept the loans without seeking the help of an expert. In addition, Chinese companies are active in key areas of the loan disbursement and in overseeing the extraction of natural resources. Things to be considered should be, but are not limited to: a thorough evaluation of the cost and benefit of the contract, conditions of loan repayment, and determining if the value of the proposed infrastructure matches the rights of extraction.<sup>88</sup>

China's resource-backed loans work in favor of the Chinese government because the pitfall outweighs the potential. Common risk factors associated with resource-backed loans are that countries accepting a loan contract that lacks transparency are likely to jeopardize their economy. The International Monetary Fund (IMF) proved this to be true when it uncovered some

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<sup>86</sup> 21-7 How China Lends A Rare Look into 100 Debt Contracts with Foreign Governments. (n.d.).  
<https://www.piie.com/sites/default/files/documents/Wp21-7.Pdf>  
<https://www.piie.com/sites/default/files/documents/wp21-7.pdf>

<sup>87</sup> Standish, Reid. "A Closer Look At China's Controversial Lending Practices Around The World." RadioFreeEurope/RadioLiberty, <https://www.rferl.org/a/china-loans-around-the-world/31217468.html>, 27 Apr. 2021, [www.rferl.org/a/china-loans-around-the-world/31217468.html](http://www.rferl.org/a/china-loans-around-the-world/31217468.html).

<sup>88</sup> Ana Cristina Alves, Chinese Economic Statecraft: A Comparative Study of China's: Oil-backed Loans in Angola and Brazil (Journal of Current Chinese Affairs, 2013), [journals.sagepub.com/doi/full/10.1177/186810261304200105](http://journals.sagepub.com/doi/full/10.1177/186810261304200105)

excess revenue involving billions in Angola that was not even recorded in its official budget from 2007 to 2010.<sup>89</sup>

Chinese loans cause the government of both Angola and Zambia to intentionally withhold budget information and hide from their citizens the actual amount borrowed even though their taxes are used to repay part of the debt. The problem with hidden debt is that it hinders debt restructuring. For instance, in one case, Zambian investors refused to go ahead with negotiations due to the limited information provided. China's unethical lending behavior has created tension between Zambia and traditional and multilateral lenders, including the G20 members. One of the challenges of borrowing from China based on its resource-backed loan format is that other investors and international financial institutions will continue to hold their perceptions of African countries as too much of a risk to deal with in the international capital markets.<sup>90</sup>

The covid-19 pandemic brought hardships to developing countries, and it gravely affected Angola and Zambia. Therefore the two countries sought relief from the G-20. The G-20 is a forum that is committed to transparency in government-to-government loans with international financial institutions. The two countries applied to the G-20 Debt Service Suspension Initiative (DSSI) for debt restructuring and to halt loan repayment because the forum entails assisting developing nations to reduce their unsustainable debt weight through transparency. Both countries seek to halt loan repayment.<sup>91</sup> Also, the International Monetary

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<sup>89</sup> Lesley Wroughton. "IMF finds most of Angola's missing \$32 bln," Reuters, 25 January 2012, [www.reuters.com/article/ozatp-imf-angola-20120125-idAFJJOE8000020120125](http://www.reuters.com/article/ozatp-imf-angola-20120125-idAFJJOE8000020120125)

<sup>90</sup> G20, Operational Guidelines for Sustainable Financing (2017), [www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/world/G7-G20/G20-Documents/g20-operational-guidelines-for-sustainable-financing.pdf](http://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/world/G7-G20/G20-Documents/g20-operational-guidelines-for-sustainable-financing.pdf)

<sup>91</sup> "Angola Calls for Extension of G20 Debt Suspension." allAfrica.Com, <https://allafrica.com/stories/202106110447.html#:~:text=Luanda%20%E2%80%94%20The%20Angolan%20government%20has%20requested%20its,from%20a%20source%20at%20the%20the%20Finance%20Ministry,allafrica.com/stories/202106110447.html>. Accessed 1 Jan. 2020.

Fund (IMF), together with other multilateral financial institutions, interceded on behalf of Angola since it is the highest Chinese debtor. The IMF emphasized the importance of debt management and placed Angola's debt on sustainable grounds. It also assisted Angola with funds to continue running the country while trying to reduce the consequences of the excessive loan. Resource-backed loan repayment is often based on resources expected to be produced in the future, and it goes on for years as agreed to in the contract. It is risky because any interruption in future resource production can cause loan repayment to default. This has been the case during the drop in Angola's oil price and Zambia's copper price, and the outcome stagnated the economy of both countries.<sup>92</sup>

Angola has suffered from years of inflation since 2016, and the drop in oil prices due to the pandemic made the condition worse. Angola's debt is high at 29% out of 100, with a government debt of 111% of the country's GDP.<sup>93</sup> Angola lacks a credible governing body. Therefore, it is difficult for the government to oversee a reduction in inequality. A weak government is not capable of investing in human capital. Instead, the high poverty rate will remain. The government anti-corruption agency lacked credibility because it had substantial political interference that influenced the organization's decisions. The problem with Angola is that many people are as corrupt as the government because of bribery, especially in the mining

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<sup>92</sup> "Africa's Reliance on Chinese Loans Has Experts Concerned about More Debt Defaults." CNBC, <https://www.cnbc.com/2021/02/17/africas-reliance-on-chinese-loans-has-experts-concerned-about-more-debt-defaults.html#:~:text=Angola%20has%20joined%20the%20G-20%20DSSI%20%28Debt%20Service,good%20books%2C%20at%20least%20for%20now%2C%E2%80%9D%20Besseling%20said., www.cnbc.com/2021/02/17/africas-reliance-on-chinese-loans-has-experts-concerned-about-more-debt-defaults.html>. Accessed 2-02-2.

<sup>93</sup> Transparency International. "Angola." Transparency.Org, <https://www.transparency.org/en/countries/angola>, 25 Nov. 2019, [www.transparency.org/en/countries/angola](http://www.transparency.org/en/countries/angola).

and oil sector. Nepotism is also another issue in the country.<sup>94</sup> According to Forbes, Isabel dos Santos, the daughter of the former president, is included in the category of female billionaires in Africa, with an estimate worth of \$2.2bn. It was alleged that she siphoned millions of public funds into her offshore accounts during her tenure as the head of the state oil and gas sector.<sup>95</sup>

Zambia relies on Chinese loans, and presently the amount of debt incurred by the government has increased to 12738.30 USD Million in 2020. The percentage of GDP devoted to government debt is typically used by investors to measure the ability of a country to make payments on its debt in the future. This impacts borrowing costs and government bond yields. The government debt increased by 91.90 % in 2019. The country ranked 85 out of 100 for ease of doing business, with the cost of food increasing by almost 15%. Zambia is among the poorest and most corrupt countries in the world according to the Corruption Perceptions Index reported by Transparency International. Out of 100 points it ranked 33 points in corruption in 2021 even though over half of its population suffers from wealth inequality and lives below the poverty level.<sup>96</sup>

Zambia is not an easy country to conduct business in because of its high corruption rate. Zambia is highly corrupt and polluted by government officials and top-ranking citizens extorting

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<sup>94</sup> GAN Integrity. "Corruption in Angola | Angola Corruption Report and Profile." GAN Integrity, <https://www.ganintegrity.com/portal/country-profiles/angola/>, 5 Nov. 2020, [www.ganintegrity.com/portal/country-profiles/angola](https://www.ganintegrity.com/portal/country-profiles/angola/).

<sup>95</sup> "Isabel Dos Santos, Daughter Of Angola's President, Is Africa's First Woman Billionaire." Forbes, <https://www.forbes.com/sites/kerryadolan/2013/01/23/isabel-dos-santos-daughter-of-angolas-president-is-africas-first-woman-billionaire/?sh=359ea32e4c83>, 25 Jan. 2013, [www.forbes.com/sites/kerryadolan/2013/01/23/isabel-dos-santos-daughter-of-angolas-president-is-africas-first-woman-billionaire/?sh=359ea32e4c83](https://www.forbes.com/sites/kerryadolan/2013/01/23/isabel-dos-santos-daughter-of-angolas-president-is-africas-first-woman-billionaire/?sh=359ea32e4c83).

<sup>96</sup> TRADING ECONOMICS. "Zambia Corruption Index - 2021 Data - 2022 Forecast - 1998–2020 Historical - Chart." TRADING ECONOMICS, <https://tradingeconomics.com/zambia/corruption-index#:~:text=Zambia%20Corruption%20Index%20The%20Corruption%20Perceptions%20Index%20ranks,of%200%20%28highly%20corrupt%29%20to%20100%20%28very%20clean%29,> tradingeconomics.com/zambia/corruption-index. Accessed 29 Apr. 2022.

business owner especially in the mining industry. Tax officers accept gifts instead of enforcing businesses to pay taxes and government officials allocated and approve contracts based on the highest bidder. In 2015, the mining minister was found guilty and jailed for embezzlement and using his rank to extort investors before granting them licenses.<sup>97</sup>

### Policy Recommendations

Countries, particularly in Africa, should avoid taking on loans that lack transparency because it is more harmful than helpful. The Extractive-Industries Transparency Initiative (EITI) and the international monetary fund (IMF) push countries seeking resource-backed loans to make the conditions known to the public, mainly the payment flows, to force parties involved in the contract to be legitimate. Also, if the amount of loan debt is included in the budget, the level of mismanagement would likely be minimal as the country will be careful not to incur excessive debt. Using natural resources as collateral is not wise and should be avoided if possible. Angola became frustrated and refused to ship more oil to China. The country claimed that the extraction was too much as the country has little oil to supply for its citizens. Every government seeking a resource-backed loan must have a specialized sector created just for vetting contracts before proceeding. The legal implications and technical assessments of resources to be extracted must also be understood. Funds must be strictly allocated for intended infrastructural projects and not be diverted into something else.

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<sup>97</sup> GAN Integrity. "Corruption in Zambia | Zambia Corruption Report and Profile." GAN Integrity, <https://www.ganintegrity.com/portal/country-profiles/Zambia/>, 5 Nov. 2020, [www.ganintegrity.com/portal/country-profiles/Zambia](https://www.ganintegrity.com/portal/country-profiles/Zambia/).

For citizens to trust their government, there is a need for transparency, especially regarding large loans. Also, the government must enforce the law and penalize anyone found guilty, no matter their position in the administration. Citizens must be able to hold their leaders accountable. Such progress can be achieved if sovereign loans are made public without exceptions, even if it does not seem politically advantageous. A common factor between Angola and Zambia that made it easy for China to take advantage of them is the lack of the rule of law. The government exchanges goods and services, including contraband, and manipulates the quantity deemed illegal based on the present administration and what works for them.

The Zambia rosewood fiasco is an excellent example of how much damage the country's corrupt leadership empowers China. Mukula is the local name for rosewood in Zambia. It is found only in tropical regions, and it is over ten times more expensive than standard woods found in the same region because it is heavy and beautiful when converted into furniture. Rosewood is not only expensive but also very scarce since it got protection under the Convention on Trade in Endangered Species. Zambia became a significant supplier and could have made millions in revenue. Instead, it lost millions due to government corruption and manipulation of the rules. Also, the rosewood was wrongly tagged by class with regular woods because there was no proper monitoring. When the appropriate labeling was discovered, port officials accepted bribes to look the other way. This mistake saved the Chinese government millions in taxes while the Zambian government lost millions due to poor regulations.<sup>98</sup>

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<sup>98</sup> Cerutti, Paolo Omar, and Davison Gumbo. "Why Zambia Has Not Benefitted from Its Rosewood Trade with China." *The Conversation*, <https://theconversation.com/why-zambia-has-not-benefitted-from-its-rosewood-trade-with-china-98092>, 25 June 2018, [theconversation.com/why-zambia-has-not-benefitted-from-its-rosewood-trade-with-china-98092](https://theconversation.com/why-zambia-has-not-benefitted-from-its-rosewood-trade-with-china-98092)

The anti-corruption agencies previously formed in Angola and Zambia need to be empowered to withstand forces from top-ranking politicians and citizens found guilty. The agency needs to be separated from any political affiliations and be independent. If corruption is curtailed in both countries, government embezzlement will be reduced, and contracts will only be sought for needed projects and not for personal gain. The two countries made the mistake of entering into contracts involving resource-backed repayment and by accepting hidden conditions. Eager to obtain these loans from China, both for development but also for personal gain, they did not seek advice from financial experts which they should have done. While this advice can be easily offered, for these countries to extricate themselves from this debt trap, it will involve some painful work to clean up corruption, demand transparency, and seek international assistance.

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[www.forbes.com/sites/kerryadolan/2013/01/23/isabel-dos-santos-daughter-of-angolas-president-is-africas-first-woman-billionaire/?sh=359ea32e4c83](http://www.forbes.com/sites/kerryadolan/2013/01/23/isabel-dos-santos-daughter-of-angolas-president-is-africas-first-woman-billionaire/?sh=359ea32e4c83).

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