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Faculty of Social Sciences Johan Skytte Institute of Political Studies

MA, International Relations and Regional Studies

Stella Ogochukwu Uzoma

**“China's Debt Trap Diplomacy on Developing Countries: The Case Study of Angola”**

Master's Thesis

Thesis Supervisor: Shpend Kursani

Tartu 2023

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## **Abstract**

China has been focusing on advancing its foreign policy toward developing countries through aid, loans, and investments since 2008. However, concerns have been raised about the amount and rate of these loans and the potential risks for debtor countries, as seen in cases like Sri Lanka and Uganda. This study investigates China's debt trap diplomacy on developing countries, with Angola as a case study. The study aims to determine the extent to which China has advanced its foreign policy goals towards Angola and how Angola's decision to borrow has advanced its interest. The study adopts a qualitative research approach, leveraging the liberalism theory. The findings reveal that China has indeed advanced its foreign policy goals toward Angola through its lending foreign policy which accounts for 75.9% of Angola's gross domestic product on average from 1995 to 2021. This development implies that Angola will show more loyalty to China's government and its counsel than any other international country lender. Moreover, Angola's borrowing decision has advanced its interest, as evidenced by the series of executed developmental projects, leading to rapid economic, social, and technological development. Despite increasing debt, this progress indicates a clear indication of progress, particularly after enduring years of the Cold War. Contrary to popular belief, the study concludes that China-Angola debt diplomacy is a win-win foreign policy relationship, benefiting both countries. Therefore, countries seeking financial aid from foreign sources should be cautious of the source of funds and the terms of return to prevent becoming trapped in debt unnecessarily. It is crucial for nations to consider all available possibilities when looking for financial assistance to maximize the likelihood of a successful conclusion for all parties involved.

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## **List of Abbreviations**

BRI: Belt and Road Initiative

CDB: China Development Bank

CITIC: China International Trust Investment Corporation

GDP- Gross Domestic Product

FP: Foreign Policies

IR: International Relations

SOE: State-owned Enterprises

WWI: World War I

WWII: World War II

# CHAPTER 1

## INTRODUCTION

### 1.1. Background

China has been rated as the world's largest official creditor nation as of 2019, ascribed with US\$ 5.5 trillion in outstanding debt claims globally, equivalent to 6% gross domestic product (GDP), reflecting China's size and scope for its economy. (Institute of International Finance, 2019; Sharma & Lin, 2021, p.1). More so, China has massively spread its surplus financial reserve into investments across many countries, focusing on solidifying the comparative advantage it benefits from large-scale construction and engineering (Sharma & Lin, 2021, p.2). This global economic interest and expansion have plunged many emerging countries to tap this financial opportunity of China's financial services to others in enhancing their economic and infrastructural developmental stride. There are indications that countries, including Sudan, the Republic of Congo, Angola, Zambia, Ethiopia, Kenya, South Africa, Mombasa, Djibouti, and Nigeria, at one time or the other, have become debtors to China's external lending. These loans have been put to use in the development of these countries' infrastructure, as well as their energy and telecommunications systems. Thus, China is now a significant trade partner for many African countries, with these loans being used to fund infrastructure projects and other development initiatives (Ahuja, 2021). These are the top African nations commonly known as recipients of China's loans from 2000 to 2019.

However, China's lending practices have also come under scrutiny and alarm, with some experts warning about the potential hazards of unsustainable debt levels and the political leverage these debts provide for China's foreign policy objectives (Brautigam, 2019; Gallagher, 2018). Even though China's financial services have provided many developed countries with crucial opportunities, this collaboration does bring with it the possibility of hazards and difficulties.

### 1.2. Research Statement of Problem

Following the continuous rise of mixed feelings about Chinese loans to developing countries across the world with the tendencies of debtor countries being victims of China's debt trap, this study examines the extent to which these developing countries' economic development has been enhanced by China's loans. Brautigam (2020) recorded that China's debt-trap diplomacy idea was

born in a think tank in northern India on the 23rd of January 2017 and was furthered by a paper written by two Harvard University graduate students who called it Chinese debt book diplomacy. According to Parker and Chefitz (2018), China's debt trap policy is China's strategic debt plan to secure political leverage over economically vulnerable countries. The idea is that China could exert influence and control over its economies and policy systems through loans to developing countries. Therefore, concerns are raised as to the involvement of China in practicing neo-colonialism and using emerging countries for its strategic interests (Parker & Chefitz, 2018).

Donou-Adonsou and Lim (2018) state that China's loan has been praised for its concentration and contributions to developing the manufacturing sector and critical infrastructures in developing countries, such as railways, roads, and ports. These are essential factors in the growth of any economy and can boost job creation and increase the provision of exports. However, the idea behind China has begun to change as the developing countries are finding themselves trapped by the loan since they find it challenging to meet the obligations of the loan. According to *The Economist* (2018), this may make it difficult for countries to fulfill their obligations with a substantial amount of these loans, which have higher interest rates and shorter repayment time frames. In certain instances, developing nations have been forced to cede essential resources like ports and airports to China in order to pay off their debts (Economist, 2018). Accordingly, accusations have been raised that China is doing predatory lending activities which adversely affect the economic development of developing countries.

The governments of the Western countries have therefore accused China of using its loans as a foreign diplomatic strategy for stamping its ground and control in developing countries (Stones & Chazan, 2020), leading to debt-trap diplomacy. According to Alden (2020), debt-trap diplomacy is a deliberate adoption of developmental financial tools to trap economies to achieve economic and foreign policy. Studies have shown that developing countries face challenges paying back their loans to China (Bodomo, 2009). Hence, they could be compelled to compensate in alternative ways, like lowering tariffs on Chinese imports, leasing land for extended periods, or, as specified in the loan agreement, prior to obtaining the funds. China has also been criticized for its political moves, which brought about the claims that China is on a mission to control developing countries. One of these is China's total funding of the African Union Headquarters, built-in 2012 in Ethiopia

(BBC, 2012). Although China's intention on this remains unclear, a leaked report from the headquarters in Ethiopia in 2018 revealed that China bugged the entire server, and data was leaked from the union to Shanghai every night from 2012 to 2017 (Statt, 2018). The second political move China has formed is the Belt and Road Initiative (BRI), constructed by China to promote infrastructure and improve trading routes for its interests, mostly in developing countries (ADB, 2021). China invests in these infrastructure projects by giving loans to those countries under the BRI program. Many African states have realized that generous Chinese loans are nothing but a strategy to gain control over developing countries and African countries, specifically (The Africa Report, 2021).

The influence of globalization has further aggravated China's debt-trap diplomacy and led to significant swings in China's economic and commercial cooperation with various developing countries. However, the cooperation is uneven to the benefit of China. The issue here is that developing countries mainly export agricultural products and natural resources to China. In return, China's imports to East African nations are dominated by finished products like garments and textiles, thereby creating an unfair price tag in developing countries' markets because the demand for finished products is not in balance with China's demand for natural resources (Abdilahi, 2020). This further limits the chances of developing countries to meet their loan obligations to China, thereby finding them in a debt-trap zone (Abdilahi, 2020). Even though China's loan policy has been tipped to be debt-trap diplomacy, there are still studies like Hameiri and Jones (2018); and Jones and Hameiri (2020) have debunked this fact with the argument that the loan aims to strengthen governance standards. According to them, debts have been re-negotiated to reduce costs (Bandeira & Tsiropoulos, 2019; Lim, 2015). It remains unclear thus far to understand the extent to which China's international debt policy towards developing countries has been mainly beneficial for China's foreign policy goals or the extent to which its policy might have also benefited the developing country's needs.

### **1.3. Objectives of the study**

This study's objective is to examine China's debt trap diplomacy on developing countries: the case study of Angola. The study will explore the relationship between China and Angola, specifically concerning debt. China's international economic relation policy has existed for the past four

decades. Moreover, Angola is one of the beneficiaries of this credit extension policy. One of the significant loan extension schemes to Angola was in 2002 when China lent US\$ 145 million for Angola's reconstruction. In 2008, another loan of US\$ 1 billion for agricultural sector development reinforced the bilateral debt agreement. Then in 2010, a US\$ 4 billion loan was extended to Angola as a follow-up on agricultural development (Kiala, 2010). As of 2020, Angola's debt had grown to US\$ 20 billion as sovereign debt to China (Osman, 2021). Therefore, this debt relation between Angola to China becomes a concern in this study.

#### **1.4. Research Questions**

- i. To what extent has China advanced its foreign policy goals towards Angola?
- ii. Has the Angola interest been met through its loans from China?

#### **1.5. Significance of the study**

Answers to these questions will have a two-pronged contribution to the literature. First, it will work with the nuanced and, therefore, non-binary approach to understanding the issue. While developing countries to some extent may be trapped in China's 'debt trap' policy to advance its foreign policy goals, it may have done so only to some extent. The thesis shall aim to shed some light into the extent to which this has been the case. More so, the findings and implications from this study will enhance countries' decision-making in international relation policy, specifically, developing countries thinking about external borrowing.

More so, the thesis will show if the Chinese loans to Angola are clearly for developmental and infrastructural purposes or if they are clearly a means to advance its foreign policy goal on the rich oil nation of Africa and, by extension, keeping it economically dependent on them which in many ways will benefit China. It will also show China's ability to get cheap energy, indirectly controlling the quantity it gets and still exert enormous economic and political influence on the affluent oil nation using just its provision of finance that will broadly benefit them in the long run. Thus making China a world power with significant economic influence because of the monetary help it provides with difficult conditions of repayment using its institutions and every government apparatus, such as the Chinese Exim Bank, to achieve this.

## **1.6. Thesis Structure**

The study will comprise four chapters: introduction in chapter one, literature review in chapter two, research methodology in chapter three, research results and findings in chapter four, before the conclusion, references, and appendices.

Chapter two will uncover the conceptual, theoretical, and empirical reviews. These concepts include advancing foreign policy and debt trap, which generally concern the study. China's advancement in this context refers to offers made by the government of China to stimulate, resuscitate and sustain the economic growth and development of a country (Ravenhall et al., 2011). This advancement could be in the form of loans, financial aid, and foreign direct investment. However, in this study, more emphasis will be placed in this investigation on the topic of loans provided by the government of China to the governments of developing countries for the purpose of funding growth and development initiatives in those nations especially the nation of Angola.

The study is based on the Liberalism theory of international relations, which emerged as a response to the need for peaceful coexistence after World War I (Parry, 2021, p. 3). Following the cessation of World War II, the United States served as a driving force behind the expansion of the liberal international order. The theory emphasizes a focus on liberal values such as humanism, peace, open trade, and the economic interdependence of countries. Liberalism is an ideology that fosters cooperation and collaboration among nations in order to prevent conflicts and accomplish shared objectives. According to this theory, a free market economy can contribute to reducing individual rivalry in civil society and promote the effective distribution of limited resources for the benefit of all members of the society. As a result, the research is grounded on the notion that an approach to international relations that is more liberal has the potential to encourage collaboration, peace, and prosperity among nations.

Realism theory could have been employed to explain the theoretical foundation of this study as a dominant theory of international relations (Parry, 2021, p. 1); however, liberal theory is preferred. The liberal theory, which is an approach to international politics, pursues the advancement of specific moral goals as well as ideals, therefore, constitutes both ideas and practices, unlike the realism theory that argues that states are largely driven by their self-interest and that the quest of

power and security is what drives their actions (Kissinger, 2014). In other words, it focuses mainly on the danger of the international system, thereby seeing confrontation and war as quick ways of handling any disorder in international relations. Realists believe that the world is an anarchic system in which governments strive for dominance and limited cooperation. The theory emphasizes that the primary objective of every state is to preserve its interests and maximize its authority. Proponents of this theory argue that war and conflict are inevitable; therefore, to be on the victory side, nations' leaders need to build their power and disdain avenues of morality or friendship that may injure them. In liberalism, emphasis is thrown on the rule of law, equality of sovereignty, peace, open markets, principles of restraint, as well as mutual gains among interacted states. Moreover, upon these features of liberalism theory, trade and exchanges between countries can strengthen and promote the international community (Parry, 2021, p. 1.). China's advancement of loans to other countries is a practice of liberalism. This international financial relation does not only promote peace but also fosters international economic cooperation, especially in this context where welfare liberalism (which advocates the promotion of the State's roles over the market) is upheld than conservative liberalism (A situation where greater participation of the private property and market is allowed than that of the State's role).

Chapter three will uncover the research methodology, which will stipulate the design, method, data sources, steps taken to answer the research questions and limitations of the study. The qualitative research design is employed in this study. Major data to employ in this study will include newspapers, magazines, press releases, official government documents and periodicals, and documentaries. Their contents on China's debt trap diplomacy on developing countries, especially as it relates to Angola, will be analyzed.

The case study method is a common research method in social sciences that is used in this research. The major data for this study were collected through literature searches of journals, books, press releases, official government documents and periodicals, documentaries, and online media. To gather the necessary information, This approach allowed for a detailed investigation of the phenomenon under study.

Chapter four will present the empirical result and analysis. Major findings on the extent to which China has advanced its foreign policy goals towards Angola with the use of its concessional loans

are presented and discussed. Also, discourse on how Angola has benefited from its decision to borrow from China will be given priority.

This will be followed by a summary and conclusion drawn from the study's findings. The findings of this study basically will reveal how China has advanced its foreign policy goals toward its debtor developing countries. This knowledge will benefit emerging economies, as it will unfold plausible indications that can lead a country into a debt trap. Besides, it will suggest alternative ways of evaluating an intended debt in relation to the reason for its demand. Furthermore, this thesis will show how China has used finance as a tool for economic and political gains because it has understood so well the intricacies governing the laws of lending and has used its institutions, such as the Chinese Exim Bank, as an instrument to pursue its goals in Angola. Hence this has made Angola a very dependent nation on Chinese loans.

In other words, the thesis will prove the unequal and uneven dependence between China and Angola. At the same time, China claims to provide Infrastructure and capital development; in the long run, it has created a substantial economic dependence where Angola has been conditioned to trade with its resources with little bargaining power to decide how much it will sell its oil.

In addition, the Sino-Angola relation has deepened over the years; the concessional loans have given China an undue political advantage whereby China has gotten the support of Angola in the UN general assembly, where it has relied for its political projections on the world stage.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1. Conceptual Frameworks

##### 2.1.1 Foreign Policy as a Tool for Development

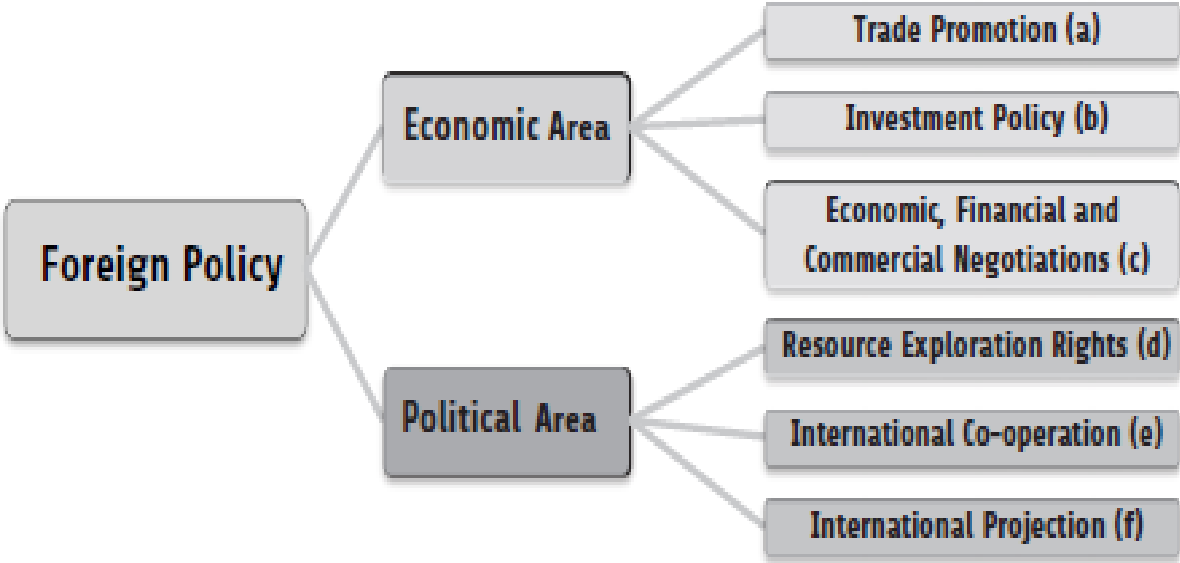
Spohr and Silva (2017, p. 159) assert that "there is a strong line of thinking that understands that developing countries present a deep need for a strong state when it comes to overcoming the gap that separates them from the developed countries." This gap exists in technological advancement, better standard of living, economic and political stability, and security of lives and property, among others. These advancement differences have polarized the 'developed' and 'developing/emerging' economies. I describe this kind of polarization as technological and industrial polarization. This is a situation where most developing countries see themselves as a perpetual patronizer of capital goods from the developed nations despite their several decades of independence. This continual dependence of emerging nations on foreign nations for capital and industrial goods, and not because of specialization, ensnares them into unwanted international relations.

However, the technological and industrial backwardness of developing countries can be alleviated by the type of foreign policies adopted, just like the Asian Tigers (South Korea, Singapore, Taiwan) that, despite their inadequate resources, decided to change and improve the economic history about their countries and gaining international competitiveness (Amsden, 2001). However, this positive change depends on the country's preparedness, resources, actions, and international relations. The level of a country's backwardness determines the level of effort put in by a nation for its development (Gerschenkron, 1961). Khara (2020) asserts that foreign policy may take the form of economic, diplomatic, military, or socio-cultural targets (p. 13). Thus, a foreign policy that is economically based has the capacity to enhance the economic growth and development of that country. Furthermore, a foreign policy that is diplomatically inclined seeks international peaceful coexistence. These diplomatic and economic foreign policies are solid foundations for advancing foreign policy goals.

However, it begs to ask the question of what foreign policy is. Foreign policy (FP), according to Dubakeme and Folarin (2023, p. 47), "is a statement of the intentions and un-intentions of a state. Foreign policy has been likened to a wedding ring used in solemnizing the domestic and

international environment together.” Folarin and Folarin (2018) assert that the reasons for such political solemnization are national ambitions. Although the purpose of foreign policy varies from country to country, Erbas (2013) argues that leaders can alter the global order by making proper foreign policies. Karns and Mingst (2016) state that foreign policy is the collection of strategies and actions a government uses to engage with other nations and international bodies. Ola (2017) opines that FP constitutes a variety of government actions in its interactions with other actors in the global environment to advance the nation's interests. The choice of foreign policy poses remarkable positive or negative effects on the country (Dubakeme & Folarin, 2023). The foreign policy of any country is determined by the leader’s idiosyncrasy, geographical location, economic resources, population, and external environment.

According to Smith (2019), for a country to have an effective foreign policy, its leaders must have a comprehensive awareness of the complexities of the international system and the capacity to negotiate its challenges and possibilities. It also demands a willingness to communicate and compromise with other countries, especially when there are considerable disparities in the values and interests of the parties involved. Looking at foreign policy's role in advancing a country, the state's role remains dominant (Spohr & Silva, 2017, p. 159). Foreign policy can be categorized into two broad areas – economy and politics.



**Figure 2.1: Foreign Policy Lines of Action in Promoting Development**

**Source:** Adopted from Spohr and Silva (2017). Foreign Policy's Role in Promoting Development: the Brazilian and Turkish Cases.

As postulated by Spohr and Silva (2017, p. 160), a foreign policy initiated by a country could be economically based or politically based. These two areas of foreign policy will be discussed here. However, more attention will be given to the economic area of foreign policy. The reason is that the economic area of foreign policy directly affects the topic of this study. Hence, this has a close relationship with the topic because China has been recognised as an economic giant that has the capacity and capability to provide economic assistance to impoverished or rather developing countries of Africa, and in most cases, it has used its foreign policy to advance this economic assistance to these nations, and Angola is not an exception. China has indirectly used its institutions to get this financial assistance to these countries.

According to Spohr and Silva (2017), politically based foreign policy has three basic policy lines. These policy lines are resource exploration rights, international cooperation, and international projection. These three lines of foreign policy actions exhibit an indirect influence on the economic growth of a nation but have the potential to promote both the economic and political areas of the country significantly (Spohr & Silva, 2017). How does this happen? The international image of a country on a global scene stands very tall in determining that country's bilateral and multilateral relationships. This international image lens could either enhance or mar the country's trade flows with other countries. In other words, political area-based foreign policy opens the way for economic areas. Spohr and Silva (2017) assert that through foreign policy in the political area, access to up-to-date higher technologies can be accessed, the favourable environment necessary for driving the economic activities of companies within and outside the country can easily be created. This shows that there is a positive relationship between political area-based foreign policy and the outcomes of the economic area in the foreign policy.

Resource exploration right, as indicated by Spohr and Silva (2017) in Figure 2.1, is the need for a country to ensure its right to explore its natural resources. This is done especially when joining international regimes of land and sea resource ownership and exploration. Besides, not all developing countries have the technology to explore their natural resources; consequently, an international memorandum of understanding is required for a technology-driven country to explore. This involves the negotiations on the ownership of resources and the environmental

influence of its externalities. The second line of action in the political area of foreign policy, "international cooperation," expresses the mutual benefits accrued to both countries in an international relationship.

So, a country can, as a target of foreign co-operation projects (from both countries and international organisations), receive technology, develop shared projects of resource exploration, or create programmes of inequality reduction. The pattern through which a country receives this kind of co-operation plays an important role in guaranteeing that its benefits will last and in generating conditions to eliminate the continuous need for foreign assistance. Spohr and Silva (2017)

Consequently, an extension of the hand in international cooperation is an indirect invitation to a relationship of give and take. The final line of policy action in the political area of foreign policy, which is 'international projection,' focuses on the effect of other areas of foreign policy on the above policy lines of action, with the country's autonomy playing a pivotal role (Spohr & Silva, 2017). A country's autonomy here refers to deliberate efforts to pursue its development strategies outside the intervention of developed countries. This implies that the autonomous country is free from constraints imposed by powerful countries (Vigevani & Ramazini, 2014, p. 520).

Let us come to the economic area of foreign policy, where more of our discussion lies. The foreign policy focusing on the economic area showcases a greater direct relationship regarding development projects. The three foreign policy lines of action here are trade promotion, investment policy, as well as economic, financial, and commercial negotiations.

Trade promotion as a foreign policy tool is a deliberate trade and development strategy embarked upon by a country by promoting its export quantitatively and qualitatively (Spohr & Silva, 2017). Quantitatively, exports and the country's national income will increase alongside a favourable balance of payment. Qualitatively, the value creation on the quality of the exported products is enhanced for sustainability. Continual patronage of a country's product in the international market hinges on the quality of the products, among other factors. In order to achieve this, a country's makers of foreign policy frequently explore new markets (other countries with less interest in

foreign goods) in attempts to coax and induce demand for its existing products or reach traditional trade partners with new and quality products (Spohr & Silva, 2017).

Next on the foreign policy lines in the economic area is the investment policy. Spohr and Silva (2017) posit that there are two positions a country can find itself in when embarking on an investment policy. This could be either a foreign direct investment (FDI) recipient or an investor in FDI. In the former, the recipient country benefits from technology transfer in exchange for capital transfer. In this case, the recipient is seen as a weaker side, unlike the investor, where national investment is expanded abroad because of strategic involvement in the stages of product diversification.

Finally, is the economic, financial, and commercial negotiations as another line of action in the economic area of foreign policy. In this line of action, Spohr and Silva (2017) posit that the strategy is to demand suitable conditions for development, for the elimination of developed countries' disloyal trade practices (such as subsidies, tariff and non-tariff barriers (NTBs), and dumping), for fairer intellectual property regimes (flexible to national technology generation programs), and for the possibility of developing unorthodox programmes. Through this line of action, great support is accorded to better international trade and protect infant industries.

Zimmerman (2007, p. 7) posits that "at the international level, the concern for poverty, [people's welfare] combined with the dynamics of international power and organization leads to foreign [lending]". Lumsdaine (1993, p. 120) notes that [foreign] "policies at the international level reflect—not just root desires on the part of policy elites in [lending] countries, much less mass opinion or feeling." This is because a country's foreign policy is an outcome of the content of the domestic policy. That is to say that the operations and dynamics of domestic policies determine foreign policy. Therefore, the economic and financial gap within a country informs the nature of foreign policy to embark upon.

### **2.1.2 China's Belt and Road Initiative (BRI)**

The Belt and Road Initiative (BRI) is a more extensive global infrastructure-building strategy established by Chinese President Xi Jinping in 2013 (He, 2020). Beijing portrays the BRI as a global cross-border project, accompanying a win-win economic incentive that will enhance the economic growth in China and partner countries in the scheme. Mixed feelings have been raised

about BRI. Some people are excited, viewing it as a new Marshall Plan, while others see it as an agenda with a hidden motive (Liu & Dunford, 2016). China pledged to finance and build infrastructure in the Indo-Pacific, opening new economic corridors between Central Asia and Europe as well as Southern and South East Asia (Brautigam, 2020).

BRI aims to enhance China's connectivity with the world through a new maritime and continental infrastructure and, at the same time, promote economic cooperation (Fan, 2018). Even though this initiative tends to be expanding and there is a new dimension to it like the Health Skill Road or Digital Skill Road, the strategy is well known for its connectivity in the area of infrastructure like the construction of an extensive network of highways and railways, sea and airport facilities, energy pipelines, etc. In Washington, however, the spin is that the BRI is not really about commerce but is about China's strategic dominance: that China wants to use its economic muscle for political leverage, that China wants to rewrite business rules and practices developed by the West or even that China wants to rule the world, using the BRI as a kind of weapon (Johnson, 2018; Lee, 2018).

Johnson (2018) and Lee (2018) posit that China's current investments through its companies in Greece and other places in Southern Europe ports have been described as Trojan horses paving the way into Europe through its soft underbelly. This action of China purchasing ports is perceived as an indirect strategy for expanding the military base within ancient trading routes and essential shipping lines. The acquisition of major shares in Hambantontota port in Sri Lanka by China Merchants Port Holdings Co. for US\$1.12 billion is seen as an example of China's debt-trap diplomacy, where it coerces countries to cede control of their strategic assets in exchange for debt relief (Bräutigam, 2019). The case of Sri Lanka is particularly relevant as it demonstrates how China leverages debt as a means of gaining strategic advantage. In 2017, Sri Lanka handed over control of the Hambantota port project to China for a period of 99 years, as it could not repay the loans taken from China for the construction of the port (Bräutigam, 2019). This move has been described as an "asset seizure" by some experts, as it effectively gives China control over a strategic port in the Indian Ocean. The United States government has also made concerns regarding China's use of debt-trap diplomacy and the effect that this has on the sovereignty of developing countries (Brautigam, 2020). Top officials in the administration of Donald Trump have issued numerous warnings that China utilizes the burden of debt to entangle emerging countries and

extract strategic concessions. This underlines the broader geopolitical implications of China's investments in vital ports and the need for a comprehensive awareness of China's intentions in the international arena. Additionally, this highlights the need for a thorough understanding of China's strategic aims. Overall, China's investments in ports and other strategic assets through debt-trap diplomacy pose critical questions about the principles of China's foreign policy and its long-term strategic ambitions.

The issue of Chinese loans and debt implications in African countries has been contentious in recent years. Johnston (2016) argues that the influx of Chinese loans into African countries has generated huge burdens and debt implications, and the underlying feeling is that unless the financial investments financed by the economic gains increase the debt servicing capacity of the East African governments, the credit implications of such lending has increased the debt burdens and contribute to weaker external positions (Johnston, 2019). The Chinese government has been found to be giving loans and debts to sustain the ambitious BRI program, which would pave the way for China's global leadership intention for its future (Were, 2018). China has been accused of luring developing and underdeveloped countries to borrow money to improve their infrastructure projects and later taking control if they fail to pay off these loans promptly.

### **2.1.3 Debt Trap Diplomacy**

In an international financial connection known as "debt-trap diplomacy," a creditor country or organization lends debt to a borrowing nation wholly or partially to give the lender more political clout. When the debtor country cannot meet its repayment commitments, the creditor country is said to have given the debtor country an excessive amount of credit to obtain political or economic concessions (Fabricius, 2020). The terms of the loans are frequently kept a secret (Horn et al., 2020). Contractors and supplies from the creditor's country are frequently purchased with borrowed funds. Debt-trap diplomacy is a theory that describes a powerful lending country or institution seeking to saddle a borrowing nation with enormous debt to increase its leverage. Debt-trap diplomacy was associated with Indian academic Brahma Chellaney, who promoted the term in early 2017. The term debt-trap diplomacy refers to China's approach of purposefully aiming to trap countries in a cycle of debt to acquire strategic advantages or specific assets (Bräutigam, 2020).

The phrase was created in 2017 by Brahma Chellaney to describe what he called China's predatory lending methods, which drive impoverished countries to give up strategic advantage in favor of giving China unsustainable loans (Chellaney, 2017). Chellaney asserts that it "clearly" fits China's geostrategic goal (The Diplomat, 2019). On projects with closed bidding and contracts that must go to Chinese state-owned or state-linked enterprises that charge above-market prices, the Chinese government requires private talks and non-competitive pricing (Beech, 2019). According to Bräutigam (2020), the concept of Chinese "debt book diplomacy" was introduced in a study by two graduate students at Harvard University. This paper gained significant attention from the media, intellectual circles, and Western governments within a year. It was cited by major media outlets such as The Guardian and The New York Times as scholarly evidence of China's ambitions.

Other regions of the world have been added to their original meaning (Ferchen, 2018). Eight nations may default on their obligations under the Belt and Road Initiative, according to a 2018 investigation by The Guardian (Kuo & Kommenda). Some governments have started to reevaluate the initiative. These initiatives go beyond financial strategy, says Jonathan Hillman, director of the Center for Strategic and International Studies' Reconnecting Asia Project; in addition to this, it provides China with a platform from which it can draft new norms, establish institutions that reflect Chinese interest, and reshape soft infrastructure (Kuo & Kommenda, 2018). A 2018 research by the Harvard Kennedy School's Belfer Center for Science and International Affairs provided a more detailed definition of the phrase, describing debt-trap diplomacy in the context of Chinese geostrategic aims (Debtbook Diplomacy, n.d). China's debt trap diplomacy called the Belt and Road Initiative is a ploy for them to procure political and economic ascendancy by exploiting the poorer countries, which in turn could help them attain influence and control all over the world as the possible global hegemony in the future (Talabis and Vilog 2020, p.1). Nevertheless, countries participating in the initiative should be cautious and limit the number of loans they negotiate or risk falling into China's trap and being left indebted and potentially controlled by Chinese authorities. It is important for countries to carefully assess the potential risks and benefits before engaging in any agreements with China (Talabis and Vilog 2020). As China's influence continues to grow globally, it is crucial for countries to consider the long-term implications of their economic relationships with China.

China's debt trap diplomacy works through China extending billions of dollars in the form of concessional loans to developing countries, specifically for their large-scale infrastructural projects, in order to gain rapid political and economic dominance across the globe. Consequently, the recipient countries, mainly developing nations characterized by low or middle income, are unable to maintain the repayment conditions, thereby enabling China to demand concessions or advantages in exchange for debt relief (Talabis & Vilog, 2020). While China offers concessional loans granted in the form of lower interest rates compared to the market rates, and leniency in the extended grace period, on the other hand, the concessions demanded by China are not friendly at all. For instance, Tajikistan, a country located in Central Asia, had to make significant concessions to China to repay its debts. One of these concessions was to cede a portion of its disputed border with China (Furukawa, 2018). This was seen as a way to ease tensions between the two countries and to secure China's continued support. Additionally, in April 2018, Tajikistan had to give up control of its gold mine as compensation for the funds provided by China to construct a power plant in the country (Furukawa, 2018). These actions highlight the power dynamic at play in debt negotiations between countries and how indebted nations may have to make significant sacrifices to repay their debts and maintain relationships with lenders.

Ahuja (2021, p. 2) asserts that for the past two decades, China has appeared as a substantial global lender, with a capacity of lending up to 6% of the global Gross Domestic Product (GDP). And looking at it critically, It is worth noting that all of these loans are official, which implies that they are given by government-owned and state-owned enterprises (Ahuja, 2021). The majority of the recipient countries of these loans are developing countries. Ahuja also narrated that China traps nations in debt through its lending practices. China has been known to provide massive loans to low and middle-income countries since 2000. One of the ways this debt trap is done is by making loan agreements with undisclosed terms and conditions. In other words, these countries often need to fully understand the long-term implications and consequences of such borrowing.

#### **2.1.4 Effect of Debt-trap on Economic Growth**

Public debt yields a positive effect on the economy when debt enhances the economic well-being of the people. Debts of this kind are not regrettable as either or both the generation of the debt contract and the generation unborn benefit from the utilization of such borrowings. In most cases,

externalities from such debt-contract could efficiently service the debt within the estimated period. But public debt with adverse effects retards the gross domestic product as well as the standard of living of the people. Foreign loans allow countries to acquire the additional resources to invest more than they save with lower interest rates than otherwise. On the other hand, interest paid on foreign-owned debt is not an internal transfer (it enters the current account of the balance of payments and thus lowers GNP and national income), and hence the ability to service the debt is of even greater importance than usual. According to Chouraqui et al (n.d.), external financing can sometimes affect the economy's competitiveness, notably if the capital inflows lead to an exchange rate appreciation.

Elmendorf and Mankiw (1998) explained that debt affects the economy both in the short run and in the long run. Elmendorf and Mankiw stress that in the short run, public debt may raise households' disposable income, thereby enhancing aggregate demand; however, in the long term, public debt reduces national wealth. Chouraqui et al. (n.d.) pointed out that a high amount of public debt poses two adverse effects. One is budget inflexibility due to the high debt service burden. The second is the risk of ascending interest rates. This results in the retardation of private investment, low capital stock, and dwindling economic growth. This implies that as the quantum of debt increases, the interest payment burden will be higher, thereby posing tremendous suffering on other items of public expenditure.

At this juncture, China has demonstrated its potential as a powerful creditor by providing loans, indicating that it can become the primary source of financial support for small economies, such as Angola, based on its economic productivity. And in a way has been able to push its foreign policy goals by coming to the aid of these African countries like Angola through infrastructure or developmental loans that come with strings attached to them because these countries, especially Angola, are in service of debt for a very long time. Thus, it gives China enormous leverage to dictate how it pays or will pay back. More so, the agreement Angola has signed with China through the auspices of its Exim bank is shrouded in secrecy as the terms and agreement are not clearly stated, which means a lot is not identified when these loans are taken. Furthermore, the financial terms of these loans are not easy to decipher because the price agreed upon is not fixed and is based on the future, or the present market prices affect the discount. By logical extension, China can gain more physical control of resources of Angola, especially oil, whose terms of payment seem to be

over a long period, giving China an undue advantage to dictate further what it wants and how it runs its repayment plan, which often locks Angola in for a more extended period of debt servicing making the repayment very difficult because China in a way dictate how these loans are disbursed and where. Since China exchanges its loans for oil as a mode of partial repayment, the price of this oil is not fixed, and when the prices of oil rise and fall, the loan terms are often adjusted and suit China. Oil industry specialist at the world bank explains that the price of oil over the term of the loan is not fixed whether the price rises or falls (Foster, Vivien; Butterfield, William; Chen, Chuan; Pushak, Nataliya, 2009).

## **2.2. Theoretical Framework**

### **2.2.1 Liberalism Theory**

Liberalism rests on the ethical justification that safeguarding the rights of individuals to their life, properties, and liberty should be the primary objective of a government (Meiser, 2018). As a result, liberals prioritize the welfare of individuals as the fundamental cornerstone of a fair political structure. This implies the primary focus of liberalism is to build institutions capable of protecting individuals' freedom by checking and limiting political power. While these are clearly domestic political issues, liberals also place a high value on developments in international relations (IR) due to the significant impact that a state's actions abroad can have on individual freedom at home. Militaristic foreign policies are especially upsetting to liberals.

In a society that adheres to liberal norms, there is an additional level of constraint beyond institutional checks on state power. Individuals with liberal values will inherently resist government actions that endanger individual freedoms and elect representatives who align with liberal preferences (Meiser, 2018). Liberalism argues that unchecked, violent power poses a serious threat to individual freedom and must be restrained by domestic and international norms and institutions. Economic institutions are particularly effective in encouraging collaboration due to the considerable benefits of economic interdependence, while international institutions limit state authority by promoting cooperation and imposing consequences for those who breach international accords (Meiser, 2018). Critiques of liberal theory oppose the above position. For example, Richardson (2002) does not totally support the principles of liberal theory. He describes it as what deserves thoroughgoing reformation. Also, he attributed the regard for liberal theory to

having only dominated in the United States. This implies that he upholds realism theory more than liberal theory, as it was described as a utopia. Richardson questions the attainment of the values of liberalism in this world. However, considering the propensity of specific individuals and countries to war, retaliate, and illegally dominate others, the liberal theory stands tall to assemble the world together, if not for any reason, at least for the benefits emanating from international interdependence.

Contemporary scholarship on liberalism and international relations looks back at three distinct traditions of liberalism, attributable to three groups of theorists: John Locke-the great founder of modern liberal individualism, who claimed that states have rights derived from individual rights to life and liberty (political independence) and property (territorial integrity), thereby providing the liberal foundations of international law; Adam Smith, Baron de Montesquieu, and Joseph Schumpeter-brilliant explicators of commercial liberalism and what they saw as its natural result, liberal pacifism; and finally, Immanuel Kant and Giuseppe Mazzini-liberal republicans who theorized an internationalism that institutes peace among fellow liberal republics (Badie et al, 2011)

Liberalism theory has been one of the early international relations theories. No precise date was traceable to its time of formation. However, in the 20th century, the theory gained recognition after WWI and WWII. This made the practice and proponents of liberal views more relevant and practical than other theories. Nevertheless, the incidence of the Cold War in the 1970s had erupted a new dimension of liberalism, tagged 'neo-liberalism.' The Cold War acted as a process of softener to the bipolar political system, fastening the acceleration of interdependent relations and raising the participation of non-state actors in international relations. This development in international relations mitigates the use of military security and hard power and popularizes liberal thought on the global agenda (Toprak, 2021).

Today, the liberal doctrine is gaining more momentum, seeing the wake-up of non-Western nations such as India, China, and Brazil in the quest for dominance in international politics and economic development. These ambitions have prompted them to extend magnanimous cordial relations, especially with emerging economies. By providing these developing nations with forbearing loans,

aid, and direct investment, among other things, these developed nations have fostered a warm and friendly transnational relationship.

### **2.3. Empirical Review**

The issue of China's debt-trap diplomacy on developing countries has attracted several researchers' interests. Some researchers see China's debt diplomacy as beneficial to recipient countries, while others see it as harmful to recipient countries. This section shall unfold some of the extant related literature on this argument.

#### **2.3.1 Arguments that China's Debt Trap Diplomacy is Harmful on Recipient Developing Countries**

Talabis and Vilog (2020), in their paper titled "Position paper: Debt trap diplomacy," view loans advanced by China to developing countries as a debt trap. According to them, there is no certainty that China's Belt and Road program would benefit and succeed the countries involved. They argue that China takes advantage of countries with poor economic backgrounds and extends 'more than they pay' loans to them, with the knowledge to benefit from their inability to pay. As China's trend and international relation policy, Fernholz (2018) identified countries like Tajikistan, Djibouti, Montenegro, Laos, Pakistan, Mongolia, Maldives, and Kyrgyzstan as some of the countries that have fallen into this debt trap. And in Djibouti, China constructed its first overseas naval base (Hurley, Morris, & Portelance, 2018), which is seen as a strategic move to expand its geopolitical influence. It is believed that this is done to gain control over landed property, ports, and economic investments, which will earn China a powerful global hegemony.

Mantesso (2018) pointed out that one of the developing countries that have suffered from this debt trap is Sri Lanka, as its Hambantota port was forcefully taken as a form of settlement for her debt in December 2017, which indirectly helped China gain quick access to India, one of her perceived enemy. Furukawa (2018) also posits that China's Belt and Road initiative is nothing but a debt trap. Furukawa's study reveals that Tajikistan is one of the victims of this debt trap as its border under dispute was handed over to China to settle the debt. Not only the disputed border but her gold mine was exchanged for building a powerplant in April 2018. Al Habsi (2021) examined the topic of economic development vs. debt trap: Is China's Involvement in East Africa's economy a

front to take over the region for strategic purposes? A case study of Tanzania. The study reveals increased economic growth in the East African community due to financial assistance. However, Al Habsi concluded that China's relationship with Africa has led to the so-called debt-trap diplomacy, which damages East African economies, prompting concerns about China's intentions in Africa. Carmody, Taylor, and Zajontz (2022) conclude in their study that there are growing concerns regarding a potential debt crisis in Africa, and the economic viability of certain BRI projects is being questioned, particularly in the aftermath of the COVID-19-induced economic downturn. Moreover, the optimism about Africa's economic development, which was founded on the idea of enhanced connectivity under the BRI, is unlikely to come to materialize.

Sun et al (2017) posit that although Western corporates have warmly embraced the influx of Chinese loan assistance into Africa, a Moody's executive cautioned: "Unless African investment financed by Chinese loans generates substantial economic gains that boost the debt servicing capacity of Sub-Saharan African governments, the credit implications of such lending include higher debt burdens, weaker debt affordability, and weaker external positions" (Rogovic quoted in IOL Business Report 2018). As Carmody et al (2022a) pointed out, China's supposed debt trap diplomacy has caused more dismay than benefits because of its ensnared conditions.

### **2.3.2 Arguments that China's Debt Trap Diplomacy is Beneficial to Developing Countries**

Jones and Hameiri (2020), in their paper "Debunking the myth of 'debt-trap diplomacy' how recipient countries shape China's Belt and Road Initiative," refute the philosophy of China enslaving developing countries with snared loans. In this case, China is alleged to use the Belt and Road initiative to trap Sri Lanka by lending funds to build a major port at Hambantota. Jones and Hameiri's monograph study argued that China has never been part of the increase in the indebtedness of loan-recipient countries. Their findings reveal five reasons that set China innocent of Sri Lanka's debts.

In their position, they highlighted that China never proposed the mega project of building Hambantota port; instead, it was attributed to the brainbox of the President (Mahinda Rajapaksa) and the Sri Lankan government. The President was perceived to have entered into a bilateral agreement with China primarily for profit making. And when personal interests override the

country's actual needs and demands, the economy and people suffer. Secondly, they saw the transaction between China and Angola as a commercial one, not a geostrategic venture capable of creating vast surplus capacity. However, they were affected due to governance problems in Sri Lanka. Thirdly, Sri Lanka's debt distress was unconnected to Chinese lending, arising from excessive borrowing on Western-dominated capital markets and structural issues within the Sri Lankan economy. Fourth, there was no debt-for-asset swap. Instead, after bargaining hard for commercial reasons, a Chinese SOE leased the port in exchange for \$1.1 billion, which Sri Lanka used to pay down other debts and boost foreign reserves. Fifthly, Chinese navy vessels cannot use the port, which will become the new base of Sri Lanka's southern naval command. All these problems resulted from not having a carefully crafted top-down strategy (Jones & Hameiri, 2020). Carmody, Zajontz, and Reboredo (2022) engage in a study titled "From debt diplomacy to donorship? China's changing role in global development". China's growing dominance in the global economy and its disproportionate economic benefits are not solely achieved through coercion but also rely on the consent of subordinate nations and other regions of the world.

Carmody et al (2022b) associate China's structural transformation and foreign relations since the late 1970s with the global world as means of reducing poverty at an aggregate level. Breslin, 2021, p27) explains that China's leadership in the international realm is reliant on the willingness of other nations to follow its lead, and this support is often influenced by China's incorporation of the interests and positions of potential followers into its agenda.

## CHAPTER 3

### METHODOLOGY

#### **3.1 Research Design**

The study's research design comprises the framework the researcher adopts that specifies the approach to the analysis. Research design uncovers the “where,” “what,” and “how” the study is being carried out. The “where” indicates the place of study. The “what” describes the phenomenon or phenomena being studied, alongside the variables used to operationalize them, and the “how” explains the method of study, method of data collection, sources of data collection, and method of data analysis. Good understanding of a study's “place, what, and how” helps proffering quality answers to the research questions.

Different research works require different research designs. For instance, descriptive, experimental, correlational, and qualitative and quantitative research designs are employed in various studies. All these research designs are essential in their various applications.

However, the qualitative research design is employed in this study. This method appeals much to the researcher as the method “facilitates the ability to obtain a richly detailed understanding of the topic” (Al Habsi, 2021, p.40). Streefkerk (2022, p.1) contends that qualitative research design is expressed in words and is employed to understand thoughts, concepts, or experiences. Using the qualitative approach in a case study, as in this study, requires exploring a phenomenon within its context, allowing for a better understanding of the phenomenon as it is viewed from multiple perspectives (Baxter & Jack 2008). Al Habsi (2021) asserts that qualitative research designs focus on providing answers to questions on “how” and “why” concerning the variables under study. Patton (2002) states that while instrument construction determines the credibility in quantitative research, in the case of qualitative research, “the researcher is the instrument” (p. 14).

#### **3.2 Justification for a Case Study Method**

Two reasons inform the choice of Angola in this study. One, the role of China in Angola's independence, and two, Angola's foreign policy with China on oil export and debt financing. The role of China in Angola's struggle for independence dates back to 1960; from its colonial power – Portugal established the relationship between Angola and China.

China, in alliance with other organizations and non-governmental agencies such as the then Organisation of African Unity (OAU), the Popular Movement for the Liberation of Angola (PMLA), the Union for Total Independence of Angola (UTIA), National Front for Liberation of Angola (NFLA), was instrumental for the liberation of Angola from the colonial leadership of Portugal in 1975 when Angola was declared independent (Centre for Chinese Studies, CCS 2010). This Angola-China relationship was strengthened in a bilateral relation created in the early 1990s by the President of Angola and China which led to the establishment of the Mixed Economic and Trade Commission (CCS 2010; Nnoka, 2021, p. 5). This shows that the relationship between Angola and China has existed for the past four decades.

Furthermore, Angola has frequent involvement in China's loan facility, and there are debates that Angola is one of the countries falling into a debt trap. More so, Angola is among China's Belt Road Initiatives (BRI), who are heavy borrower of China's loans, and also an oil exporting country in which China is also interested. Chen Mo (2012) posits that the presence of commercial oil in Angola remains one of the reasons for the continual attraction of China to bilateral relations. China treasures oil so much as it is a cheap and affordable form of energy. This oil interest has birthed business transactions between Angola and China. In 1984, the first trade deal contract was carried out, which later gave birth to the Joint Economic and Trade Commission in 1988 (Nnoka, 2021).

Also, from available statistics, where African nations benefited from China's foreign loan facility to the amount of \$153 billion within the period 2000 to 2019, Angola is ranked the highest borrower (Ahuja, 2021). The China loans to these countries within the above period are shown thus: Angola, \$25 billion; Republic of Congo, \$7.3 billion; Sudan, \$6.4 billion; Ethiopia, \$13.5 billion; Zambia, \$7.5 billion; Kenya, \$9.8 billion; Mombasa & Nairobi, \$7 billion; South Africa owes China nearly 4% of its GDP; Nigeria, \$3.1 billion; and Djibouti, 77% debt are Chinese Loans (Ahuja, 2021). Therefore, a qualitative study on Angola will reveal the extent of China's debt trap diplomacy on developing countries.

Therefore, this study will empirically examine China's debt trap diplomacy on developing countries: the study of Angola. The thesis's focus is on Angola's bilateral loan relationship with China. Although China has advanced loans to several developing countries, in this study, I will limit my study to Angola – one of the major debtors to China in Africa. Angola is described as one of Africa's richest countries regarding natural resources and oil reserves (Nnoka, 2021, p. 5).

Angola, like any other country with ambitious goals, is working to develop and enhance a variety of aspects, including the construction of urban cities, exploitation of minerals, advancement of energy stability, the industrialization of the country, and the development of its socio-economic system. As a direct consequence, Angola and China have begun to develop their bilateral relationship.

China has been described as the world's largest official creditor (Gelpern et al., 2021). China has been in the practice of advancing its foreign loan policy to many countries in the world, especially less developed countries. Gelpern et al (2021) posit that emerging countries from Africa, Eastern Europe, Asia, Oceania, and Latin America have benefited from this China's bilateral lending. According to Sharma and Lin (2021, p.3), "China lends more to developing countries than all other bilateral creditors put together, including the World Bank, because developing country borrowers are willing customers. However, this does not necessarily mean that Beijing is a more generous lender." Furthermore, Angola, a developing African country, has embraced this opportunity by borrowing from China for its key developments.

Furthermore, a case explains in its entirety a phenomenon that is observed at a single point over a certain period of time. It is also made up of a particular type of phenomenon that seeks to explain the characteristic of a nation-state. However, in a case, it provides observation or several within the case (Gerring 2007, p. 19). Hence, the relationship between Sino-Angola presents multiple cases; in this case, the researcher tries to figure out these cases in the relationship between these countries. Thus, these cases include the loans agreement China gives to Angola through the instrumentality of the Exim Bank, the construction of Infrastructure in Angola through several Chinese companies, and the oil deals just to mention a few are multiples that can help explain the relationship. Therefore, the case study takes a thorough approach to explain these known phenomena.

In addition to this, a case study as an empirical method seeks to investigate in depth the contemporary phenomenon and the real-world context; this is so, when the real-world context and the boundaries between it and the contemporary are not so evident, which means that a case study is used in other to secure real word access and ensure a comprehensive understanding of the crucial contextual factors that is pertinent to the case (Yin & Davis, 2007 cf Yin 2018).

## Map of Angola



**Figure 3.1:** Map of Angola and its Neighbouring Countries

**Source:** <https://www.britannica.com/place/Angola>

Prior to discussing the topic of this study, which is Angola's mounting debt to China and claims of debt trap diplomacy, it is essential to sketch a brief history of the country because this establishes China's place in it. The first actions China took in the nation are discussed in the following section. The specifics of China's loans to Angola, their procedures and drivers, as well as how both parties decide to manage the Angolan debt, are then examined.

Angola is a country in southwestern Africa that shares borders with the Republic of Congo to the far northwest, the Democratic Republic of the Congo to the north and northeast, Zambia to the southeast, Namibia to the south, and the Atlantic Ocean to the west. After fifteen years of political struggle, Angola gained her independence from Portugal in 1975. However, long-term Internal crises emerged among the three primary political groups fighting for Angola's independence: the National Front for the Liberation of Angola (FNLA), the Popular Movement for the Liberation of Angola (MPLA), and the National Union for the Total Independence of Angola (UNITA) (Osman, 2021). This internal struggle which was fuelled by external supporters, who each of the Angolan freedom fighter's political groups is loyal to, lasted for 27 years before its resolution in 2002 through a peace agreement (Smith & Kelly, 2021). This elongated Cold War drastically affected the developmental trend of Angola as most available resources were channeled into war, all in an attempt to eliminate the opponent and have total control of the country. This unpleasant crisis displaced over 600,000 people and resulted in the death of 1.5 million people (Osman, 2021). The

population of Angola as of 2021 was 34.5 million people. As a result of the leading liberation organizations' resistance to sharing power within Angola's multi-ethnic society, a power-sharing agreement between the parties has previously failed (Ball, 2017).

### **3.3 Research method**

Several types of research methods are available and used in carrying out various research. Streefkerk (2022) identified the qualitative and quantitative methods. Quantitative emphasize experiments, observations recorded as numbers, and surveys with closed-ended questions. However, qualitative methods deal more with “interviews with open-ended questions, observations described in words, and literature reviews that explore concepts and theories” (Streefkerk, 2022, p.1).

But in this study, the qualitative research method is adopted as this will facilitate the ability to obtain a detailed understanding of the topic. To achieve this, qualitative data are employed with the use of newspapers, magazines, press releases, official government documents and periodicals, documentaries, etc. Habsi (2021) asserts that the use of a qualitative approach makes it easier to gather deeper insights about a phenomenon of this nature. More so, with secondary data, various information relating to China’s foreign policy goals can be harnessed as a source of data that is characterized by comparative and contextual information, leading to unforeseen discoveries, the durability of data, and fewer resource requirements (Boslaugh, 2007).

### **3.4 Sources of Data**

The data sources utilized for this study include an AIDDATA Working Paper for the first research question, as well as various resources such as magazines, official government documents (such as memorandum, statements, reports, and periodicals), documentaries from YouTube channels such as BBC News, DW News, and CNN, and relevant web content. These sources were specifically chosen to provide insight into the subject matter and help answer the research questions. The AIDDATA data used is in the form of a time series, which records details of annual China-lending funds to Angola from 1995 to 2021. This informed the use of an ex-post facto research method. Additionally, to ensure the accuracy of data collection, data

triangulation, as recommended by Saegent (2012, p.2) was carried out where multiple data sources were considered to produce a more comprehensive view of pre and post-effect of China's foreign policy goals with debtor developing countries.

### **3.5 Steps Taken to Answer Research Questions**

Hsieh and Shannon (2005) focus on the characteristics of language as communication with attention to the content or contextual meaning of the text. Text data might be in verbal, print, or electronic form and might have been obtained from narrative responses, open-ended survey questions, interviews, focus groups, observations, or print media such as articles, books, or manuals (Hsieh & Shannon, 2005; Kondracki & Wellman, 2002).

The research questions in this study are: i) to what extent has China advanced its foreign policy goals towards Angola? And ii) how has Angola's decision to borrow advanced its interest?

Here, it is essential to define both China's foreign policy goals and how it can be determined if these objectives are attainable through its diplomatic ties with Angola. A nation's foreign policy is a representation of its goals in international affairs. Karami et al (2018, p.211) posit that the foreign policy of a country is the outcome of the encounter, interaction, as well as all the different factors, both internal and external, which include: the geographical and climatic conditions, historical experiences, ethnic composition, the nature of the political system, economic and military capabilities and constraints, and, ultimately, the nature of the International and regional system. Foreign policy can include various tools such as diplomacy and sanctions, propaganda and negotiations, containment and collective security, as well as deterrence and military force.

In the case of China, according to Jakobson (2013, p.4), China's foreign policy goals are in three broad areas. These goals include domestic political stability, sovereign security, territorial integrity and national unification, and China's sustainable economic and social development. Zhang (2010, p. 41) highlighted five important areas that describe Chinese new foreign policy goals. These include the drive to gain a complete new bilateral partnership with the USA; the ambition to establish great power relations through soft-balancing, which is achievable through a strong strategic alliance with Russia; the ambitions to recreate the hierarchy of various regions of the world, with the inclusion of Central Asia and Africa which are East Asia, outside China's geographical territory; a global economic security strategy that has contributed to China's

worldwide diplomatic presence and impact; and finally, the pursuit of soft power, a mixture of economic diplomacy and cultural and ideological appeals, to promote China's global and regional influence.

As observed in these China's foreign policy goals, China's lending relation with Angola is an attempt to achieve two of these goals – “reshaping regional orders” and “the pursuit of soft power, a mixture of economic diplomacy and cultural and ideological appeals, to promote China's global and regional influence.” And one of the greatest tools used by China in pursuing some of these goals is its “finance.” According to a leading expert on regional cooperation as well as an Academic in the Chinese Social Science Academy,

Through proposing new ideas and suggestions, China has attempted to move regional orders toward the direction that favors itself. In recent years, China has used all imaginable occasions, which include economic, political, security, and cultural ones, to advance new ideas and proposals. In fact, China has not only proposed new ideas but also supplied finance to support them (Zhang 2008: 256).

Therefore, the quantum of funds advanced to the earmarked regions for China's foreign policy goals signifies a strong measure of the pursuit and attainment of some of these goals. This may be through foreign aid, debt financing, foreign direct investments, etc. As it concerns Angola, debt financing is our focus as China's tool to advance its foreign policy goal(s). When we look at the quantum of funds administered to Angola by China through lending, if significant to Angola's GDP, then we can assert that part of China's goals are achieved. This is because it is an intentional, strategic goal to gain influence over regions and countries that have significantly benefitted from China's financial magnanimity. Zhang (2010) asserts that “the idea is that vast economic opportunities offered by China-led regional integration will discourage other countries from opposing China.” Men (2005; Kawashima, 2020, p.60) argue that China's regional strategy extended to East Asia, [where Africa that birth Angola falls], will metamorphose from that of participation to the leadership of China. And this leadership of China comes when China becomes a major stakeholder in the country's economic power due to the inability of the debtor country to pay its debt as stipulated, just as in the case of Sri Lanka and Uganda.

Research question one will analyze the time series data reflecting China's lending to Angola over a defined period (1995 - 2021) using a graph and simple percentage. The graph will reveal the extent as well as the trend of China's lending to Angola, whether high or low, increasing or decreasing, or fluctuating within the period. The use of a simple percentage will show the extent to which the economy of Angola depends on China's lending to Angola. And this lending is China's tool for its foreign policy goal highlighted above. The magnitude of this lending in relation to the overall economy of Angola defines whether China has achieved its foreign policy goal or not. Where China's loan advancement to Angola forms above 50% of Angola's gross domestic product (GDP), it implies that China has achieved its foreign policy goal. This is because the inability of Angola to pay up the debt as stipulated will require China's major control of Angola's resources. However, if the quantum of money that China has lent to Angola is less than 50% of Angola's GDP, it would suggest that China has not successfully achieved its foreign policy goal.

In research question two, the use of illustrative pictures and examples will be employed to analyse how has Angola's decision to borrow advanced its interest. Documentaries from YouTube channels like BBC News, DW News, CNN; as well as web content, with emphasis on the subject matter, will help reveal where Angola government officials as well as its citizens declare the socio-economic as well as the infrastructural effects as a result of their loan facility dealings with China over the years. These declarations will either reveal whether or not Angola's decision to borrow has advanced its interest. This depends on the perceived effect of the loans on Angola and the people of Angola. It, therefore, means that where the declaration is favourable, that is, positive impact, then it implies Angola has gainfully achieved its interest; otherwise, the loan facility is a failure. This declaration or affirmation must come not only from government officials, as there is the possibility of proclaiming something impactful because one or few directly benefited, but also from the citizens. This requires that documentaries outside government officials need to affirm for confirmation. From a thorough online search, ten (10) online sources of information were gathered on the perceived effect of China's loan facility to Angola on Angola's economic development. While some of the links reveal attestation from Angolans, others are from World leading International Relations experts such as Prof Deborah Brautigam, a world-leading scholar on economic relations (<https://www.youtube.com/watch?v=Z4JgqtEG0aQ>).

## CHAPTER 4

### EMPIRICAL ANALYSIS

#### 4.1 Operations of Chinese Exim Bank

Exim Bank is a state-owned bank. It serves as the government bank acting on behalf of the first tier of government in domestic regulation of financial affairs and foreign financial affairs. As a result, the Exim Bank of China has been its main intermediary in advancing its foreign policy. Through the Exim Bank, foreign aid, loans, and other commercial contracts that concern China and other countries have been executed, especially the “more than decade-long boom in overseas lending and investment [through China’s Belt and Road Initiative]” (Horn et al., 2023, p. 2). Nnoka (2021) states that foreign financial policies executed by Exim and other authorized China banks are top-down policies that “appear to be economic tools of the state since they are mandated to achieve policy goals” (p. 33).

Borrowing from China requires the borrowing country to apply to the Exim Bank, which then makes recommendations to the Chinese Ministry of Commerce for approval or rejection. If the application is accepted, the loan agreement, which must be in line with a determined framework to achieve, will be signed by the president or Vice President of the Bank and a minister from the borrowing country’s government and crown with a high-profile signing ceremony (Nnoka, 2021). However, the terms for loan approval or rejection by China are unclear, as China has also provided loans to highly indebted countries to mitigate the impact of previous debts. (Chen, 2020). According to Horn et al (2023), even if the Exim Bank of China is regularly employed as a mechanism for financial rescue with more than US\$ 170 billion in support extended to crises countries, including multiple rollovers of swaps coming due. However, China's loans are not the same as those provided by established international lenders of last resort because (i) they are not transparent, (ii) they come with rather high-interest rates, and (iii) they are almost solely aimed at borrowers who are participating in China's Belt and Road Initiative (Horn et al, 2023).

And Angola is one of those countries with a deeply covenanted loan contract with China. One thing that remains common in China’s lending foreign policy is that details of when the loan is disbursed, repaid, or even forgiven are not revealed, whether with Angola and other China-loan

recipient countries (Gelpern et al., 2021; Horn et al., 2023; Hubbard, 2007). The Angola-China relationship had lasted for the past four decades since 1983 when diplomatic relations were established (Nnoka, 2021). This long-time relationship might have contributed to increasing China's loan to Angola.

The China-Angolan approach is particularly complicated since, contrary to what one might anticipate; the Chinese government does not lend loans directly to the Angolan government (Jureczyk, 2020). Instead, Chinese provide these loans to enable businesses to compete with one another before receiving a project (Kiala, 2010). The Chinese Exim Bank and the Ministry of Finance of China work hand in glove to ensure these loans are disbursed. They choose areas where these loans will be beneficial to them and not to their receipt. They also ensure it is areas where they have superiority, and this is where Angola comes in because it is in dire need of infrastructure and does not really have what it takes to make one or pay back in the long run due to its conditionality. The form of these concessional loans is not clearly spelled, and China of Finance, A company, only receives the contract following that competition. At this stage, the China Exim Bank directly transfers the funds to their account, and after receiving the funds from China Exim Bank, the prosperous enterprise utilizes the money to expand industrial and infrastructure projects (Kiala, 2010; Begu et al., 2018). Payment is made in oil and doesn't start until the building is complete. Exactly how does this operate? Oil sales proceeds are placed in an escrow account, and the precise amount needed to pay off the loan is taken out of this escrow (Huang et al., 2020; Bräutigam et al., 2021).

This model, which is arguably complicated and involves China Exim Bank paying the winning Chinese company and depositing oil revenue into an escrow account, has the benefit of preventing corruption (Corkin, 2017); according to Bräutigam (2010), "in poor, resource-rich countries, which are often cursed rather than blessed by their mineral wealth, resource-backed infrastructure loans can act as an agency of restraint and deterrence." Oil sales to UNIPEC, the trading unit of the Chinese oil company Sinopec, are used to guarantee the bank's repayment. Since "the escrow accounts Angola and China set up acts as collateral for oil-secured lending" (Acker et al., 2020, p19), "Angolan oil is not directly used for the payback" (Alves, 2013, p.2), Angolan oil is not used directly for the repayment. Simply put, an escrow account is established to handle loan repayment (Acker et al., 2020; Huang et al., 2020). The earnings from the Kilamba housing project and oil

revenues are kept in this escrow account. (Alves, 2013; Alves and Benazeraf, 2014). The sum is adequate for both the repayment of the loan to China Exim Bank and the funding of the return trip to Angola. China works around the Angolan government in an effort to fight corruption by depositing funds in a third-party escrow account (Bräutigam 2010; Corkin 2017). In addition, the Angolan government has a say in which infrastructure projects the Chinese construction companies must embark on (Begu et al., 2018). However, Given that an Angolan construction company could also undertake this project, one could claim that Chinese companies, especially in this case China International Trust Investment Corporation (CITIC) Construction, benefit the most. But according to Alves and Benazeraf (2014), the Kilamba housing project was just finished in 2011, while Angola only ended its 27-year civil war in 2002. Because Angola lacked experience in this field, "joint ventures with Chinese firms are not a viable proposal over the short term" (Corkin, 2008, p.2) due to "the current Angolan skills base is too low for joint ventures with Chinese firms."

It is possible to say that Angola, like many nations in the global South, lacks the infrastructure that is essential for the country to substantially reconstruct itself (Kelley, 2012). However, China is less risk-averse than many Western nations and has no issues with its loans to Angola because it does not bring issues of corruption, human injustice, or politics as a yardstick for these loans, and it's easier to access than Western loans. Angola agreed-upon a sum of money in an effort to close this infrastructural deficit, making both nations the ideal match (Burgos and Ear, 2012). Angola obtains a loan from China which is commonly referred to as an infrastructure for petroleum partnership, an oil-for-infrastructure swap deal, or a resource-backed infrastructure loan. In order to obtain funding for infrastructure projects which it would like to undertake, Angola basically relies on the use of its own resources as leverage (Alves, 2013). One could make the case that Angola shouldn't have any trouble repaying its debt, given that Chinese lenders utilize the country's oil as collateral for their loans at face value. That is, unfortunately, not totally accurate. In this opinion, the importance of recognizing the role oil prices play in debt service issues is crucial. Chinese loans secured by oil collateral are considered safe when the price of oil in the open market is high (Acker et al., 2020). Accordingly, the funds generated from the sale of oil deposited in the escrow account are sufficient to repay the debt owed to China while also being available for reinvestment in Angola (Acker et al., 2020). However, the oil industry experiences periods of both prosperity and decline, resulting in fluctuating oil prices that may significantly decrease, as was

the case in 2015. Stocker et al. (2018) suggest that this was caused by a surplus of oil supply relative to demand, which resulted from a combination of factors including the increase in oil production in the U.S., reduced geopolitical tensions, and shifts in OPEC policies. Sonangol, a state-owned oil business, was impacted because, between 2010 and 2014, it closed \$10 billion in loans with CDB (Huang et al., 2020). The oil price collapse in 2015, however, made it impossible for this state-owned oil corporation to return the loan, putting Angola in a position where it was much harder to repay China (Huang et al., 2020). The following is from Acker et al. (2020): "between 2014 and 2016, oil prices fell from US\$ 100/bbl [barrels per day] to US\$ 44/bbl, putting pressure on Angola and Sonangol's finances" (p.19). So, Angola consented to pay back the Chinese infrastructure contract with the bulk of its oil profits. (Brautigam et al., 2021).

In 2015, Angola's President Eduardo Dos Santos visited Beijing and requested a debt restructuring from President Xi Jinping. The aim was to address the impact of the oil price slump on Angola's economy and balance the budget of Sonangol, the state oil company. Restructuring requires amending a current contract, such as "modifying the frequencies of interest payments, for example" (Du, 2019). The intended debt restructuring did not happen as planned. Rather, it was decided that China would restructure its debt to Angola. (Brautigam et al., 2021). Generally, the refinancing of debts involves obtaining a new loan to repay an earlier one that is about to mature (Du, 2019). China Development Bank (CDB) extended the repayment schedule and adjusted the interest rates on its loans to Sonangol, a state-owned oil business, in this specific instance (Huang et al., 2020). This meant that instead of Sonangol, Angola would be indebted to CDB and would have to repay the US\$ 10 billion loan within 12 years, resulting in an increase in government debt (Acker et al., 2020). The fact that the loan has a longer duration and lessens the temptation to pay off the debt quickly is crucial to note, nevertheless (Brautigam et al., 2021). Finally, the CDB carried out this refinancing. On the other hand, China Exim Bank chose not to continue lending to Sonangol because "none of the Chinese commercial loans tracked to Sonangol were extended by China Exim Bank" (Huang et al., 2020, p.19).

#### **4.2 China's Lending-Foreign Policy to Angola**

This section attempts to delve into providing an answer to the question of: To what extent has China advanced its foreign policy goals towards Angola? China's foreign policy goals with Angola, as earlier stated categorically under section 3.5, can be expressed in the quantum of money

that serves as loan, aid, and other commercial contracts offered by China to Angola, since finance is a great tool China uses to pursue some of its goals (Zhang 2008, p.256). But for the purpose of this study, which focuses on “debt-trap diplomacy,” much attention will be concentrated on the number of loans that China has given to Angola, which remains a strong tool in advancing China’s foreign policy goals.

China’s loans to Angola are categorized into three. The first is interest-free foreign aid loans offered by China’s central government. The second is referred to as concessional foreign aid loans and preferential export buyer's credits, which are provided by China Exim Bank. Finally, the third one is export buyers’ credits and other commercial loans (Osman, 2021).

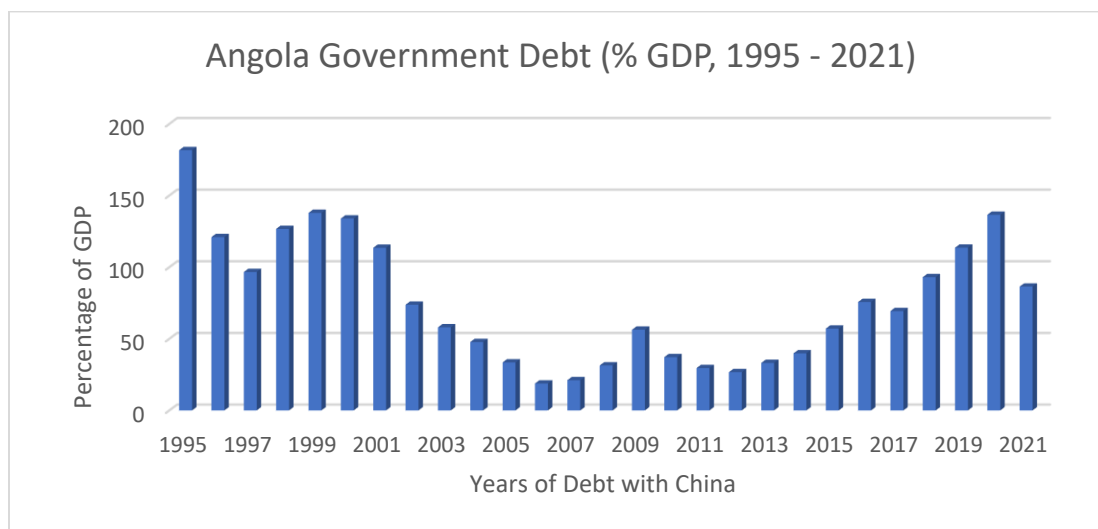
**Table 4.1: Angola Government Borrowing From China (1995 - 2021)**

<b>YEAR</b>	<b>Govt Debt (% GDP)</b>
1995	181.6
1996	121.0
1997	96.6
1998	126.7
1999	137.8
2000	133.9
2001	113.5
2002	73.7
2003	58.0
2004	47.7
2005	33.5
2006	18.7
2007	21.0
2008	31.4
2009	56.3
2010	37.2
2011	29.6
2012	26.7
2013	33.1
2014	39.8
2015	57.1
2016	75.7
2017	69.3
2018	93.0
2019	113.6
2020	136.5

Source: Gelpem et al (2021); Horn et al (2023)

Table 4.1 shows the various Angola borrowings from China for the period 1995 to 2021, expressed as a percentage of the gross domestic product of Angola. As observed, the percentages of 181.6%, 121%, 126.7%, 137.8%, 133.9%, and 113.5% for 1995, 1996, 1998, 1999, 2000, and 2001 respectively, show that Angola borrowed much more than its gross domestic product. This period of seven years of continual excess borrowing over the country's GDP must have had some effect on the economy of Angola.

The percentage of borrowing to the country's GDP later decreased as the years went by, particularly from 2002 to 2017; it was under strict control. However, the debt %GDP of Angola later increase from an average of 44.3% for the period 2002 to 2017 to 93%, 113.6%, 136.5%, and 86.4% for 2018, 2019, 2020, and 2021 respectively. This trend in Angola's borrowings from China from 1995 to 2021 can be better appreciated using a line graph that shows the trend. This is shown in Figure 4.1 below.



**Figure 4.1:** Angola's Borrowings from China from 1995 to 2021

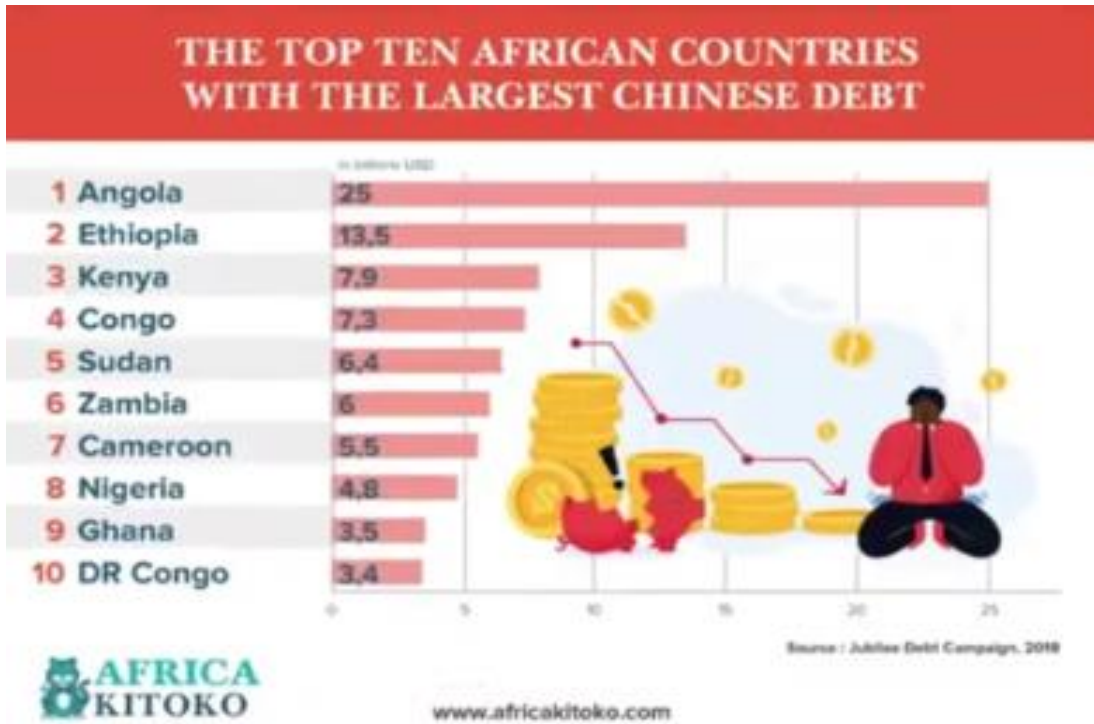
Source: Author's Computation on Adopted data from Gelpem et al (2021); Horn et al (2023)

Figure 4.1 above reflects the trend of Angola's borrowing from China from 1995 to 2021. It wears a "W-shape," indicating a very high debt trend in the early period (1995 -2001); from 2002 to 2017, it was under tight control as the borrowings within this period were far below the percentage

of Angola's GDP. But the movement rapidly accelerated from 2018 to 2020 and later experienced a slight fall in 2021.

Looking at it holistically, Angola's average total indebtedness from 1995 to 2021 is 75.9% of the country's gross domestic product. This rate is three-quarters of the total gross domestic product of Angola. This implies that Angola 75% of the economic activities carried out in Angola have been financed by external debt sourced from China. This shows that with this dominant dependence on China's resources for its GDP, China has achieved some of its goals, such as: "reshaping regional orders" and "the pursuit of soft power, a mixture of economic diplomacy and cultural and ideological appeals, to promote China's global and regional influence." By this development and implication, Angola will show more loyalty to China's government and its counsel than any other international country lender.

One of the reasons for the accelerated loans undertaken by Angola government is attributed to the lower interest rate charge given by the China Exim Bank (Begu et al., 2018; Benazeraf & Alves, 2014; Osman, 2021). According to Osman (2021), China's official interest rate was 0.25%, which is comparatively far below the rate of 2.5% pegged as an interest rate by the United States as at 2005. This uncommon, attractive, and favourable interest rate has lured Angola into steady borrowing contracts over the period. Besides, the fall in oil prices in the international market also contributed to Angola's increase in borrowing from China (Angolans embrace better life with Chinese Social Housing Project, <https://www.youtube.com/watch?v=XcOltGLAqB8> ). Another reason for the continual loan advancement to Angola by China is traceable to the presence of a large quantity of oil upon which China rely on in case of default in payment. However, what sets this model apart is that the Chinese Banks link these loans to infrastructure projects in Angola. These projects include the construction of roads, bridges, as well as water and electricity projects. ([https://www.youtube.com/watch?v=p5DEpB\\_pBSM](https://www.youtube.com/watch?v=p5DEpB_pBSM) ). Botnar (2020) argues that the "Chinese offered money, plans to develop local infrastructure programs, the prospect of new jobs and in return, they seemed not to demand anything, substantial."



**Figure 4.2:** The Voice Tv NG (2023). The 10 Top African Countries with the Largest Chinese Debt

Source: <https://www.youtube.com/watch?v=aTIdFsCjRiE>

As shown in Figure 4.2, from the statistics provided by The Voice Tv NG (2023), where the top 10 African countries with the highest debt profile to China were revealed, Angola happens to be ranked number 1, with a total outstanding debt of USD 25 billion. This was followed by Ethiopia and Kenya with total debt of USD 13.5 billion and USD 7.9 billion, respectively. The least on the list is DR Congo, with total outstanding debt to China of USD 3.4 billion. Looking at the range between Angola and Ethiopia, the second most highly indebted country to China, Angola is topping by 46%, and the range between Angola and DR Congo the 10<sup>th</sup> on the list, Angola is topping by 86.4%. This reveals the extent to which China has advanced its lending foreign policy goal towards Angola.

How does this advancement by China come about? Some may think that loan-recipient countries receive a direct transfer of this borrowed money and dispense by the debtor country according to the borrowing country's purpose. Yes, to some extent. In the sense that China offers three types of loans – zero-interest loans, concessional loans, and commercial loans (Osman, 2022; [https://youtu.be/\\_QDEWwSkP0](https://youtu.be/_QDEWwSkP0)). So, if it is zero interest loan, then capital transfer to Angola's

coffer is applicable, as this loan offered by China to its borrowers is meant for official aid to countries in financial distress, specifically focusing on Angola and other parts of Africa. Deborah Brautigam, a world-leading scholar on economic relations, posits that these zero-interest loans serve as official aid from China and are intended to assist countries facing economic challenges. However, she suggests that this zero-interest loan is strategically distributed to facilitate easy and cozy entry and acceptance of Chinese construction companies in Angola and other African regions where China has vested interests. By offering favorable loan terms, China aims to secure construction contracts and establish a foothold in these countries (<https://www.youtube.com/watch?v=Z4JgqtEG0aQ>). Brautigam refers to these loans as "direct-China loans. Direct-China loans to Angola in this context refer to those loan contracts that Angola participated in with China without any specific project attached for which China became the direct contractor. In other words, Angola government decides “what” and “how” the borrowed money will be used for the advancement of its interest. Furthermore, Brautigam highlights China's leniency toward debtor countries, which has resulted in loan restructuring. As an example, she mentions that China Exim Bank, development banks, and commercial banks negotiated with the Angolan government, leading to the cancellation of USD 7 billion in debt in 2020. This indicates China's willingness to accommodate and support debtor countries by adjusting the terms of their loans, potentially alleviating their financial burdens (<https://www.youtube.com/watch?v=Z4JgqtEG0aQ>). Prof Debora Brautigam also mentions that Zambia is one of the countries at the forefront of benefiting from debt relief. She suggests that this favorable treatment could be one of the reasons why Zambia continues to borrow, as they have seen positive outcomes from debt restructuring. This implies that countries may perceive borrowing as a viable strategy to obtain relief and strengthen their financial positions (<https://www.youtube.com/watch?v=Z4JgqtEG0aQ>).

However, other loans, such as the concessional loans, which are mainly for developmental projects, as well as the commercial loans which is strictly for business purposes that carry a high-interest rate, “are not given by the Chinese government directly to the Angolan government as one may expect” (Jureńczyk, 2020; Osman, 2021, p. 24). Instead, the Chinese companies receive these loans to execute the project directly in the debtor country (Osman, 2021). In this case, the loan offered by China to Angola is specifically tied to a designated project that is contracted to Chinese companies for execution. This means that the loaned funds do not directly flow to Angola but are

instead transferred directly to the Chinese companies responsible for implementing the project. This arrangement ensures that the capital transfer does not occur, as the funds bypass Angola's coffer. To ensure transparency and fairness, a competitive bidding process takes place among Chinese companies capable of undertaking the particular project. These companies submit their proposals and compete for the contract, and the winning company, determined through the bidding process, is granted access to the borrowed funds to carry out the project. As a result, the loaned funds are utilized for their intended purpose and remain focused on the designated project, reducing the risk of diversion to other projects or purposes.

Multiple goals can be met with this strategy. First, it guarantees that the borrowed funds will be used for the agreed-upon project, helping the country advance economically and enhance its physical infrastructure. Allocating the cash directly to the winning Chinese company establishes a direct chain of accountability and responsibility for the project's successful execution. Second, the bidding process encourages efficiency and cost-effectiveness. Companies who submit bids work hard to submit proposals that can compete with the others in terms of cost, quality, and how well they will manage the project. Companies are incentivized to compete by offering a greater quality of service in this highly competitive market, which could improve project outcomes for the borrowing country.

It is clear here that China uses “one stone to kill two birds,” implying that China receives both the interest on the loan (although comparatively lower (i.e., 0.25%) than other international lenders that peck their interest on the loan at 2.5% and above). And because the company executing the contract comes from China - the Angola creditor, the bidding strength of Angola on such projects cannot be strong for a fair price. This connotes that the loan by China, which appears as financial assistance because of its low interest, has an alternative way of paying it higher. This hinders the opportunity and possibility that even if there were other companies from other countries capable of handling the same project probably at a lower cost, the borrower-country will not be permitted. Should this not be described as modern bondage? This has prompted many to paint diverse pictures of China. For instance,

China is often said to be pursuing ‘debt-trap diplomacy’: luring poor, developing countries into agreeing on unsustainable loans to pursue infrastructure projects so

that, when they experience financial difficulty, Beijing can seize the asset, thereby extending its strategic or military reach. Lee & Shahar (2020, p. 3)

The answer to the above question will be addressed under the second research question, “How has Angola’s decision to borrow advanced its interest? This is because the pre-loan conditions and the post-loan conditions need to be juxtaposed. If a positive change, that will justify that the loans and their conditions are favourable, but if negative, then it implies that the loans and its conditions are unfavourable.

### **4.3 Infrastructural and Social Development**

The main intention of this section is to proffer answers to research question two, that is, how has Angola’s decision to borrow advanced its interest? Angola’s interest here could be referred to as the purpose(s) which has prompted Angola to go into borrowing. Although, Angola is an oil-rich country and ranked 2<sup>nd</sup> in African countries exporting oil to China and other international bodies. However, one-third of Angola’s population relies on subsistent farming (<https://www.youtube.com/watch?v=qy49kxAVnvg>). Being a country that has experienced a cold war for years, basic infrastructural facilities that can drive development were lacking. According to a high-rank Angola political analyst, the aftermath of the cold war on Angola is such that “there was no possibility of economic development as there was no money for infrastructural development” (<https://www.youtube.com/watch?v=Z4JgqtEG0aQ> ).

This reveals how devastating the state of Angola was, when the Chinese came with their offer to alleviate their poor economic condition through their foreign lending policy, the people were excited and embraced it. This motivated Angola’s government to take US\$43 billion in Chinese credit, much of which was secured with oil to build the country back after years of cold war (<https://www.youtube.com/watch?v=Z4JgqtEG0aQ> ). This resulted in the accomplishment of massive projects with the aid of China and its companies, on which, left for Angola alone, it wouldn’t have been possible. Prominent infrastructural projects embarked upon by Angola and constructed by Chinese companies include mega water tanks, multiple capital-intensive roads, bridges and railways, housing projects, and enlargement in their technological and industrial sector. According to Prof. Deborah Brautigam, a world-leading scholar on economic relations, China has promised and also helped Angola through its loan advancement in diversifying its

economy through investment into other sectors such as manufacturing, agriculture, animal husbandry, and tourism (<https://www.youtube.com/watch?v=Z4JgqtEG0aQ>).

China has assisted Angola in making social progress by sending medical teams to deliver necessary medical supplies like anti-malaria drugs and equipment, and they also helped renovate and expand the General Hospital of Luanda, which was successfully turned over in 2015 (Xiaoping et al, 2020). This means that China's generosity in donating medical equipment and funding infrastructure improvements exemplifies a broader facet of the bilateral relationship between the two countries. This includes support to social development in Angola, beyond financial transactions and repayment of debts. This type of collaboration can strengthen bilateral relations, contributing to shared benefits between the two countries. China's assistance to Angola's socioeconomic advancement should be recognized and valued for what it is. Both the current demands and the long-term improvement of healthcare services in Angola benefit from the provision of medical supplies and the development of infrastructure. The welfare and standard of living of the Angolan people can benefit greatly from such aid.

Angola is currently the top recipient of Chinese loans in Africa and holds the title of the largest oil supplier to China. The Chinese have developed a unique model in which they provide loans to Angola, which are then repaid with oil. However, what sets this model apart is that the Chinese Banks link these loans to infrastructure projects in Angola. These projects include the construction of roads, bridges, as well as water and electricity projects (Xiaoping et al, 2020). Hence, China offers expertise in modern techniques for achieving this goal. Angola possesses arable lands suitable for agriculture, while China has the resources to convert these lands into facilities such as schools, modern markets, and hospitals and create a market for its products and people. According to Xiaoping et al (2020), Chinese investment has made significant progress in assisting Angola's industrialization, efforts to diversify away from the oil sector, and efforts to create jobs, directly assisting the nation in achieving many Sustainable Development Goals (SDGs).

Deborah Brautigam stated that more than 70 percent of China's investment in Africa is channeled to improve economic development, roads, bridges, electric power, and telecoms, which are all essential for Africa's economic development (<https://www.youtube.com/watch?v=Z4JgqtEG0aQ>). Even though most of these projects were done under concessional loans, where only Chinese companies were allowed to construct them,

the beauty of it is that the agreed projects were carried out under contracts. Considering the nature of African countries, if these loans were given directly to Angola's government and left Angola at will to decide which company and country to carry out the constructions, the problem of corruption and lack of political will that has pervaded African countries would have crippled most of the projects. Next, the thesis turns to discuss some of the projects accomplished by Angola with the aid of China.

#### **4.3.1 Construction of Housing Projects at Luanda**

The social housing project is another area of social development that China's loan (3.5 billion US dollars) to Angola has helped to establish in Angola (<http://www.africanews.com/amp/2018/08/19angolans-embrace-better-life-with-chinese-social-housing-project/>). China has been a major contributor to Angola's post-war reconstruction, especially in the fields of urbanization and social housing. The housing program that sought to provide dwellings for over 100,000 local citizens is one of these initiatives that stands out. The apartments in Luanda, the capital of Angola, were well-equipped and comfortable and had modern living facilities. The housing initiative in Angola aimed to provide a basic necessity for the locals: a comfortable and secure place to live with plenty of room for everyone because each flat was 120 square meters and provided 24-hour water and power supply. This housing project with every modern facility was located in Luanda, the capital city of Angola. The Kilamba New City project has changed the lives of many Angolans. The Santos couple and others moved into their spacious Kilamba apartment five years ago, and for the first time, they have a place of their own. Just as one of the beneficiaries, Rui Santos, affirmed, "The conditions where I lived before were not good. It's a rented house, far away from the city. As my income improved, I relocated to this new city built by CITIC Construction. My life has improved now" (<https://news.cgtn.com/news/32637a4d35454464776c6d636a4e6e62684a4856/share.html>).

This development brought great excitement to the people. What is not clear is whether the housing project was evenly distributed all over Angola or provided only in the capital city of Angola.

#### **4.3.2 Construction of Mega Water Tank Supply**

Lack of good drinking water was one of the common problems for the people of Angola over the years. The available local water at their reach has been polluted due to the operations of oil and

other industrial activities. This was the situation the people found themselves. But the intervention of China with its lending to Angola, a mega water tank capacity that serves an average of 600,000 people, was constructed by China Railway 20<sup>th</sup> Bureau Group in June 2022. The water project serves 92% of the population living area in Cabinda Province. This indeed truly brought a smile to the faces of the Angolans, as asserted by Adriano, a local resident, “It used to be a long walk to the well to fetch water, and the task was very grueling...now the water pipe is connected to our doorstep, and we can use clean and hygienic tap water every day” Adriano said over 400 households in his community were impacted considering water scarcity they had faced for decades (The State Council, The people’s Republic of China, 2022)

According to Angolan Minister of Economy and Planning, Mario Augusto Caetano Joao, “Angola is not short of water, but the water resources are not used efficiently. Thanks to the Chinese companies, the situation is improving (The State Council, The People’s Republic of China, 2022).

The positive economic effect of the water project is more the provision of clean drinkable water to the availability of water for Angolans’ agricultural produce. For instance, the uneven temporal-spatial distribution of rainfalls in Angola has long been a daunting obstacle for farming and the economy, as the southern Angolan province of Cunene is usually dry for nine months yearly.

Augusto, a local villager, asserts that “fields were cracked by sun, thirsty livestock were everywhere, and countless people were forced to flee to the neighbouring country of Namibia for the survival of their livestock” (The State Council, The People’s Republic of China, 2022). This has been how sad the situation was before the water project was constructed through China loan.

On social benefits of the water project, Chen said that the hydropower project would create more than 6000 local jobs and train a cadre of construction and management professionals for Angola (The State Council, The People’s Republic of China, 2022). As Nelito Jose, a local employee, affirmed, “I appreciate the Chinese company for passing on a lot of engineering know-how, which is very important for the future development of Angola” (The State Council, The People’s Republic of China, 2022).

### 4.3.3 Multiple Capital Intensive Road, Bridge, and Railway Constructions

Indeed, the country of Angola was infrastructurally transformed by the number and quality of road, bridge, and railway constructions in the country. Since 2005, China has constructed over 2011 road projects through its loans to Angola government. Major among these road projects are the: Uige-Nagage road construction project, CN road project, Xangango bridge project, the municipal infrastructure project in M'Banza Congo, Cabinda University project, the operation zone reconstruction project in the airport of M'Banza Congo, Caio new port project, the comprehensive reconstruction project in the Kolingba coast of Luanda, etc (China Road and Bridge Corporation, <https://www.crbc.com/site/crbcEN/AngolaOffice/index.html>). Also, another Angolan loan from China was utilized to construct a 76-kilometer highway in Angola's northern mountainous region by China Tiesiju Civil Engineering Group (CTCE). The highway benefited at least 100,000 people in two cities and boosted the local economy (Chenguang & Qiange, 2022, <https://global.chinadaily.com.cn/a/202203/01/WS621d7520a310cdd39bc89727.html>).

These road, bridge, and railway projects do not only enhance the quality of living but also promote economic activities which have been cardinal in Angola's agenda.

Beijing's intentions have been further compounded by President Xi Jinping's signature program, the ambitious Belt and Road Initiative, which, since its inception in 2013, has generously disbursed billions of dollars of state-backed loans to finance an extensive web of infrastructure linkages via rail, road, sea, and air connecting China to the Asia, Africa, and Europe. According to the IIF, the BRI has funded some \$730 billion in infrastructure investments in over 112 countries (IIF 2019). Sharma and Lin (2021).

However, as noted by former Angolan leader Jose Eduardo dos Santos during the 2006 visit of Chinese Prime Minister Wen Jiabao to Angola, there is a positive relationship in which both countries can benefit from each other "China needs natural resources, and Angola wants development" (Jinyan & Wenping 2014, p. 13). Furthermore, the collaboration between China and Angola is broad and all-encompassing, as stated in the framework agreement. China's contributions to Angola include the construction of roads, bridges, railways, government buildings, affordable housing, hospitals, and schools. As a result, the extensive range of activities has led to

visible and measurable advantages for the average Angolan, primarily through the enhancement of infrastructure (Jinyan & Wenping 2014). According to the Framework Cooperation Agreement signed between China and Angola, two of the most important sectors are healthcare and agriculture. China has played a significant role in constructing and enhancing hospitals and agricultural infrastructure that were destroyed during Angola's 27-year civil war (Jinyan & Wenping, 2014).

#### **4.3.4 Technological in Advancement in Industry**

Before the intervention of China's lending foreign policy in Angola, oil had been the major source of income to the government as a country that is rich in oil, rated 2<sup>nd</sup> among oil-exporting countries in Africa. This made China improve its economy by creating technological innovations in other sectors such as tourism, animal husbandry, agriculture, and manufacturing. This diversification helps the economy of Angola by creating jobs, increasing savings, and the standard of living. However, one continues to imagine the increasing debt of Angola when the economy has been diversified. It is true that some loans are long-term in nature. Also, it could be that most businesses are in their infant stages that should not be highly taxed; otherwise, they face liquidation.

Overall, Deborah Brautigam concluded that China's advancement of lending foreign policy is a way of adding value to the African raw materials, for instance, the building of a refinery for Chad, and other infrastructure for oil, which is done on a win-win approach is a welcome development in Africa (<https://www.youtube.com/watch?v=Z4JgqtEG0aQ>).

#### **4.3.5 Is Angola, China's Debt Trap?**

Debt trap diplomacy is described as China persuading developing nations to take out loans for expensive infrastructure that they are unable to pay back—loans that hardly ever generate a profit (Brautigam & Rithmire, 2021). Beijing eventually hopes to take ownership of these assets from its insolvent creditors (Brautigam & Rithmire, 2021). Debt trap diplomacy is frequently used as an example due to Sonangol's challenges with debt repayment (Moore, 2018; Rezkova et al., 2021). Nevertheless, If the stereotype that Angola fell victim to debt-trap diplomacy were true, it would imply that China would have resorted to debt-trap diplomacy, taking control of Angola's sovereign assets, in this case, Sonangol, as soon as it became apparent that the state-owned company would not be able to pay back its debt (Brautigam, 2019). However, that didn't happen. Instead, Sonangol

was not taken over by the Chinese as a result of China's desire to refinance Angola's loan, and the nation now has a state-owned firm that is largely debt-free as opposed to one that is having difficulties repaying loans owed to the CDB (Brautigam et al., 2021). Sonangol became a debt-free state-owned enterprise as a result of China granting President Dos Santos' request for refinancing. This caused the public debt to increase, but under favourable terms like reduced interest rates and a more extended grace period, relieving the government itself of the obligation to pay it off quickly (Brautigam, 2019). We may conclude that claims that China is participating in debt trap diplomacy in Angola are untrue because asset seizure did not occur (Acker et al., 2020; Brautigam et al., 2021; Brautigam & Rithmire, 2021; Debt Relief, 2021; Huang et al., 2020).

One may say with confidence that Sonangol's debt issue has been solved. But what about the outstanding balance? China's oil-backed infrastructure loans have benefited industries across the board, from mining and transportation to real estate and agriculture, etc., Angola currently owes China US\$ 20 billion in sovereign debt (Loan Data, 2020). The COVID-19 pandemic has made people who are already in debt more distressed. As a result, negotiations on debt reduction between China and Angola began in June 2020, and agreements with China Exim Bank were concluded in September. The exact amount of the Exim Bank debt relief is subject to uncertainty (Debt Relief, 2021). Nevertheless, with the assistance of two further banks, CDB and ICBC, Angola has been chosen to obtain US\$6.2 billion in debt relief over the next three years. All of this occurred in accordance with the DSSI conditions, which include the following (IMF Executive Board Completes the Third Review of Angola's Extended Arrangement Under the Extended Fund Facility and Augments Disbursement to Address the Impact of COVID-19, 2020, p.45):

- i. A delay of principal payments for three years;
- ii. Approximately seven years following the grace period, the deferred principal will need to be repaid in the Half quarter of 2020 through to –2031 with some extra modest principal relief in 2024–25.

From the aforementioned discussion, it is obvious to establish here that Angola is not a debt-trap for China as some researchers have pointed out, rather, the bilateral relationship that has transpired among is a win-win bilateral relationship (Chenguang & Qiange, 2022, <https://global.chinadaily.com.cn/a/202203/01/WS621d7520a310cdd39bc89727.html>). This is

because, according to He Wenping, a senior research fellow at the Charhar Institute and a research fellow at the Chinese Academy of Social Sciences, stated that China has provided more than 60 billion US dollars in loans to Angola for infrastructure projects such as power plants, roads, bridges, hospitals, and housing since the two countries established diplomatic relations. As a result, China has helped Angola construct 2,800 kilometers of railways, 20,000 kilometers of roads, 100 schools, 50 hospitals, and 100,000 houses (Wenping, 2018, [https://news.cgtn.com/news/3d3d514f77557a4e7a457a6333566d54/share\\_amp.html](https://news.cgtn.com/news/3d3d514f77557a4e7a457a6333566d54/share_amp.html)). These efforts have greatly catapulted the infrastructure of Angola and the living standard of Angolans through multiple job creations in skills, tourism, and trading. More so, through China's diplomacy relation with Angola, Angola's economy has been diversified to go beyond majoring in oil exploration and export to the development of agriculture and light industry (Wenping, 2018, [https://news.cgtn.com/news/3d3d514f77557a4e7a457a6333566d54/share\\_amp.html](https://news.cgtn.com/news/3d3d514f77557a4e7a457a6333566d54/share_amp.html)).

## Conclusion/ Findings

At this juncture, it is worthy of note that China and Angola's relationships have gone beyond mere or bilateral relations. However, they have been able to build a deeper bond. However, China seems to benefit more because it has been able to grow its economy and has risen to the world's second-largest economy, just behind the USA. China has been able to exert its economic power over Angola by leveraging its significant influence, which it has demonstrated through various means such as concessional loans from its Exim Bank to developing African countries, including Angola, as well as technological advancements, infrastructure development, and technology transfer to mention a few.

Despite the criticisms and scrutiny that China's intentions towards Africa's development face, it cannot be denied that China has been Africa's closest partner, particularly with regards to Angola. However, some critics and academic think tanks argue that China's aid to African countries, particularly those with high levels of debt like Angola, could lead to unsustainable debt, governance issues, and negative environmental impacts. Although the Chinese concessional loans are provided by its Exim Bank and its Ministry of Commerce, which serves as the direct government representative for China. It is noteworthy that some of these loans are publicized; however, the total number of aid remains undisclosed, and its terms are a secret. Thus, these loans must be serviced over 10-15 years at a 2% interest rate with no grace period, and the yuan is used as a currency of debt instead of the US dollar (Kiala 2010, p. 314-15).

More so, Angola, as a developing country and one of China's largest debtors, does not have what it takes to pay back the concessional loans it has borrowed through the years. This is because of the secret nature of some of the loan agreements it has signed with the Chinese Ministry of Finance, whose major responsibility has been to ensure the disbursement of these loans. However, there has been a clear indicator that Angola is under the economic debt trap because its inability to service these loans properly spells doom for the country's economic growth and development.

Since 2008, China has been in the advancement of foreign policy to many countries, especially developing countries. Foreign policy in the form of aid, loans, and investments have been the channels through which China has penetrated into these developing countries. However, the amount and rate of these loans have been a concern not only to Africans but also to international

actors like the United States, United Kingdom, and other international economic analysts. More especially, the cases of Sri Lanka, where its port was seized for its inability to meet up its contractual terms in 2017, as well as Uganda, where 91% of the revenue generated from its only airport was relinquished to China for Uganda's inability to pay its debt accordingly in 2021 has posed fear and grey impression about China and its foreign policy. Some describe China as being weaponizing debt as its strategy on other countries (<https://www.youtube.com/watch?v=B1IBBIcunv8> ).

This situation has thus given the need to carefully study the Chinese concessional loans as a tool for economic dependence on Angola. Two research questions were formulated to guide the study. One, to what extent has China advanced its foreign policy goals towards Angola? Two, how has Angola's decision to borrow advanced its interest? The study leveraged the liberalism theory. The qualitative research approach was adopted in the study using secondary data obtained from government memorandum, statements, data/reports and periodicals, documentaries from YouTube channels like BBC News, DW News, CNN; as well as web content, with emphasis on the subject matter, helped to answer my research questions.

From China's lending foreign policy advanced to Angola from 1995 to 2021, which forms 75.9% of the average of the total Angola's gross domestic product, reveals that China has advanced its foreign policy goals towards Angola. This is because 75% of economic activities expressed in the production of goods and services carried out in Angola have been financed by external debt sourced from China. This shows that with this dominant dependence on China's resources for its GDP, China has achieved some of its goals, such as: "reshaping regional orders" and "the pursuit of soft power, a mixture of economic diplomacy and cultural and ideological appeals, to promote China's global and regional influence." By this development and implication, Angola will show more loyalty to China's government and its counsel than any other international country lender.

This implies that 75.9% of the total goods and services produced in Angola emanate from the loans obtained from China within the period. This loan has China continues to give Angola as 72% of Angola's oil is exported to China. Besides the presence of an abundant supply of oil, another plausible reason for this increasing debt of Angola has been attributed to a low-interest rate of 0.25% against 2.5%, which other international creditors pegged. Some have even argued that China is fond of granting debt relief as it has done to Angola in 2020 with debt relief of USD7

billion, in Africa as a whole, China has forgiven 17 debts (<https://www.youtube.com/watch?v=Z4JgqtEG0aQ> ).

The study also revealed that Angola's decision to borrow had advanced its interest. This is seen in Angola's rapid economic, social, and technological development. It is worthy to stress here that the concessional loans policy advanced by China and followed up by its construction companies executing the projects is a welcome development in Africa. This is because most earmarked projects of the government in Africa have been crippled and abandoned either because of a lack of political will or the presence of corruption (<https://www.youtube.com/watch?v=Z4JgqtEG0aQ>).

In the case of Angola, every agreed contract is seen done by the Chinese construction companies. Despite the fact that its debt increases per year, Angola is optimistic that with its abundant oil, the debt will be serviced and paid. This is seen in the oil-price increase due to Angola paying USD18 billion. The study concludes that debt-trap diplomacy, as widely perceived between China and Angola, is a win-win foreign policy relationship since the bilateral relations benefit both countries' national interests. Therefore, countries seeking foreign financial assistance should always consider its sources and mode of paying back to avoid unnecessarily being trapped into debt. Also, there is the tendency for China and its construction companies to indirectly exploit Africa in terms of giving loans and administering the utilisation of the loan, which is never my worry. However, the possibility of overestimation might be there as a sole operator of the loan and contract. I, therefore, recommend that countries seeking loans, especially from China on concessional terms as offered by China, should have a market survey of the supposed project with appropriate knowledge of the cost. This will give the borrowing country a better ground to bargain for such construction contracts, as that determines the money needed.

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