

POLICY MEMO

The “Odious” Legacy of Chinese Development Assistance in Africa: The Case of Angola

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Within days of taking office, China’s new foreign minister, Qin Gang, was on a plane to his country’s main African client: Angola. Landing in Luanda on January 12, Qin Gang was ostensibly bringing a gift—a \$250 million loan to help Angola expand high-speed broadband. Some gifts, however, are not what they seem, and some of the recent financial gifts from Chinese sources have been toxic.

Soon after Qin visited Angola, US Treasury Secretary Janet Yellen traveled to three African countries but skipped Angola, possibly because of its checkered history with Chinese development assistance.

The case of Angola raises questions about the extent and nature of Chinese loans and infrastructure aid to a growing number of African nations, as well as the consequences of such loans on those countries’ relations with the US.

Africa and Chinese Debt

Much of Africa is “heading for debt distress,” according to a recent Chatham House Study.¹ Secretary Yellen and US Secretary of State Antony Blinken have accused China of overburdening Africa with loans and dragging its feet on providing debt relief.² On her recent trip, Yellen did stop in Zambia, the poster child for China’s so-called “debt trap.” In this African country, the debt owed to China accounts for some 40 percent of its external debt. Owning such a large portion of Zambia’s debt has gifted China immense hold-up value and allowed it to stall restructurings that are not on its terms. When Zambia defaulted on its Euro-denominated debt in 2020, restructuring negotiations were held up due to China’s reluctance to restructure its debt with the country. Ghana, Ethiopia, and Sri Lanka have likewise sought debt relief from China. However, any settlement reached with Zambia will likely set a precedent for other developing nations in their negotiations.³

When Minister Qin visited Angola, he met with Angola's finance minister, Vera Daves, to hash out the details of the new telecommunications deal. Vera Daves assured the public that the new loan was under far more favorable terms than China's previous loans to Angola. Nonetheless, she did not address whether the loan's terms required that a Chinese company deliver the project, as had been the case on previous occasions. Nor did she note that previous Chinese telecommunications infrastructure projects in Africa, notably in Zambia, enabled the creation of a China-like surveillance system while facilitating Chinese access to critical user data. China's past misuse of telecommunications technology is a significant reason why the US government and authorities have opposed the use of Huawei and ZTE infrastructure around the world.⁴

Has Angola sufficiently studied the risks? Many other countries have learned that participation with Chinese telecommunication companies almost always carries the hidden cost of industrial espionage. Is there a potential threat to Angola's national security if its entire advanced telecommunications structure turns out to have been under Chinese control?

And what would be the knock-on effect for relations with the United States, which Angola is desperate to deepen? Washington has been the prime mover behind persuading other Western nations to outlaw Huawei and remove Chinese influence from their telecommunications networks. Based on other telecommunications assistance projects in Africa, the US is legitimately concerned about how China seemingly had no qualms about contravening human rights when it helped countries such as Zambia, Zimbabwe, and South Africa spy on their citizens.

Setting aside the national security and human rights risks of such projects with Beijing, why owe more debt to China? Angola does not have a great record in managing and servicing foreign debt. Just three years ago, it had to turn to

the International Monetary Fund for help. After following the IMF's "tough love" prescription, Angola has only now managed to scrape together a budget surplus. So why accept new Chinese loans? Could Angola not use its budget surplus for this project—or build it over a longer period? Or could the United States and its allies offer an alternative system under the "Build Back Better World" initiative, announced with some fanfare at the June 2022 G-7 Summit?⁵

Angola is China's biggest African client and owes a staggering \$21 billion to Beijing, some 40 percent of its entire public foreign debt stock. Servicing this debt swallows up nearly half of Angola's annual budget. This is a huge burden. Every dollar required to service the debt with China is a dollar Luanda cannot spend on urgent reforms for health, education, public administration, or justice.

China's Loans to Angola and Past Corruption

Worse still, the existing debt is linked to Angola's recent history of corruption and state capture. For example, last summer the public learned how a supposed state-to-state financing project turned out to be yet another corrupt scheme that diverted public funds into private pockets. Unscrupulous and greedy officials and businessmen in both Angola and China set up companies in Hong Kong with official-sounding names—the China Investment Fund (CIF) and China Sonangol International Holding (CSIHL). The latter was a joint venture between CIF (70 percent) and the Angolan national oil company Sonangol (30 percent). According to court records, Sonangol sold oil to CSIHL, and at the time a former Angolan vice-president, Manuel Vicente, chaired both CIF and CSIHL.⁶ They were not state-owned enterprises but sham vehicles for channeling money into private bank accounts, transforming Angolan and Chinese "businessmen" into billionaires. Amongst them was the now notorious Sam Pa, CIF's founder, arrested in 2015 amid Xi Jinping's fight against corruption. Some \$1.5 billion of China's payment for Angolan oil was never passed on to Angola, according to an indictment of former officials last year.⁷

Along with Vicente, the indicted generals Manuel Hélder Vieira Dias Júnior (known as “Kopelipa”) and Leopoldino do Nascimento formed the triumvirate of former President Dos Santos’ inner circle of power. The 80-page indictment simply covered Manuel Vicente. The first 40 of the 220 articles denounced the former head of Sonangol for his negotiations with China and for his years of self-dealing in the selling of up to 20,000 barrels of oil per day to CSIHL.⁸ This case has magnified the predicament that President João Lourenço and Angola’s judiciary face when fighting corruption.

Meanwhile, the United States aligned with Angola and imposed sanctions on the two generals for their role in the Chinese affair. But it left the oilman Vicente off the sanctions list.⁹ This approach represents an overarching theme in the fight against corruption in Angola—a lack of impartiality. Despite the US government’s best intentions, rather than addressing the scourge of corruption in Angola, it unknowingly supports President Lourenço’s attempt at settling personal scores.

It is important to further detail Vicente’s role in establishing a large corrupt state in Angola. In the aforementioned indictment, the attorney general’s office raised the issue of CIF and its supposed relations with the Office for National Reconstruction (articles 56 et seq.). CIF came to Angola promising to carry out work with its own funds. Only in 2020 was it discovered that the CIF projects were being secured by a so-called national reconstruction fund linked to CSIHL, financed by oil contracts between CSIHL (privately owned by Vicente and not by Sonangol, contrary to what the name would indicate) and Sonangol itself. Sonangol supplied CSIHL using, without authorization, the name of the Office for National Reconstruction. *Maka Angola*’s research leads to the conclusion that these obscure financial and legal tricks all have the same origin: Manuel Vicente and the opacity of business with China.

Angola is still uncovering the scams and paying the price. For example, \$10 billion of Chinese capital was sent to Sonangol

in 2016, and central bank ledgers at the National Bank of Angola recorded it as a public debt.¹⁰ The deal was struck just before the end of the mandate of President dos Santos, the kleptocrat-in-chief, and coincided with the installation of his daughter, Isabel dos Santos, as president of the board of Sonangol. Yet no one can account for the money or identify the ultimate destination.

The Need for a Forensic Audit of Odious Debt

Loans from China to Angola are so often shrouded in obscurity and controversy that today’s government should be wary of accepting any more. Research at *Maka Angola* estimates that as much as half of the national debt owed to China did not end up in public projects but in private bank accounts. This phenomenon has come to be known in legal terms as “odious debt,” as described by the IMF.¹¹ The epithet *odious* refers to the corrupt nature of a regime taking on the debt. There is a case to be made that a successor government should not have to bear the burden of servicing odious debt, especially if creditors have been alerted to improper or illegal deals in advance.¹²

This is not a call for non-payment of debt in general to China or any other country. But when there is evidence of suspect or corrupt loans, should both countries not seek a renegotiation of repayment terms to permit a haircut or reduction to alleviate an unfair debt burden?

This renegotiation would require a thorough forensic audit of previous Chinese loans because by 2015, the year in which Sam Pa was arrested, Chinese authorities were already in possession of sufficient evidence of illegal capital transfers masquerading as state-to-state loans. So both Angola and China have an obligation to look again at the situation. It is worth noting too that, as Secretary Yellen and many other world leaders like Olaf Scholtz have insisted, China needs to join other Western nations in agreeing to renegotiate distressed debt. The example of Chinese dilatory tactics with

Zambia is a case in point. The World Bank estimates that China's credits to developing nations represent almost as much as all other government credits combined.¹³ Zambia's total debt to China reached 28 percent of GDP in 2021, according to the IMF.¹⁴

In the face of unserviceable debt, and with the prospect of alternative sources of external finance drying up, Angola was obliged to follow rigorous IMF-imposed budgetary controls in the hope of regaining economic credibility. The inevitable consequences have fallen on the Angolan people, half of whom live beneath the poverty line. Widespread dissatisfaction cost the governing party and President Lourenço millions of votes for his reelection campaign in August 2022.

Therefore, it is arguably in the Angolan government's best interest not to simply take on more public debt with China before conducting a forensic audit of existing obligations. If that audit reveals, as we suspect, odious debt from the previous, highly corrupt Angolan regime, then the leaders of the two countries might well consider activating debt renegotiation.

Ultimately, the United Nations may need to consider this issue. Under the terms of Articles 1, 3, and 14, among others, of the United Nations Charter, it would be desirable to create a consensus on how best to handle odious debt in international law.

We are not suggesting that all debt owed to China is odious or that Angola should default or refuse to pay. That would be absurd. Instead, there should be a forensic audit of existing debt permitting the current Angolan government and its partners to renegotiate the terms of deals proven to be corrupt. Any constructive solution that includes China, in turn, could set a worldwide precedent for loans to developing countries.

Angola has clearly derived benefits from its relationship with China. When the civil war ended in 2002, the People's Republic of China stepped up to offer financial and material support for the enormous task of reconstruction when few other countries were willing to help. Much of today's debt to China helped rebuild railways, roads, hospitals, and public housing across Angola's provinces, and more infrastructure remains under construction. Unfortunately, much of the infrastructure and buildings built by Chinese largesse and Chinese firms were of egregiously poor quality, such as a hospital in Luanda that had to be abandoned for fear of collapse soon after its completion.¹⁵ But the evidence of bad loans, diverted funds, and private enrichment suggests careful consideration by both sides should be necessary before any new loans are offered or accepted.

Conclusion

How do these cases of corruption affect the credibility of Angola's foreign policy? President Lourenço's government has made a considerable effort to repair relations with the United States against a background of Russia's war on Ukraine and concerns over ties to China. Yet in the space of just a couple of weeks, Angola has welcomed official visits from the foreign ministers of both Russia and China. How do these visits, and the announcement of yet another Chinese loan, fit into Angola's stated foreign policy objectives?

Has Angola fallen back into some pan-African stance of non-alignment? Or have US-Angolan relations hit a roadblock? After all, Joe Biden did not give João Lourenço an audience at the US-Africa summit, and Secretary Yellen did not honor him with a personal visit this year. In the absence of clear and straightforward positions by Angola, foreign policy analysts are beginning to question whether, just as he zigzags on other national policies, President Lourenço cannot decisively choose which policy on the table is best for his country and his people.

Endnotes

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